



36.com holdings limited

(Incorporated in bermuda with limited liability)

Path to Profitability

First Quarter Report 2000

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 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.

HIGHLIGHTS

- For the three months ended 30th June 2000, turnover amounted to approximately HK\$3.7 million. The Group recorded a net loss attributable to shareholders of approximately HK\$12.7 million, representing a basic loss per share of 0.588 cents.
- No payment of an interim dividend is recommended.
- Since the launch of the Group's initial vertical portals on 6th March, 2000, 36.com has become one of most popular Hong Kong websites visited by Hong Kong Internet users.
- Building on this success, the Group will actively leverage its content to create scaleable revenue growth in online advertising, e-commerce, content distribution, and services provision.

UNAUDITED COMBINED PROFIT AND LOSS ACCOUNT

The Board of Directors (“Board”) of the Company is pleased to announce the unaudited combined results of the Group for the three months ended 30th June, 2000 together with the comparative unaudited figures of the corresponding period in 1999 as follows:

For the three months ended 30th June, 2000

	Notes	Three months ended 30th June,	
		2000	1999
		HK\$'000	HK\$'000
Turnover	2	3,773	—
Loss before taxation		(12,666)	(55)
Taxation	3	(45)	—
Loss attributable to shareholders		(12,711)	(55)
Loss per share — basic	4	0.588 cents	0.003 cents

Notes:

1. Basis of Presentation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 8th May, 2000. The Company is an investment holding company for the Group with its principal activities being that of the provision of internet services. The Company's shares have been listed on GEM operated by the Stock Exchange of Hong Kong Limited since 28th July, 2000.

Pursuant to a group reorganization (the “Reorganization”) in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group on 12th July, 2000. Details of the reorganization are set out in the Prospectus of the Company dated 18th July, 2000. The unaudited combined 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 covered by this report or since their respective dates of incorporation, where this is a shorter period.

All significant intra-group transactions and balances have been eliminated in preparing the combined financial statements.

2. Turnover

Turnover derives from the principal activities of the Group engaged in the provision of internet advertising, e-commerce, content distribution, internet consultancy and other media related consultancy services.

3. Taxation

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for the three months ended 30th June, 2000 and the corresponding period in 1999. The tax charge shown in the profit and loss account for the three months ended 30th June, 2000 arose from an underprovision of tax relating to the year of assessment 1996/1997.

No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

4. Loss per share

The calculation of the basic loss per share for the period is based on the loss attributable to shareholders of the Group of HK\$ 12,711,000 (1999: 55,000) and the total number of shares in issue, being 2,161,026,000 immediately prior to the initial public offer of the Company.

No diluted loss per share have been presented for the three months ended 30th June, 2000 and the corresponding period ended 30th June, 1999 as the Company did not have any dilutive potential ordinary shares during these periods.

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2000 (1999: Nil).

CHAIRMAN'S STATEMENT — Path to Profitability

It gives me great pleasure to present the first report of unaudited results since the listing of 36.com Holdings Limited (“Company”) on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong on 28th July, 2000.

The Company and its subsidiaries (collectively referred to as the “Group”) focus on building a series of content-rich vertical portals and to make each of the vertical portals one of the most important popular sites in its specific area of interest for worldwide Internet Chinese users. We cultivate user loyalty to each of our vertical portals by expanding the breadth of our services through the acquisition of businesses, technologies, content and services that are complementary of the specific area of interest.

We believe our rich content will help our vertical portals become the preferred choices for advertisers seeking targeted advertising. Beside online advertising, content distribution, e-commerce commission and service provision will serve as the primary revenue generators for our growth in the future.

Our content-led strategy is already showing early signs of success. Since the launch of our seven vertical portals on 6th March, 2000, 36.com has become one of most popular Hong Kong websites visited by Hong Kong Internet users. By the end of June, our portal network enjoyed an average of 3,382,000 pageviews per day and has attracted about 2,283,000 unique visitors and about 218,000 registered users.

Given our strong brand and our professional management team, we are well-positioned to capitalize on our initial success to expand our reach to the global Chinese communities and translate our popularity into tangible financial results.

FINANCIAL REVIEW

For the three months ended 30th June, 2000, the Group's turnover amounted to approximately HK\$3,773,000 while no turnover was recognized during the corresponding period in 1999. As the Group was still in the early stage of investment and development, a loss attributable to shareholders of approximately HK\$12,711,000 was reported during the current period. The net loss during the corresponding period in 1999 was approximately HK\$55,000.

BUSINESS REVIEW

Since the launch of its initial vertical portals on 6th March, 2000, the Group's content-led strategy has been gathering momentum and is positioning for a healthy financial future.

