

**CYBERm INTERNATIONAL (HOLDINGS) LTD :  
SHOULD THE STOCK EXCHANGE HAVE DISALLOWED  
THIS COMPANY FROM BEING LISTED ?**

The listing of CyberM International (Holdings) Ltd (Code: 8017) on The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd marks a milestone for the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

It is a milestone because this company has to be the smallest public listing ever, in terms of dollars and sense, to be introduced in the 416 square miles that constitute that HKSAR.

It is a milestone in that it would appear that The Stock Exchange of Hongkong Ltd has lost all semblance of reason when agreeing to allow this company to grace the lists of companies which are, by virtue of their status, permitted to tap the public purse.

**The Size of this Company**

CyberM International went on The GEM on Thursday, August 17, just one day after it announced its levels of indication of interest in the Placings and Sales of 50 million, 10-cent shares at a Premium of 83 cents per share.

The Company raised a total of \$HK28.40 million, net of expenses -- there was a tranche of 12.50 million Sale shares, formerly owned by certain Directors of the Company -- and this money brought up the Adjusted Net Tangible Assets to about \$HK31.13 million.

Without the injection of the \$HK28.40 million, net of expenses, on or about August 11, 2000, the Adjusted Net Tangible Assets of this Company would have been about \$HK2.73 million.

And this, as far as TARGET can recall, makes this Company the smallest flotation in the Hongkong Special Administrative Region, ever.

As at March 31, 2000, before the cash injection, the Accountants' Report, at Page 126 of the Prospectus, states that the Net Assets of this Company amounted to \$HK1.

This Company describes itself as being '*a mobile B2B eBusiness solutions provider*'.

It claims to have been one of the first, mobile B2B eBusiness solutions providers, using a third-party service firm approach.

The Company alleges to have its trading records, reaching back to 1990.

For the past 24 months, the Profit Attributable to Shareholders has been, in aggregate, about \$HK2.70 million.

But that figure of \$HK2.70 million is very suspect because, if the Directors had taken what must be considered a reasonable remuneration package, it is likely that the Profit Attributable to Shareholders would have been greatly reduced -- perhaps to the state of showing a loss.

Be that as it may, the following is the trading record of the Company for the past 2 Financial Years:

	Financial Year ended March 31	
	1999	2000

	All Figures are Denominated in \$HK'000	
<b>Turnover:</b>		
Sales of Computer Hardware	3,280	5,932
Sales of Packaged Software	3,781	4,211
Fees from Developing Customised Solutions	3,610	5,719
Fees for Technical Support and Maintenance Services	1,668	2,847
Rental Income	<u>Nil</u>	<u>11</u>
<b>TOTAL</b>	<b><u>12,339</u></b>	<b><u>18,720</u></b>
Cost of Sales	(3,128)	(7,062)
Gross Profit	9,211	11,658
Other Revenue	30	Nil
Distribution and Selling Expenses	(299)	(612)
Software and Development Expenditures	(2,960)	(3,020)
General and Administrative Expenses	(4,124)	(5,855)
Profit from Operations	1,858	2,171
Interest Income	Nil	14
Interest Expenses	(283)	(256)
Profit before Share of Losses of an Associated Company	1,575	1,929
Share of Losses of an Associated Company	(93)	Nil
Profit before Taxation	1,482	1,929
Taxation	(319)	(387)
Profit Attributable to Shareholders	1,163	1,542

What is only too apparent from the above table is that 57 percent of the 1999 Turnover came from the sales of other companies' computer hardware and software, and this side of the business dropped to about 54 percent of the Turnover in the 2000 Financial Year.

It takes no great shakes to sell packaged software and some other company's hardware, and one must assume that, sooner rather than later, such sales will be made via the Internet, cutting out companies of this ilk, completely.

As it is, the Prospectus of CyberM International states that, in the 1999 Financial Year, one customer accounted for about 14.70 percent of total sales, and just one customer accounted for about 19.90 percent of total sales in the 2000 Year.

