



## **36.com holdings limited**

(Incorporated in Bermuda with limited liability)

Third Quarterly 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

- Turnover of approximately HK\$7,543,000 for the three months ended 31st December, 2000
- Net losses attributable to shareholders for the three months and the nine months ended 31st December, 2000 of approximately HK\$23,061,000 and approximately HK\$55,076,000, representing a loss per share of 0.934 cents and 2.357 cents., respectively
- Strong financial position with approximately HK\$102,000,000 in cash at the end of December, 2000

## UNAUDITED COMBINED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 31st December, 2000

	Notes	Three months ended 31st December,		Nine months ended 31st December,	
		2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	7,543	—	21,770	—
Loss before taxation		(23,061)	(2,790)	(55,045)	(2,914)
Taxation	3	—	—	(31)	—
Loss attributable to shareholders		(23,061)	(2,790)	(55,076)	(2,914)
Loss per share — basic	4	0.934 cents	0.129 cents	2.357 cents	0.135 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 "Prospectus"). 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 the 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 normal 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 and the nine months ended 31st December, 2000 and the corresponding periods in 1999. The tax charge shown for the nine months ended 31st December, 2000 arose from an underprovision of tax relating to the year of assessment of 1996/97.

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 loss per share for the three months and nine months ended 31st December, 2000 is based on the respective unaudited combined loss attributable to shareholders of the Company of approximately HK\$23,061,000 and approximately HK\$55,076,000 (1999: approximately HK\$2,790,000 and approximately HK\$2,914,000) and the weighted average number of 2,468,026,000 and 2,336,295,091 (1999: 2,161,026,000 and 2,161,026,000) ordinary shares outstanding. The 2,161,026,000 ordinary shares outstanding as a result of the Group's Reorganization prior to the initial public offering of the 36.com's 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 1st April, 1999.

The exercise of the share options granted by the Company would have an anti-dilutive effect on the loss per share for the three months and the nine months ended 31st December, 2000.

**5. Interim dividend**

The Directors do not recommend the payment of an interim dividend for the three months ended 31st December, 2000 (1999: Nil).

## CHAIRMAN'S STATEMENT

Amid the challenges presented by the on-going industry consolidation, we are confident about the growth prospects of the Group. On the one hand, our strong financial position with over HK\$102 million in cash at the end of December 2000 will ensure our ability to emerge as one of the market leaders from the on-going consolidation. Consolidation will also likely result in a more favorable operating environment for those remaining players. On the other hand, we have always focused on realizing the synergies between "on-line" and "off-line" media in pursuing our business. We have seen significant off-line opportunities emerged against the backdrop of the industry consolidation.

One example of the on-line and off-line synergy is our retailing service. We recently expanded our service to provide multi-channel order-taking from internet, phone and fax and have received significant interest in phone ordering during the Christmas festive season. We believe leveraging multi-channels will enable us to grow our sales by leaps and bounds while allowing us to improve our gross margin. In addition, we are exploring other opportunities to leverage our rich content in finance, news, entertainment and many other areas. We intend to monetarize the distribution of our content not only through the web but also other forms of media, in particular, publishing and commission-based agency service.

On behalf of the Board of Directors, I wish to express our sincere appreciation to you, as our valued shareholders, our customers and our partners for your strong support. Your continuing support is vital to the further expansion of our business.

## FINANCIAL REVIEW

For the three months ended 31st December, 2000, the Group's turnover amounted to approximately HK\$7,543,000. As the Group was still in the stage of investment and development, a net loss attributable to shareholders of 36.com of approximately HK\$23,060,000 was recorded for the three months ended 31st December, 2000. The increase in net loss attributable to shareholders was primarily due to the non-recurring set-up costs (approximately HK\$10,020,000) for our vertical portals in Mainland China and Canada. No further investment in this area is expected in the foreseeable future.

## BUSINESS REVIEW

During the third quarter of 2000, the Group has implemented initiatives to realize on-line and off-line synergies in our business.

Having established a critical volume of sales, 30.com's focus was to improve its gross margin by concentrating on high value products. We compensated the potential trade-off in sales volume by expanding to other remote order-taking channels such as telephone and fax. This strategy has proved to be successful. Not only have we been able to maintain our sales volume but also significantly improve our gross margin.

Launched during the second quarter of 2000, our one-stop service targeting SMEs and comprising of advertising, web hosting and e-commerce platform has so far signed up over 200 customers. This service has a high degree of stickiness and provides a steady revenue stream for the Group.

## **FUTURE PLANS AND DEVELOPMENTS**

Although the operating environment for the Internet industry remains tough, we believe the Group is one of the few players likely to weather through the market downturn and be positioned to capitalize any future growth. In particular, our financial strength has enabled us to implement our business plan without having to rely on tapping the equity market for additional financing. As a matter of fact, the tightening of the capital market has also helped reduce competition that could otherwise be more intense than it has been.

The Group will continue to maximize the synergies between on-line and off-line media to propel our business growth. We will continue to expand our catalog-based shopping through multi-, remote ordering channels. The focus will be to continue improving our margin while expanding sales volume. Moreover, the Group intends to expand its commission-based agency programs. One initiative already underway is to tackle the multi-billion dollar job-referral market. The Group has natural advantage by virtue of its reach to large number of potential job seekers and its extensive relationships with both corporates and SME's. In addition, we will seek opportunities to maximize the exposure and revenue generating ability of our content through multi-channel distribution. In particular, we are considering the publication of our rich content in traditional print format. This will enhance our value proposition to both our customers and our audience and create new business opportunities.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2000, 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 the 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 were held by Cheng Albert Jinghan's wife, Lo Irene Kam Sheung and therefore he was deemed to be interested in these shares.
2. These shares were 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, a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan was therefore deemed to be interested in these shares. Cheng Albert Jinghan is a director of Drummond Finance Limited.
3. These shares were held by MKT Holdings (Cayman Islands) LLC, which is wholly-owned by Tsang Moses Kwok Tai and Tsang Moses Kwok Tai was therefore deemed to be interested in these shares.
4. These shares were held by Poon Kai Tik's wife, Au Tak Yee, and therefore he was deemed to be interested in these Shares.
5. These shares were held by Cyber Channel Limited, which is wholly owned by Chung Wai Yang and therefore he was deemed to be interested in these shares.