Advertising

Based on the breadth of its online content, the Group has the ability to package personalized advertising solutions for advertisers and advertising agencies interested in accessing the global Chinese communities. For the three months ended 30th June, 2000, the Group has received orders representing approximately HK\$7,816,000 in advertising revenues. The Group's advertising clients included iASPEC Technologies (H.K.) Limited, Innovative Information Systems Limited, Sun Microsystems of California Limited, Yahoo! Holdings (Hong Kong) and Real Media Limited.

Content Distribution

As its content builds up and further develops over time, the Group generates revenue from the distribution of its content to Internet and other media (such as print and WAP) providers. In June, the Group launched a financial information service including real-time commentaries (in voice or text form) to mobile telephone subscribers of Cable & Wireless HKT CSL Limited. The Group has also agreed with Mass Transit Railway Corporation ("MTRC") to provide web content on MTRC's website. For the three months ended 30th June, 2000, the Group has received orders representing HK\$5,000,000 in content distribution revenue.

Communication and Web Development Services

The Group also generates revenue from assisting merchants and corporations to manage their media image and their relationship with their customers, including internet users. Recent clients include Maxim Caterer Limited for which the Company provides services relating to communication strategy as well as integrated web development. For the three months ended 30th June, 2000, the Group has received orders representing HK\$5,950,000 in services fees.

A number of exciting developments in this past quarter have highlighted the Group's initiatives to enhance its content for further revenue growth:

Enrichment of Existing Portals

The Group continued to enrich its content and services provided on the seven vertical portals launched on 6th March, 2000. One of the enhancements during the period under review was the introduction of an automatically refreshed screen on its Finance portal to enable users to obtain up to the minute market news and commentaries on stocks and index futures. This enhancement enables the Group to strengthen user loyalty among a segment of users with significant revenue potential.

Launch of New Portals

The Group launched three new vertical portals during the period under review in the areas of teenager, horse-racing and automobile.

Expansion of the Group Network

The Group has bundled its own vertical portals with a number of quality websites, including hongkong.cnet.com and healthanswers.com, into a comprehensive network of websites. A religion portal was set up during this period consisting of Christianity and Buddhism channels.

Strategic Alliances

With a view to expand its network of vertical portals, the Group entered into a number of business alliances during the three months ended 30th June, 2000. The Group and WhyNot Creations, Inc. ("WhyNot") are co-developing a Chinese version of WhyNot's animated e-greeting cards for use on the Group's website. WhyNot operates a website ynot.com, a popular animated e-greeting card portal in English, Japanese and five other languages, and is a provider of media-rich e-marketing programs. WhyNot currently has one of the biggest inventories of animated e-greeting cards in the world. It is intended that the website will also contain selected English language versions of WhyNot's animated e-greeting cards.

The Group will also develop a global Chinese women's portal in both traditional and simplified Chinese, partnering with Dr. Leung Anita Fung Yee, a well-known author and television producer. It is expected that this portal will be launched during the second half of year 2000.

Distribution Partnership

During the period under review, a number of distribution agreements were reached to enable wider accessibility of the Group's content. Both Yahoo! Hong Kong and iChannel.com, the homepage(s) for CTInets, one of the leading Internet Service Providers in Hong Kong, have commenced distribution of the Group's content through their portal networks.

The Group has agreed with IBM China/Hong Kong Limited and Grey Interactive Limited to create a new portal whereby users of IBM PCs will be able to directly access the portal by pressing a pre-programmed button on their keyboard. The portal will serve as an online loyalty channel for users of IBM PCs.

Technology Development

In the first quarter of the financial year 2000, the Group continued to develop its technological platform. Software applications sourced and integrated during this period included instant translation, shopping, auction and free personal homepages.

FUTURE PLANS AND DEVELOPMENTS

The Group has been successful in developing various vertical portals, each with extensive content and features in each portal's specific area of interest. In order for the company to meet the challenges of competition, the Group must continue to develop each vertical portal with a view to ensure high user retention and affinity.

The phenomenal success of the Group's e-commerce services has reinforced its focus to capitalize on the expected growth of e-commerce. On 17th July, 2000, the Group launched a group purchase service under a new domain (URL: www.30.com) to allow multiple consumers to group together their orders to enjoy bulk discounts from selected merchants. In addition the Group has entered into affiliation agreements with over 50 international retail websites to market products generally not available in Hong Kong. These e-commerce services now enjoy an average of HK\$86,000 in turnover per day or an estimated HK\$2,571,000 on a monthly basis. Substantial growth is expected as the Group continues to aggressively expand its e-commerce product and services. This better than expected performance is likely to position e-commerce revenue to become one of the most significant revenue sources for the Group.

The Group perceives the PRC as the Group's major and principal market for expansion. The Group has been in discussion with a number of potential partners to develop localized versions of its vertical portals to suit the tastes and interests of users in the PRC. On the international front, the Group will be establishing localized vertical portals to meet the interests and needs of the Chinese communities in North America. As the Group's content builds up and further expands in the PRC and internationally, the Group is expected generate revenue by allowing clients to host certain of the Group targeted portals.