The Company's 5 largest companies accounted for 45 percent and 45.30 percent of the Turnovers for the 1999 Year and 2000 Year, respectively.

If Management should lose any of its 5 largest customers, it would have an immediate and, perhaps, lasting effect on the Bottom Line.

CyberM International has stated, at Page 11 of the Prospectus, that it needs the Net Proceeds of the cash-raising exercise to complete the following:

1. To research and development: \$HK6.28 million;
2. To promoting the Company: \$HK6.72 million;
3. To expanding into the Greater China Region: \$HK7.50 million;
4. To Working Capital Requirements: \$HK6.90 million; and,
5. To establishing an office in the HKSAR: \$HK1.00 million.

As stated in the sixth paragraph of this TARGET report, certain of the Executive Directors have sold part of their holdings in this Company, pocketing about \$HK11 million in the process.

The Executive Directors are Messrs Lau Chiu Pui, Chairman and Managing Director, Yip Ho Pong, Fergus Lai Shu Pui, and Wong Kit Mei.

That they deserve to be remunerated for their services goes without saying, but this Company is hardly the success story of Coca-Cola.

In fact, looking at the above trading results, it would not be unfair to state that this Company is more than a little bit of a failure, all things considered.

CyberM International needs money: It is short of cash and, without healthy injections of cash, it would, most likely, sink under the weight of its debts which, as at May 31, 2000, stood at about \$HK4.84 million.

That being the case, one may wonder at the reason that the (loyal) Executive Directors of this Company sold their shares rather than have the Company issue new shares and allow the Company the benefit of the cash.

In the 2000 year, CyberM International paid out about \$HK230,000 in debt service, slightly less than the \$HK283,000 that it paid out in debt service in the 1999 Year.

While it is very clear that this level of debt is serviceable, there must have been -- and may still be -- something terribly wrong with the administration of the accounts of this Company because the Provision for Bad and Doubtful Debts amounted to about 7 percent of the 2000 Turnover: About \$HK1.31 million.

It was required in the 2000 Year that the Chairman lend to the Company \$HK2.31 million, that debt, having been subsequently capitalised without the benefit of any interest factor, tacked onto the principal sum.

The fact that a Director had to lend the Company this, seemingly, small amount of money must be indicative of a financial position, having been stretched, with the Company's bankers not too keen to allow debts to mount too much too quickly.

On a final point about the accounts for the 2000 Year, this Company was supporting a staff level of some 38 employees of which figure, 13 employees were said to be engaged in activities, relating to research and development.

At the same time, Page 122 of the Prospectus indicates that staff costs amounted to about \$HK5.18 million in the 2000 Year.

On the false assumption that the Company had 38 employees, excluding the Executive Directors, during the 2000 Year, then it was paying out about \$HK11,349 per head per month.

Which is not possible, of course: Far too low a level of average monthly pay packages for staff members of this calibre (assuming that they were of that calibre, of course).

### **Has The Stock Market Gone Mad ?**

On the first day of trading on The GEM, that is last Thursday, the share price of CyberM International hit a high of \$HK2.50 per share and then sank to a low of \$HK1.18 per share.

That is a 112-percent swing from the share price's lowest level in a period of just 4 hours of trading on The GEM.

The number of shares, traded in this Company's scrip, during those 4 hours, was equal to about 69.44 million, or about 138 percent of the number of shares that were Placed by the Company and were sold by the Executive Directors.

Last Friday, the share price fell a further 4 cents to \$HK1.14 per share.

This Company, based on the 2000 Trading Results -- which must have been a record for the Company -- has earnings of not more than 7.30 cents per share.

So the Sale and Placing Price of 93 cents per share was equal to nearly 13 times the earnings, recorded in the 2000 Year.

However, there is a much more important point, here.

The point is this: What is the duty of The Stock Exchange of Hongkong Ltd with regard to this situation?

Or does it not have a duty, at all?

