

# CYBER ON-AIR GROUP COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

## FIRST QUARTERLY REPORT 2002

for the period from 1 April 2002 to 30 June 2002



**CYBER ON-AIR**

創博數碼科技

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

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*This report, for which the directors of Cyber On-Air Group Company 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 Cyber On-Air Group Company Limited. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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

1.

|                           | Three months ended |                  | Variance  |
|---------------------------|--------------------|------------------|-----------|
|                           | 30 June            |                  |           |
|                           | 2002<br>HK\$'000   | 2001<br>HK\$'000 |           |
| Turnover                  | 18,302             | 777              | 2,256.17% |
| Gross Profit              | 11,483             | 777              | 1,378.23% |
| Operating Costs           | (8,262)            | (22,459)         | (63.21%)  |
| Profit/(Loss)             | 2,080              | (21,424)         | 109.71%   |
| Earnings/(loss) per Share | HK\$0.03           | HK\$(0.26)       |           |

Cyber On-Air Group Company Limited (the “Company”) and its subsidiaries (the “Group”) registered increased turnover of HK\$17.5 million for the first three months ended 30 June 2002 compared to the same period last year, (2001: HK\$0.8 million), representing an increase of 2,256.17%.

2. The Group also recorded net profit of HK\$2.1 million for the period under review, compared to the same period last year, (2001: net loss of HK\$21.4 million), representing a turnaround of HK\$23.5 million.
3. Prior to the acquisition of Cyber On-Air Group Limited (“COA”) in May 2002, the Group’s revenue was generated mainly from the then core business of being a content provider and from on-line advertisements. After the acquisition, the revenue stream came mainly from project services (including project management, broadband and antenna installation); network solutions (including telecom and networking products); application solutions (including wireless and multimedia applications); and technology product and multimedia services in China. The new revenue streams enabled the Group to record a profit for the first three months ended 30 June 2002.
4. An Bo Information Technology Limited (“An Bo”), the first Sino-HK joint venture in China to provide full-scale services with multimedia technology applications via service centers and on-line portal, has received encouraging response to its services during the commercial trial phase to gauge the market for its services.

**MESSAGE FROM THE CHIEF EXECUTIVE**

Overall, the business environment for the IT business in Hong Kong continues to be very competitive. Hong Kong's economic environment has not shown any positive indicators of an uptrend and a further slide in the economy cannot be discounted, thus posing greater challenges and difficulties for businesses.

Further difficulties come from the shrinking telecom market, which will impact negatively on IT solution companies. Furthermore, decreasing demand leads to intensified competition amongst existing players.

Regarding the first quarter business in Hong Kong for the Group, the operation of www.hkcyber.com as content provider has been downsized to minimum level, providing only Hong Kong and international news as well as horse racing news.

In contrast, China's economy grew in the first quarter, and the market for the IT solution and product business continues to expand. In view of this more positive scenario in China, the Group will implement a shift in business focus to the China Market.

Significantly, there is general acceptance and encouraging sales results of 2.5G General Packet Radio Services in China, thus stimulating the demand for wireless applications in the market. The Group expects to benefit from this demand in the rest of the current financial year.

**Prospect for second half of the year**

The Group is optimistic about further growth of its business in China. Previously, the Group had mainly focused on financial segments, such as banking, securities and insurance.

This year, the focus will be expanded to consumer market applications, i.e., wireless applications in the areas such as advertising and promotion through mobile phones; Multimedia Messaging Service (MMS), which facilitates interactive functions such as photo and interactive message, and is the current trend.

The Group is also optimistic about the development of the multimedia and broadband application market. It intends to promote wider use of integrated broadband applications, for example, integrating CCTV in buildings, the usage of smart card for identity recognition and for management office information display Kiosks. All these measures could effectively increase property management efficiency. The Group has successfully introduced these new services to housing estates. The plan is now under discussion with relevant government departments, property management companies and property developers in both Hong Kong and China.

The Group will continue to develop new markets for new wireless application products and services and also develop new products that can attract new customers and new markets. The Group will endeavour to maintain growth and develop company business based on the current business direction and in a prudent manner.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review**

The Group is pleased to present the unaudited, consolidated figures of the Company and its subsidiaries for the first three months ended 30 June 2002.

For the first three months ended 30 June 2002 following the acquisition of COA, the Group registered increased turnover of HK\$17.5 million compared to the same period last year, (2001: HK\$0.8 million), representing an increase of over 2,256.17%. Net profit of the Group for this period amounted to HK\$2.1 million compared to the same period last year, (2001: net loss of HK\$21.4 million), representing a turnaround of HK\$23.5 million.

