



36.com holdings limited

(Incorporated in Bermuda with limited liability)

Third Quarterly Report 2001

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.

FOR THE PERIOD ENDED 31ST DECEMBER, 2001

	Three months ended		Nine months ended	
	31st December		31st December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	9,313	7,543	28,902	21,770
Loss before taxation	(20,544)	(23,061)	(69,458)	(55,045)
Taxation	0	0	0	(31)
Loss attributable to shareholders	(20,544)	(23,061)	(69,458)	(55,076)
Loss per share — basic	0.832 cents	0.934 cents	2.814 cents	2.357 cents

Notes:

I. 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 content distribution. The Company's shares and warrants have been listed on GEM operated by the Stock Exchange 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 represents advertising income, content and internet service fees, e-commerce income, circulation income, and other media related consultancy services fees.

3. Taxation

No provision for Hong Kong Profits Tax has been made as the subsidiaries of the Company incurred tax losses for the three months and nine months ended 31st December, 2001 and for the three months ended 31st December, 2000. The tax charge shown for the nine months ended 31st December, 2000 arose from underprovision in the prior years.

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

4. Loss per share

The calculation of the basic loss per share for the three months and nine months ended 31st December, 2001 is based on the unaudited combined loss attributable to shareholders of the Company of approximately HK\$20,544,000 and approximately HK\$69,458,000 (2000: approximately HK\$23,061,000 and approximately HK\$55,076,000) and the weighted average number of 2,468,026,000 (2000: 2,468,026,000 and 2,336,295,091) ordinary shares outstanding.

No diluted loss per share have been presented for the three months and nine months ended 31st December, 2001 and the corresponding periods ended 31st December, 2000 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 31st December, 2001 (2000: Nil).

Financial Review

I hereby announce the quarterly result of 36.com holdings limited ("36.com" or the "Company") and its subsidiaries (collectively referred to as the "Group") for the 3 months ended 31st December, 2001. For the 3 months ended 31st December, 2001, the Group's turnover amounted to approximately HK\$9,313,000, representing a 23% increase from the same period last year. The increase was mainly due to circulation and advertising revenue from the CUP magazine. The loss attributable to shareholders amounted to approximately HK\$20,544,000, a reduction of 11% from the same period last year. This reduction reflected the Group's successful effort in cost control.

Business Review

The last quarter has been a very difficult period for most businesses in Hong Kong; and 36.com was no exception. The September 11 terrorist attack has shaken the global economy in general and business confidence in particular.

As a result of the 9/11 incident, most advertisers took a wait-and-see approach and deferred major marketing programmes. Overall advertising spend in Hong Kong was therefore hit very hard in the last quarter. This market downturn has taken its toll on the Group's advertising revenue. Despite its increasing popularity among brand-name advertisers, the CUP magazine has not seen an increase in advertising revenue as expected prior to the 9/11 incident.

Meanwhile, revenue from our e-businesses held steady during the market turmoil. We have a very strong and compelling business proposition. Many core clients continue to use our one-stop solution which provides services ranging from website development and hosting, on-line marketing, to production of marketing materials — such as brochures and catalogues. Typical clients include Alcon (the optical equipment manufacturer), Good Luck Motoring, and the Committee on Youth Smoking Prevention.

At the moment, it remains very unclear as to when the global and local economies will emerge from the current downturn. The Board of Directors has therefore decided that the Group should be prudent and reduce its cost base. In December 2001, the Company announced a major restructuring programme to stay cost competitive. We have successfully turned the "CUP" from a weekly into a monthly magazine. This will allow a more cost-effective and targeted approach to reach our middle-class executive readers. We will continue to provide quality content on business, current affairs, and lifestyle. The first monthly issue of the "CUP" was published on 4th February, 2002.

Future Outlook

The December 2001 restructuring programme involved the laying off of around 120 staff, representing approximately 70% of our workforce. They left or will leave the Group in January or February 2002. The lower cost structure as a result of their departure should be reflected in the financial result for the quarter ending 31st March, 2002.

Beyond that, the future performance of the Group will depend on how fast and how strong the global and local economies will rebound. The Group's recent restructuring has enabled the Group to focus on unique on-line and off-line market segments. We believe that these segments will be a major beneficiary when the local economy recovers.

Due to the difficult economic environment of the Group continued to incur losses and as a result its cash holdings have been reduced. Future financial performance and cash positions of the Group are uncertain and will depend on overall economic conditions. In response to such circumstances, the Company has been exploring various strategic alternatives and is currently in an advanced stage of negotiations with certain independent third parties on certain transactions which will involve, among other things, acquisitions of assets from such parties and an issue of new shares by the Company as consideration for such acquisitions in order to strengthen the Group's asset base and the Company's capital base. Completion of such transactions may also lead to a possible change of control in the Company. Preliminary information relating to such transactions have been set out in an announcement made by the Company on 6th February, 2002. As stated in the announcement, there is no assurance that any agreement on such transactions will be successfully concluded. Shareholders of the Company should refer to the announcement for further information on such transactions.