In addition, the Group will continue to incorporate technology developed internally or licensed from third parties into its products and services to further enhance and distinguish each vertical portal and provide users with an improved online experience. In the next few months, The Group will launch a Chinese version of WhyNot's animated e-greeting cards for use on the Group's website. This new technology provides significant e-marketing potential by enhancing users' unique on-line experience as well as providing unparalleled ability to target specific consumers' groups.

Given the uncertain market environment in the foreseeable future, the Group will continue to exercise discipline in maintaining tight financial control while driving profitability by creating scaleable revenue growth.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

Interests in securities

As at 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM), according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by the Directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"), the interests of Directors, chief executive and their associates in shares of the Company were as follows:

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total
Cheng Albert Jinghan	1,326,000	13,206,000 (note 1)	—	602,490,000 (note 2)	617,022,000
Ip Saimond	243,456,000	—	—	—	243,456,000
Yeung Kwok Mung	68,238,000	—	—	—	68,238,000
Tsang Moses Kwok Tai	13,290,000	—	151,806,000 (note 3)	—	165,096,000
Poon Kai Tik	5,910,000	79,206,000 (note 4)	—	—	85,116,000
Huang Erwin Steve	25,326,000	—	—	—	25,326,000
Chung Wai Yang	—	—	83,166,000 (note 5)	—	83,166,000

Notes:

1. These Shares are held by Cheng Albert Jinghan's wife, Lo Irene Kam Sheung and therefore he is deemed to be interested in these Shares.
2. These Shares are held by Drummond Finance Limited. Drummond Finance Limited is the wholly-owned subsidiary of Umbel Inc., which is a company owned by CIBC Trust Company (Bahamas) Limited as trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan is therefore deemed to be interested in these Shares. Cheng Albert Jinghan is a director of Drummond Finance Limited.
3. These Shares are held by MKT Holdings (Cayman Islands) LLC, which is wholly-owned by Tsang Moses Kwok Tai and Tsang Moses Kwok Tai is therefore deemed to be interested in these Shares.
4. These Shares are held by Poon Kai Tik's wife, Au Tak Yee, and therefore he is deemed to be interested in these Shares.

5. These Shares are held by Cyber Channel Limited, which is wholly owned by Chung Wai Yang and therefore he is deemed to be interested in these Shares.

Directors, chief executive and their associates are not interested in the warrants of the Company.

SHARE OPTIONS

The Company has Pre-IPO Share Option Scheme and Share Option Scheme (the "Schemes") under which the Directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of the Company under the terms and conditions stipulated in the Schemes.

Share Option Scheme

No options have been granted to the Directors and employees of the Group under Share Option Scheme as at 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM).

Pre-IPO Share Option Scheme

As at 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM), options comprising a total of 264,503,216 underlying shares were granted to 5 directors and 2 employees of the Group at an exercise price of HK\$0.0379 per share on 12th July, 2000. Details of these options were as follows:

Grantees	No. of shares subject to the options	Expiration date
<i>Directors</i>		
Ip Saimond	72,602,255	31st December, 2005
Yeung Kwok Mung	72,602,255	31st December, 2005
Tsang Moses Kwok Tai	44,551,384	31st December, 2005
Poon Kai Tik	19,800,615	31st December, 2005
Huang Erwin Steve	7,425,231	31st December, 2005
<i>Employees</i>	47,521,476	31st December, 2005

Each of the above options will become exercisable as to 8.33 per cent of the number of shares subject to it after each Reference Date immediately after completion of the Share Offer. “Reference Date” means each of 31st March, 30th June, 30th September and 31st December. The first Reference Date is 30th September, 2000.

In addition, on the same date the Company granted options comprising a total of 52,012,951 underlying shares at an exercise price of HK\$0.0909 per share to 71 other employees of the Group. The options granted to these employees of the Group are subject to the same limitations on timing of exercise as the above options granted at HK\$0.0379 per share except for options granted to 2 employees of the Group, comprising an aggregate of 3,960,123 underlying shares and expiring on 31st July, 2004. Each of these options will become exercisable as to 6.26 per cent of the number of shares subject to it after each Reference Date immediately after completion of the Share Offer. “Reference Date” means each of 31st March, 30th June, 30th September and 31st December. The first Reference Date is 30th September, 2000.

No options pursuant to the Pre-IPO Option Scheme had been exercised, cancelled or lapsed as at 28th July, 2000. Due to the resignations of certain employees, options comprising only an aggregate of 316,516,167 underlying shares were eventually granted and accepted (instead of options comprising an aggregate of 316,823,077 underlying shares conditionally granted as stated in the Prospectus). As at 28th July, 2000, options comprising a total of 316,516,167 underlying shares were outstanding.