The substantial increase in both revenue and net profit was mainly attributable to the new revenue stream derived from sales of project services (including project management, broadband, and antenna installation); network solutions (including telecom and networking products); application solutions (including wireless and multimedia applications); and technology product and multimedia services in China.

The net profit position was further enhanced by encouraging sales of technology products and services in China, effectively controlled expenses, and written-offs of non-revenue generating assets and expenses. Operating cost also decreased by 63.21% due to major reduction in the costs relating to the content providing businesses.

## Business review

### 1. *Wireless Applications*

The Group recorded a significant increase in sales of OAXIS software in China, leading to a significant contribution to company's income. There is good demand for wireless application software and the gross profit for OAXIS sales is encouraging. The Group will be further developing this revenue stream either by enlarging the market segment or by promoting the sales through distribution channels.

### 2. *Joint Venture Business*

An Bo is the first Sino-Hong Kong joint venture in China providing employment, community services and diverse professional corporate services to China enterprises and citizens of Guangdong Province. It is currently being run by the joint-venture business partner in China, 「廣東錫安人力資源有限公司」. The operation has undergone a commercial trial phase from April to July to gauge the market for its services, and so far, the response has been encouraging. The Group is planning to extend the services of An Bo to corporate and employee insurance services in the second half of the financial year, which will also be promoted on its online recruitment web site: [www.anbo8118.com](http://www.anbo8118.com).

### 3. *Sales in Telecom Segment*

In the last financial year, COA had been appointed as the authorized sole agent to provide repair and maintenance services for the network synchronization products of China Telecom. However, merging and restructuring of the businesses of China Telecom and China Netcom has affected and hindered the negotiation of the projects, thus negatively impacting the Group's services income.

On another positive side, the Group is also participating in the bidding for the network synchronization projects of telecom operators in China, which will create more opportunities and become more important customers of the Group.

### 4. *Expansion of Operation in China*

The Group opened its office in Chengdu in June this year, the fourth sales office in China. The others are located in Beijing, Guangzhou and Shanghai.

Apart from its sales offices in China, the Group makes use of a total of ten authorised resellers based in Shanghai, Hangzhou, Chengdu, Tianjin and Beijing to increase sales of the Group's wireless application and network solution products.

## RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2002 (the “Quarterly Period”), together with the unaudited comparative figures for the corresponding period as follows:

|  | Notes | Three months ended<br>30 June |                  |
|--|-------|-------------------------------|------------------|
|  |       | 2002<br>HK\$'000              | 2001<br>HK\$'000 |
| Turnover                                       | 2     | 18,302                        | 777              |
| Cost of sales                                  |       | (6,819)                       | –                |
| Gross profit                                   |       | 11,483                        | 777              |
| Interest income                                |       | 9                             | 208              |
| Other revenue                                  |       | 921                           | 57               |
| Website development expenses                   |       | –                             | (13,881)         |
| Depreciation and amortisation                  |       | (601)                         | (3,873)          |
| Advertising and promotion expenses             |       | (103)                         | (271)            |
| General and administrative expenses            |       | (7,558)                       | (4,434)          |
| Amortisation of goodwill                       |       | (1,234)                       | –                |
| Profit/(loss) from operations                  |       | 2,917                         | (21,417)         |
| Finance costs                                  |       | (837)                         | (7)              |
| Profit/(loss) before taxation                  |       | 2,080                         | (21,424)         |
| Taxation                                       | 3     | –                             | –                |
| Net profit/(loss) attributable to shareholders |       | 2,080                         | (21,424)         |
| Earnings/(loss) per share                      | 4     | HK\$0.03                      | HK\$(0.26)       |

## Notes:

**1. Basis of preparation of the accounts**

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 and comply with accounting standards issued by the Hong Kong Society of Accountants. The principal accounting policies adopted are set out in notes below.

**2. Turnover**

The Group's turnover comprises:

|                                   | <b>Three months ended</b> |                  |
|-----------------------------------|---------------------------|------------------|
|                                   | <b>30 June</b>            |                  |
|                                   | 2002<br>HK\$'000          | 2001<br>HK\$'000 |
| Sales of goods                    | 12,877                    | 44               |
| Revenue from short-term contracts | 4,957                     | –                |
| Advertising income                | 180                       | 461              |
| Video production income           | –                         | 67               |
| Services income                   | 288                       | 205              |
|                                   | <b>18,302</b>             | <b>777</b>       |

**3. Taxation**

No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

No deferred tax asset has been recognised in the financial statements as it is not certain that it will be realised in the foreseeable future.