Directors, chief executive of 36.com and their associates were not interested in the warrants of the Company.

## SHARE OPTIONS

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

### Pre-IPO Share Option Scheme

As at 31st December, 2000, 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	Number of shares subject to 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 the dealing commencement date of the Company's shares and warrants on GEM. "Reference Date" means each of 31st March, 30th June, 30th September and 31st December. The first Reference Date was 30th September, 2000.

In addition, on 12th July, 2000, the Company granted options comprising a total of 52,012,951 underlying shares to 71 other employees of the Group at an exercise price of HK\$0.0909 per share and expiring on 31st July, 2004. 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 the options granted to 6 employees of the Group, comprising an aggregate of 4,580,542 underlying shares. 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 the dealing commencement date of the Company's shares and warrants on GEM.

No options pursuant to the Pre-IPO Option Scheme had been exercised or cancelled as at 31st December, 2000. Due to the departure of certain employees, options comprising an aggregate of 6,911,244 underlying shares had lapsed during the period from 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM) to 31st December, 2000. As at 31st December, 2000, options pursuant to the Pre-IPO Option Scheme comprising a total of 309,604,923 shares were outstanding.

### Share Option Scheme

No options had been granted to directors and chief executive of 36.com under the Share Option Scheme adopted by the Company on 12th July, 2000 (as described in the Prospectus) during the period from 28th July, 2000 (the dealing commencement date of the Company's shares and warrants on GEM) to 31st December, 2000.

Details of the options to subscribe for shares in the Company granted to employees of the Group (other than directors and chief executive of 36.com) under the Share Option Scheme of the Company are set out below:

<b>Date of grant/lapse</b>	<b>Exercise price (HK\$)</b>	<b>Number of shares subject to options</b>	<b>Expiration date</b>
15th August, 2000	0.187	45,780,000	31st December, 2005
11th September, 2000	0.168	940,000	31st December, 2005
25th October, 2000	0.072	540,000	31st December, 2005
24th November, 2000	0.058	2,490,000	31st December, 2005
20th December, 2000	0.058	<u>120,000</u>	31st December, 2005
Total granted options		49,870,000	
Less: Lapsed options		<u>1,030,000</u>	
As at 31st December, 2000		48,840,000	

(note)

*Note:* The underlying shares of the outstanding options under the Share Option Scheme as at 31st December, 2000 represent approximately 1.98 per cent of the issued share capital of the Company.

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 the dealing commencement date of the Company's shares and warrants on GEM.

The above options were granted to 58 employees as at 31st December, 2000. The highest number of shares underlying the outstanding options granted to an employee under the Share Option Scheme as at 31st December, 2000 was 20,000,000. None of such options were granted to connected persons of the Company as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

No options pursuant the Share Option Scheme had been exercised as at 31st December, 2000.

A summary of the major terms of the Schemes was set out on pages 238 to 248 of the Prospectus.

#### **SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 2000, the register required to be kept under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests, being 10 per cent or more of the issued share capital of the Company.

<b>Name</b>	<b>Number of shares</b>	<b>Approximate Percentage of holding</b>
CIBC Trust Company (Bahamas) Limited (a trustee of the Albert Cheng Family Trust)	602,490,000	24.41%
Umbel Inc. ( <i>Note 1</i> )	602,490,000	24.41%
Drummond Finance Limited ( <i>Note 1</i> )	602,490,000	24.41%
Lo Irene Kam Sheung ( <i>Note 2</i> )	617,022,000	25.00%
ACAEDL Limited ( <i>Note 3</i> )	326,052,000	13.21%
Chung Po Yang ( <i>Note 3</i> )	336,192,000	13.62%

Notes:

1. Drummond Finance Limited is the wholly-owned subsidiary of Umbel Inc., which is a company owned by CIBC Trust Company (Bahamas) Limited, a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are discretionary beneficiaries of such trust and Cheng Albert Jinghan was therefore deemed to be interested in these shares. 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 was deemed to be interested in 603,816,000 shares in which Cheng Albert Jinghan was interested.
3. ACAEDL Limited is wholly owned by Chung Po Yang and Chung Po Yang was therefore deemed to be interested in these shares (by virtue of the SDI Ordinance). Therefore, shareholdings stated against ACAEDL Limited were entirely duplicated in the shareholdings stated against Chung Po Yang. In addition, Chung Po Yang is personally interested in 10,140,000 shares. 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 competes 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 paid to its associate, Worldsec International Limited, for acting as one of the underwriters; (ii) the advisory and documentation fees 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 Communications Corporation Limited, at a consideration of HK\$750,000 on 17th February, 2000 and became a shareholder of the Company after the Reorganization and held approximately 0.80 per cent of the Company' issued shares as at 31st December, 2000.

Save as disclosed above, Worldsec, its directors, employees and associates, as at 31st December, 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 nine months ended 31st December, 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. Shek Abraham Lai Him and Professor Wong Richard Yue Chim. 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 to be Year 2000 compliant. 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  
**Saimond Ip**  
*Chairman*

Hong Kong, 23rd January, 2001