It will, most likely, be stated by the Executive Committee of The Stock Exchange that its primary duty is to establish and maintain an orderly market in the stocks and securities of companies, listed on The Stock Exchange.

From the above statement, it would follow that, if a prospective corporate listing candidate complies with the rules and regulations, governing a listing and quotation on The Stock Exchange, the Listing Committee would have no option but to accede to the candidate's request for quotation.

It would be a situation, which would be akin to a completely uneducated, ethnic Indian from, say, a small hamlet, which is 100 miles south of Madras, a hamlet where there are no paved roads and very few motor vehicles.

The Indian, while never having driven a motor car in his country, may well be able to pass the written and driving test of the Hongkong Special Administrative Region, thus complying with the laws of the HKSAR in respect of operating a motor vehicle.

The Transport Authority would have no option but to issue this applicant a licence to operate a motor vehicle -- even though the applicant may be totally unfit to operate such a vehicle for a number of reasons.

But one would hope that a driving examiner, employed by the HKSAR Transport Department, could, if he felt that he was justified, exercise discretion in making a determination insofar as TARGET's hypothetical Indian is concerned, and find a reason to disqualify him from holding a valid driving licence on the grounds that the Transport Authority has a higher duty to the public, at large.

The same type of reasoning, one would suppose, ought to be exercised by the Executive Committee of The Stock Exchange of Hongkong Ltd.

It has a sworn duty to prospective investors -- the innocent and the ignorant, especially.

Or, perhaps, it does not see the situation in that light?

If it does not have a sworn duty to the investing public, one wonders as to what would be considered its mandate as the holder of the keys of The Stock Exchange of Hongkong Ltd.

In TARGET's opinion, CyberM International should never have been permitted to be listed on The GEM for a number of reasons.

The '**EXPECTED TIMETABLE**', stated on Page ii of the Prospectus, reads as follows:

*Announcement of levels of indications of interests  
In the Placing to be published on the GEM website*

*On or before ..... Wednesday, 16<sup>th</sup> August, 2000*

*Share certificates available on or before (Note 1) ..... Wednesday, 16<sup>th</sup> August, 2000*

*Placing which is expected to become unconditional*

*On or about .....*

*Wednesday, 16<sup>th</sup> August, 2000*

*Dealings in shares on GEM commence on (Note 2) .... Thursday, 17<sup>th</sup> August, 2000*

The Prospectus was issued on August 11 so that it would have been nearly impossible for prospective investors to have read it, let alone try to understand its contents.

A Prospectus is supposed to be a *'hand-on-the-heart'* declaration, made by the directors of the company to which the directors hold a duty of fidelity, but the compilation and accuracy of the information contained therein, is the responsibility of The Stock Exchange of Hongkong Ltd, which makes no representation as to its completeness and *'expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the prospectus'*. (taken from the cover page of the Prospectus)

Which HKSAR Authority, therefore, should be deemed as the guardian of the public purse in respect of information that is contained in a new listing prospectus?

If TARGET is correct, in that the listing of CyberM International is not in the best interests of the investing public, as a whole, under what conditions may The Stock Exchange of Hongkong Ltd determine not to allow such a company to be admitted to the rolls of quoted companies under its aegis?

At what point does it become incumbent on The Stock Exchange Executive to state that such-and-such a company, regardless of The Listing Rules, may not be admitted to The Stock Exchange lists because it is deemed unfit?

The Companies Ordinance, Chapter 32 of the Laws of the HKSAR, has a provision that states that, under certain conditions, an individual may be excluded from holding a position of authority in a company due to his unfitness to hold such an office.

A felon, recently released from custody, for instance, may be deemed to be unfit to be a director of a public company, as is a person, who has been accused and found culpable of insider trading, bordering on criminality.

That a corporate entity, with a limited liability, may seek out and obtain more than 50 shareholders to be partners in a scheme that the entity is about to execute is free enterprise, and is to be applauded: Caveat emptor.

But, when a company is admitted to the rolls of a stock exchange ... [CLICK TO ORDER FULL ARTICLE](#)

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