Dr. Saimond Ip

Chairman

Hong Kong, 8th February, 2002

As at 31st December, 2001, the interests of the directors and chief executive of the Company and their associates in the securities of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Number of issued ordinary shares of HK\$0.0001 each in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Cheng Albert Jinghan	1,326,000	13,206,000 <i>(note 1)</i>	—	602,490,000 <i>(note 2)</i>	617,022,000
Ip Saimond	243,456,000	—	—	—	243,456,000
Yeung Kwok Mung	68,238,000	—	—	—	68,238,000
Huang Erwin Steve	25,326,000	—	—	—	25,326,000
Chung Wai Yang	—	—	83,166,000 <i>(note 3)</i>	—	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 have interest in these shares.
- (2) These shares were held by Drummond Finance Limited. Drummond Finance Limited is a wholly-owned subsidiary of Umbel Inc., which is a company owned by CIBC Trust Company (Bahamas) Limited as a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are the discretionary beneficiaries of such Trust and Cheng Albert Jinghan was therefore deemed to have interest in these shares. Cheng Albert Jinghan is a director of Drummond Finance Limited.
- (3) These shares were held by Cyber Channel Limited, which is wholly-owned by Chung Wai Yang and therefore he was deemed to have interest in these shares.

Certain directors of the Company have been granted options to subscribe for ordinary shares of the Company under the Pre-IPO Plans (as defined below), details of which are set out in the section headed "Share Options" below.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of issued ordinary shares of HK\$0.0001 each in the Company	Percentage of issued share capital
CIBC Trust Company (Bahamas) Limited	602,490,000	24.41%
Umbel Inc. (note 1)	602,490,000	24.41%
Drummond Finance Limited (note 1)	602,490,000	24.41%
Lo Irene Kam Sheung (note 2)	617,022,000	25.00%
ACAEDL Limited (note 3)	326,052,000	13.21%
Chung Po Yang (note 3)	336,192,000	13.62%

Notes:

- (1) Drummond Finance Limited is a wholly-owned subsidiary of Umbel Inc., which is a company owned by CIBC Trust Company (Bahamas) Limited as a trustee of the Albert Cheng Family Trust. Cheng Albert Jinghan and his children are the discretionary beneficiaries of the trust and Cheng Albert Jinghan was therefore deemed to have interest 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 have interest in 603,816,000 shares in which Cheng Albert Jinghan had interest.
- (3) ACAEDL Limited is wholly owned by Chung Po Yang and Chung Po Yang was therefore deemed to have interest in these shares. Therefore, shareholdings stated against ACAEDL Limited were entirely duplicated in the shareholdings stated against Chung Po Yang. Chung Po Yang is brother of Chung Wai Yang who is a non-executive director of the Company. Chung Wai Yang is also a director of ACAEDL Limited.

Save as disclosed above, no persons, other than the directors of the Company, whose interests are set out above, had registered an interest in the issued share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance.

SHARE OPTIONS

On 12th July, 2000, the shareholders of the Company adopted a Pre-IPO share option scheme (the "Pre-IPO Plan"). The principal terms of the Pre-IPO Plan were set out in the Company's prospectus dated 18th July, 2000. Pursuant to the terms of the Pre-IPO Plan, 316,516,167 options to subscribe for ordinary shares in the Company were granted to 2 executive directors, and 3 non-executive directors of the Company and 73 other employees of the Group on 12th July, 2000. Details of these options were as follows:

Grantees	Notes	Number of shares subject to the options	Exercise price per share HK\$	Expiration date
2 executive directors	(i)	145,204,510	0.0379	31st December, 2005
3 non-executive directors	(i)	71,777,230	0.0379	31st December, 2005
2 employees	(i)	47,521,476	0.0379	31st December, 2005
65 employees	(i)	47,432,409	0.0909	31st July, 2004
6 employees	(ii)	<u>4,580,542</u>	0.0909	31st July, 2004
		<u>316,516,167</u>		

Notes:

- (i) Each of these options became or will become exercisable as to 8.33% of the number of shares subject to it after each Reference Date immediately after the date of completion of the share offer in connection with the listing of the Company's shares and warrants on GEM of the Stock Exchange. "Reference Date" means each of 31st March, 30th June, 30th September and 31st December. The first Reference Date was 30th September, 2000.
- (ii) Each of these options became or will become exercisable as to 6.25% of the number of shares subject to it after each Reference Date (as referred to above) immediately after the date of completion of the share offer in connection with the listing of the Company's shares and warrants on GEM of the Stock Exchange.