**4. Earnings (Loss) per share**

The calculation of the basic earnings per share for the Quarterly Period is based on the respective unaudited net profit attributable to shareholders of HK\$2,080,000 (2001: net loss of HK\$21,424,000) and the weighted average number of 83,144,786 (2001: 83,132,786) ordinary shares outstanding. Earnings per share for the Quarterly Period and loss per share for the corresponding period in 2001 has been adjusted for the share consolidation on 6 May 2002, details of which are set out in the notes to the financial statements in the Annual Report of 2002.

The computation of diluted earnings per share has not assumed the exercise of the potential ordinary shares as their exercise would not have dilutive effect on the earnings per share.



## 5. Share premium and reserves

|  | Share<br>premium<br>HK\$'000 | Merger<br>reserve<br>HK\$'000 | Accumulated<br>loss<br>HK\$'000           | Total<br>HK\$'000 |
|--|------------------------------|-------------------------------|---|-------------------|
| <b>At 1.4.2001</b>   | 74,623                       | 53,022                        | (107,892)                                 | 19,753            |
| Loss for the three<br>months ended<br>30 June 2001   | –                            | –                             | (21,424)                                  | (21,424)          |
| <b>At 30.6.2001</b>  | <u>74,623</u>                | <u>53,022</u>                 | <u>(129,316)</u>                          | <u>(1,671)</u>    |
|  | Share<br>premium<br>HK\$'000 | Merger<br>reserve<br>HK\$'000 | Accumulated<br>profits/(loss)<br>HK\$'000 | Total<br>HK\$'000 |
| <b>At 1.4.2002</b>   | 74,623                       | 53,022                        | (224,890)                                 | (97,245)          |
| Credit arising from<br>Capital reduction<br>transferred to<br>share premium<br>and reserve account | 82,313                       | –                             | –   | 82,313            |
| Share premium applied<br>towards the partial<br>elimination of<br>accumulated loss                 | (156,936)                    | –                             | 156,936                                   | –                 |
| Profit for the three<br>months ended<br>30 June 2002   | –                            | –                             | 2,080                                     | 2,080             |
| <b>At 30.6.2002</b>  | <u>–</u>                     | <u>53,022</u>                 | <u>(65,874)</u>                           | <u>(12,852)</u>   |

**INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the Quarterly Period (2001: Nil).

**DIRECTORS' INTERESTS IN SHARES**

As at 30 June 2002, none of the directors nor their associates, had any interests in any securities of the Company or any of its associated corporations in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or which, pursuant to Rules 5.40 to 5.59 of the Growth Enterprise Market ("GEM") Listing Rules, to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**DIRECTORS' RIGHT TO ACQUIRE SHARES**

Save as disclosed in the sections headed "Share Options", at no time during the Quarterly Period was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

**SHARE OPTIONS****Pre-IPO Share Option Scheme**

A pre-IPO share option scheme ("Pre-IPO Scheme") was adopted pursuant to a resolution passed on 17 July 2000 to recognize the contribution of certain directors, employees and consultants of the Group to the growth of the Group and/or the listing of the Company's shares on the GEM of the Stock Exchange, and will expire on 16 July 2010. 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.

At 30 June 2002, the number of shares in respect of which options has been granted under the Pre-IPO Scheme was 133,013, representing 0.16% of the shares of the Company in issue at that date. No option may be granted to any one person exceeding 25% of the aggregate number of shares issued and issuable under the Pre-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK\$10 as consideration for the grant. The exercise price is HK\$0.05 representing a discount of 92.6% of the IPO offer price. The options may be exercised at any time during the period from 1 February 2001 to 30 July 2003 in accordance with the following schedule:

| <b>Period</b>   | <b>Percentage of options granted to an individual that can be exercised</b> |
|---|---|
| Date of grant to six-month period after the listing of the Company on GEM | Zero  |
| Six- to twelve-month period after the listing of the Company on GEM       | Up to one-third   |
| Six- to eighteen-month period after the listing of the Company on GEM     | Up to two-thirds  |
| Thereafter  | All options which have not been previously exercised                        |

#### **Post-IPO Share Options Scheme**

A post-IPO share option scheme ("Post-IPO Scheme") was adopted pursuant to a resolution passed on 17 July 2000 to recognize the contribution of eligible employees to the growth of the Group and will expire on 16 July 2010. 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.

At 30 June 2002, the number of shares in respect of which options had been granted under the Post-IPO Scheme was 400,000, representing 0.48% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Post-IPO Scheme and any other schemes including the Pre-IPO Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Post-IPO Scheme and other scheme must not in aggregate, exceed 10% of the issued share capital of the Company from time to time unless further shareholders' approval has been obtained. Options granted to connected person must be approved by the independent non-executive directors. Options granted to connected person, who is also a substantial shareholder, in excess of 0.1% of the issued shares of the Company or with a value in excess of HK\$5 million must be approved by the Company's shareholders in general meetings. No option may be granted to any one person exceeding 25% of the aggregate number of shares issued and issuable under the Post-IPO Scheme.