A summary of the major terms of each share option scheme is set out at pages 238–248 of the Prospectus of the Company dated 18th July, 2000.

SUBSTANTIAL SHAREHOLDERS

As at 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM), according to 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. These interests are in addition to those disclosed above in respect of the Directors:

Name	Number of Shares	Approximate Percentage of holding
CIBC Trust Company (Bahamas) Limited (as trustee of the Albert Cheng Family Trust)	602,490,000	24.68%
Umbel Inc. (Note 1)	602,490,000	24.68%
Drummond Finance Limited (Note 1)	602,490,000	24.68%
Lo Irene Kam Sheung (Note 2)	617,022,000	25.28%
ACAEDL Limited (Note 3)	326,052,000	13.36%
Chung Po Yang (Note 3)	369,702,000	15.15%

Notes:

1. Drummond Finance Limited is the wholly-owned subsidiary of Umbel Inc., which is a company owned by CIBC Trust Company (Bahamas) Limited as trustee of the Albert Cheng Family Trust ("CIBC"). Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan is therefore deemed to be interested in these Shares. Therefore, shareholdings stated against CIBC, Umbel Inc. and Drummond Finance Limited are entirely duplicated. Cheng Albert Jinghan is a director of Drummond Finance Limited.
2. Lo Irene Kam Sheung is the wife of Cheng Albert Jinghan and therefore she is deemed to be interested in 603,816,000 Shares in which Cheng Albert Jinghan is interested.
3. ACAEDL Limited is wholly owned by Chung Po Yang and Chung Po Yang is therefore deemed to be interested in these Shares (by virtue of the SDI Ordinance). Therefore, shareholdings stated against ACAEDL Limited are entirely duplicated in the shareholdings stated against Chung Po Yang. Chung Po Yang is the brother of Chung Wai Yang who is a non-executive Director. Chung Wai Yang is also a director of ACAEDL Limited.

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

Competing Interests

None of the Directors nor the substantial shareholders have any interest in any business that directly or indirectly compete with the business of the Group except that:

- (a) Cheng Albert Jinghan, an executive Director, is a director of a company whose principal business includes the provision of media services. The company may, in the future, expand its business activities to the provision of content for broadband web television. Mr. Cheng has the entire shareholding interest in this company;
- (b) Tsang Moses Kwok Tai, a non-executive Director, is a director and shareholder of 4 companies whose principal business includes the provision of Internet incubating services and stock trading strategies involving artificial intelligence. The shareholding of Tsang Moses Kwok Tai in each of such companies is less than 30 per cent of the issued share capital. The business activities of each such company would not compete, in any way, with that of the Group unless such company provides incubating services to a financial on-line service company or the Group expands its business into stock trading strategies involving artificial intelligence; and
- (c) Wong Richard Yue Chim, an independent non-executive Director, as private investments, holds securities in various publicly listed companies, whose business may compete with that of the Group. The shareholding in each case is less than 0.01 per cent of the issued share capital and no management function in such companies or their respective subsidiaries is performed by him.

SPONSOR'S INTERESTS

Neither the sponsor of the Company, Worldsec Corporate Finance Limited ("Worldsec") nor its associates obtain any material benefit as a result of the listing of the Company on the GEM, other than the following: (i) by way of underwriting commissions to be paid to its associate, Worldsec International Limited, for acting as one of the underwriters; (ii) the advisory and documentation fees to be paid to Worldsec as sponsor; (iii) by a sponsor agreement entered into between Worldsec and the Company, pursuant to which Worldsec was retained as sponsor of the Company for the remainder of the financial year of the Company ending 31st March, 2001 and for the period of two years commencing from 1st April, 2001 and the Company agreed to pay an agreed fee to Worldsec for its provision of such services; and (iv) Cheong Henry Ying Chew, one of the directors of Worldsec, subscribed for 1,500 shares in Cyber Communication Corporation Ltd. at a consideration of HK\$750,000 on 17th February, 2000 and became a shareholder of the

Company after the Group's corporate reorganisation and held approximately 0.81 per cent of the Company's issued shares immediately following the listing of the Company on the GEM.

Save as disclosed above, Worldsec, its directors, employees and associates, at 30th June, 2000, did not have any interest in the securities of the Company or any members 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.

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

During the three months ended 30th June, 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference on 11th May, 2000. The audit committee comprises two independent non-executive Directors, Mr. Abraham Shek and Mr. Richard Wong. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

YEAR 2000 COMPLIANCE

The Board of Directors is pleased to announce that the Group's computer systems were proved Year 2000 compliant safely. The Board of Directors believes that the Year 2000 computer issue will have no material impact on the operations of the Group.

By Order of the Board
Dr. Saimond Ip
Chairman

Hong Kong, 11th August, 2000