No further options will be granted pursuant to the Pre-IPO Plan. No options under the Pre-IPO Plan had been exercised or cancelled by 31st December, 2001. Due to the departure of 2 non-executive directors and certain employees, options comprising an aggregate of 140,947,399 underlying shares lapsed during the period from 28th July, 2000 to 31st December, 2001:

	Number of share options at an exercise price of		
	HK\$0.0379	HK\$0.0909	Total
At date of grant	264,503,216	52,012,951	316,516,167
Lapsed	(111,873,475)	(29,073,924)	(140,947,399)
At 31st December, 2001	152,629,741	22,939,027	175,568,768

As at 31st December, 2001, the interests of the directors and chief executive and their associates of the Company in the options granted under the Pre-IPO Plan were as follows:

Ip Saimond	72,602,255
Yeung Kwok Mung	72,602,255
Huang Erwin Steve	7,425,231
Number of share options at an exercise price of HK\$0.0379	152,629,741

On 12th July, 2000, the Company approved a share option scheme (the "Share Option Scheme") under which the board of directors of the Company may, at their discretion, invite any full-time employee of the Group, including any executive directors of the Company and any of its subsidiaries, to take up options to subscribe for shares in the Company in accordance with the provisions of the Share Option Scheme.

Under the Share Option Scheme, the subscription price of the shares over which the options are granted will be determined by the directors of the Company, but may not be less than the higher of the closing price of the shares on GEM of the Stock Exchange on the date of the grant of the offer, and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the offer, and the nominal value of the shares. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The maximum number of shares in respect of which options may be granted under the Share Option Scheme, together with the options so granted under the Pre-IPO Plan must not exceed 30% of the issued share capital of the Company from time to time. The Share Option Scheme became effective for a period of ten years commencing on the listing of the Company's shares and warrants on GEM of the Stock Exchange on 28th July, 2000. Further details of the Share Option Scheme were set out in the Company's prospectus dated on 18th July, 2000.

No options had been granted to any directors of the Company under the Share Option Scheme. Details of the options granted to employees of the Group pursuant to the Share Option Scheme are as follows:

Date of grant	Exercise price per share HK\$	Expiration date	Number of share options		
			Granted since commencement	Lapsed	As at 31st December, 2001
15th August, 2000	0.187	31st December, 2005	45,780,000	26,147,549	19,632,451
11th August, 2000	0.168	31st December, 2005	940,000	30,000	910,000
25th October, 2000	0.072	31st December, 2005	540,000	440,000	100,000
24th November, 2000	0.058	31st December, 2005	2,490,000	1,905,001	584,999
20th December, 2000	0.058	31st December, 2005	120,000	120,000	—
23rd February, 2001	0.050	31st December, 2005	40,000,000	36,666,667	3,333,333
28th March, 2001	0.050	31st December, 2005	10,000,000	—	10,000,000
			<u>99,870,000</u>	<u>65,309,217</u>	<u>34,560,783</u>

Note: Each of the above options became or will become exercisable as to 8.33% of the number of shares subject to it after each Reference Date immediately after the date of completion of the share offer in connection with the listing of the Company's share and warrants on GEM of the Stock Exchange. "Reference Date" means each of 31st March, 30th June, 30th September and 31st December. The first Reference Date was 30th September, 2000.

Save as disclosed herein, the directors and chief executive of the Company and their associates did not have any other right to subscribe for equity or debt securities of the Company as at 31st December, 2001 nor had any of them exercised any such right during the three months ended 31st December, 2001.

WARRANTS

As at 31st December, 2001, the Company had 307,000,000 warrants outstanding. Each warrant entitles the holder thereof to subscribe for one ordinary share in the Company of HK\$0.0001 each at a subscription price of HK\$0.40 per share, payable in cash and subject to adjustment, from the date of issue to 27th July, 2002. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 307,000,000 additional shares of HK\$0.0001 each.

As at 31st December, 2001, the directors and chief executive of the Company and their associates did not have any interest in any warrants of the Company.

SPONSOR'S INTEREST

Neither the sponsor of the Company, Worldsec Corporate Finance Limited ("Worldsec"), nor its directors, employees and associates had as at 31st December, 2001 any interest in the Company other than the following: (i) by a sponsor agreement entered into between Worldsec and the Company, Worldsec received, and will continue to receive, fees for acting as the Company's retained sponsor for the period from 28th July, 2000 to 31st March, 2003; and (ii) Cheong Henry Ying Chew, one of the directors of Worldsec, subscribed for 1,500 shares in Cyber Communication 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% of the Company's issued shares.

Save as disclosed above, Worldsec, its directors, employees and associates, as at 31st December, 2001, 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 members of the Group.

COMPETING INTEREST

During the nine months ended 31st December, 2001, none of the directors or the management shareholders of the Company or any of their respective associates had any interest in any business that directly or indirectly competed with the business of the Group except that, Cheng Albert Jinghan is a director of a company (Blendoran Ltd) whose principal business includes the provision of media services. Mr. Cheng has the entire shareholding interest in this company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 31st December, 2001, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 11th May, 2000 with written terms of reference for the purpose of reviewing and providing supervision over the financial reporting process and internal control systems of the Group. The Committee comprises two independent non-executive directors, Wong Richard Yue Chim and Shek Abraham Lai Him and has reviewed this quarterly report.

By Order of the Board

Ip Saimond

Chairman

Hong Kong, 8th February, 2002