Options granted must be taken up within 3 days of the date of grant upon payment of HK\$10 as consideration for the grant. Option period to be determined and notified by the board of directors to each grantee during which an option may be exercised, is any period from three years to ten years from the date of grant or the tenth anniversary of the adoption date of the Post-IPO Scheme, 16 July 2010, whichever is earlier.

The exercise price is determined by the board of directors, and will not be less than the average of the closing prices of the Company's shares for the five trading days immediately preceding the date of grant or the closing price of the shares on the date of grant, whichever is the higher, provided that the exercise price should not be lower than the par or nominal value of the shares.

No charge is recognised in the income statement in respect of the value of options granted in the period.

Subsequent to the reduction in capital and the consolidation of the issued shares of the Company, adjustment is made to the exercise price of the outstanding options is HK\$0.01 for Pre-IPO Option and HK\$0.084 for Post-IPO Option.

The following table discloses the movements in the Company's share options during the Quarterly Period:

|   | Option type | Outstanding           | Granted               | Exercised             | Cancelled             | Outstanding           |
|---|-------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   |             | as at<br>1 April 2002 | as at<br>30 June 2002 | as at<br>30 June 2002 | as at<br>30 June 2002 | as at<br>30 June 2002 |
| <b>Directors</b>                          |             |                       |                       |                       |                       |                       |
| Mr. Lai King Yan, Anthony ( <i>Note</i> ) | Pre-IPO     | 416,666               | -                     | -                     | (416,666)             | -                     |
| Mr. Lo Sui Sing ( <i>Note</i> )           | Pre-IPO     | 64,278                | -                     | -                     | -                     | 64,278                |
| Mr. Lo Sui Sing                           | Post-IPO    | 400,000               | -                     | -                     | -                     | 400,000               |
|   |             | <hr/>                 |                       |                       |                       |                       |
| Total directors                           |             | 880,944               | -                     | -                     | (416,666)             | 464,278               |
|   |             | <hr/>                 |                       |                       |                       |                       |
| Total employees                           | Pre-IPO     | 141,835               | -                     | -                     | (73,100)              | 68,735                |
|   |             | <hr/>                 |                       |                       |                       |                       |
| Total                                     |             | 1,022,779             | -                     | -                     | (489,766)             | 533,013               |
|   |             | <hr/> <hr/>           |                       |                       |                       |                       |

*Note:* Mr. Lai King Yan, Anthony was resigned as executive director on 31 January 2002.  
Mr. Lo Sui Sing was appointed as executive director on 23 August 2001.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 10% or more in the share capital of the Company.

| Name   | Number of shares |
|--|------------------|
| Qantex Limited ("Qantex")                                  | 22,868,656       |
| Skynet Limited ("Skynet")                                  | 22,868,656       |
| Gold Cloud Agents Limited ("Gold Cloud")                   | 22,868,656       |
| Companion Marble (BVI) Limited                             | 22,868,656       |
| Skynet (International Group) Holdings Limited ("SIGHL")    | 22,868,656       |
| Companion Building Material (Holdings) Limited ("CBMHL")   | 22,868,656       |
| Companion Building Material (BVI) Limited                  | 22,868,656       |
| Companion Building Material International Holdings Limited | 22,868,656       |

*Note:*

These 22,868,656 shares of the Company are owned by Qantex. Qantex is a wholly-owned subsidiary of Skynet of which Gold Cloud owns more than one-third of the issued share capital. Companion Marble (BVI) Limited owns more than one-third of the issued share capital of Gold Cloud and is a wholly-owned subsidiary of SIGHL. CBMHL owns more than one-third of the issued share capital of SIGHL. 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.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 June 2002.

## COMPETING BUSINESS

None of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group.

### **SPONSOR'S INTERESTS**

Core Pacific – Yamaichi Capital Limited (“CPY Capital”) entered into a sponsorship agreement with the Company on 3 August 2001 whereby, for a fee, CPY Capital acted as the Company’s continuing sponsor from 3 August 2001 till 31 March 2003.

As at 30 June 2002, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any member of the Group, or any right 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 in compliance with the GEM Listing Rules. The current audit committee comprising two independent non-executive directors, Mr. Cheung Hon Kit and Mr. Ng Wai Hung. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the Quarterly Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By Order of the Board  
**CHOI WING KIN**  
*Executive Director*

Hong Kong, 14 August 2002