

hongkong.com
hongkong.com Corporation
[Incorporated in the Cayman Islands with limited liability]



ANNUAL 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 sector 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.

CONTENTS

| | |
|---|----|
| Corporate Information | 1 |
| Financial Highlights | 3 |
| Board of Directors and Senior Management | 4 |
| Chairman’s Statement | 8 |
| Management Discussion and Analysis | 10 |
| Comparison of Business Objectives with Actual Business Progress | 16 |
| Use of Proceeds | 20 |
| Report of the Directors | 21 |
| Report of the Auditors | 36 |
| Consolidated Profit and Loss Account | 37 |
| Consolidated Statement of Recognized Gains and Losses | 38 |
| Consolidated Balance Sheet | 39 |
| Consolidated Cash Flow Statement | 40 |
| Balance Sheet | 41 |
| Notes to Financial Statements | 42 |
| Notice of Annual General Meeting | 71 |

BOARD OF DIRECTORS**Executive directors**

Ch'ien Kuo Fung, Raymond (*Chairman*)

Yip Hak Yung, Peter (*Vice-Chairman*)

Zhou Shun Ao (*Vice-Chairman*)

Chan Kai Yu, Rudy (*Chief Executive Officer*)

Lin, Jack

Hung Shuk Tak, Vicky

Hamilton, Peter John *

Non-executive directors

Chan Wing Tak, Douglas

Edelson, Harry @

Independent non-executive directors

Chou Kei Fong, Silas

Wong Sin Just

Wang Cheung Yue, Fred #

COMPANY SECRETARY

Mak Tak Cheong, Edmund, AICPA

QUALIFIED ACCOUNTANT

Mak Tak Cheong, Edmund, AICPA

COMPLIANCE OFFICER

Lin, Jack, JD

AUDIT COMMITTEE

Wong Sin Just (*Committee Chairman*)

Yip Hak Yung, Peter

Chou Kei Fong, Silas

Wang Cheung Yue, Fred #

* resigned on 11th February, 2002

@ resigned on 5th February, 2002

appointed on 11th February, 2002

AUTHORIZED REPRESENTATIVES

Chan Kai Yu, Rudy

Mak Tak Cheong, Edmund

REGISTERED OFFICE

Scotia Centre

4th Floor

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

20/F, Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

AUDITORS

Ernst & Young

15/F, Hutchison House

10 Harcourt Road

Central

Hong Kong

2 CORPORATE INFORMATION

SPONSOR

BNP Paribas Peregrine Capital Limited
36/F, Asia Pacific Finance Tower
3 Garden Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Citibank, N.A.
Fortis Bank

STOCK CODE

8006

WEBSITE ADDRESS

www.corp.hongkong.com

RESULTS

| | Period/year ended 31st December | | | |
|---|---------------------------------|-----------|-----------|-----------|
| | 2001 | 2000 | 1999 | 1998 |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| Turnover | 86,526 | 79,498 | 13,113 | 611 |
| Net profit/(loss) from ordinary activities attributable to shareholders | 28,441 | 4,419 | (21,778) | (3,448) |

ASSETS AND LIABILITIES

| | As at 31st December | | |
|--------------------------|---------------------|-----------|-----------|
| | 2001 | 2000 | 1999 |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| Assets | 1,589,098 | 1,291,652 | 34,329 |
| Liabilities | (292,435) | (44,268) | (59,554) |
| Minority interests | (5,873) | – | – |
| Net assets/(liabilities) | 1,290,790 | 1,247,384 | (25,225) |

KEY FINANCIAL DATA

| | Year ended 31st December | | |
|------------------------------------|--------------------------|----------|----------|
| | 2001 | 2000 | 1999 |
| | HK cents | HK cents | HK cents |
| Earnings/(loss) per share | 0.69 | 0.11 | (0.65) |
| Net assets/(liabilities) per share | 31.24 | 31.54 | (0.75) |

Note: The results of hongkong.com Corporation (the "Company") together with its subsidiaries (the "Group") for the period ended 31st December, 1998 and year ended 31st December, 1999 have been extracted from the Company's prospectus dated 28th February, 2000 (the "Prospectus").

4 BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Raymond Ch'ien

Peter Yip

Zhou Shun Ao

Rudy Chan

EXECUTIVE DIRECTORS

Ch'ien Kuo Fung, Raymond (Chairman, aged 50)

Dr. Ch'ien was appointed to the Board on 25th November, 1999. He is Executive Chairman of chinadotcom corporation, and non-executive Chairman of HSBC Private Equity (Asia) Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, MTR Corporation Limited, Inmarsat Ventures plc, Inchcape plc., Convenience Retail Asia Limited and Vtech Holdings Limited. Dr. Ch'ien is a Member of the Executive Council of the Hong Kong SAR, Chairman of the Hong Kong / Japan Business Co-operation Committee; Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption; and an honorary President and Past Chairman of the Federation of Hong Kong Industries. Dr. Ch'ien received a doctorate in Economics from the University of Pennsylvania. He was appointed Justice of the Peace in 1993 and Commander in the Most Excellent Order of the British Empire in 1994, and was awarded the Gold Bauhinia Star medal in 1999.

Yip Hak Yung, Peter (Vice-Chairman, aged 49)

Mr. Yip was appointed to the Board on 15th October, 1999. He is also director and Chief Executive Officer of

chinadotcom corporation. Mr. Yip has international experience as an entrepreneur in the media and telecommunications industries and was the main force in listing chinadotcom corporation, Asia's first Internet company on NASDAQ (NASDAQ : CHINA). He received his MBA from Wharton School and M.S.E.E. and B.S.E.E. from University of Pennsylvania.

Zhou Shun Ao (Vice-Chairman, aged 53)

Mr. Zhou was appointed to the Board on 7th December, 1999. He is also a director of chinadotcom corporation. He has extensive media experience across China and has spent more than 30 years with Xinhua News Agency, rising to Deputy Director of Xinhua Development and Planning Bureau and General Manager of China Media Development Corporation, President of China Global Public Relations Company, Executive Deputy General Manager of Xinhua News Agency as well as General Manager of Asia-Pacific Regional Bureau of Xinhua News Agency.

Chan Kai Yu, Rudy (Chief Executive Officer, aged 40)

Mr. Chan was appointed to the Board on 3rd February, 2000. He is responsible for overall management and operations of the Group. He has extensive experience in the media industry having spent 8 years in Time



Jack Lin



Vicky Hung



Douglas Chan

Inc., Asia and rising to Managing Director for Asia. He was the first Chinese and the youngest ever to achieve that post. As an entrepreneur, Mr. Chan co-founded Hong Kong operations of a global computerized barter trade exchange network. He is a Certified Public Accountant registered with the State of New York and has an MBA from Wharton School, University of Pennsylvania.

Lin, Jack (aged 35)

Mr. Lin was appointed to the Board on 12th December, 2000. He is also Chief Investment Officer and Senior Vice President, Strategy of chinadotcom corporation. He is responsible for chinadotcom group's strategic investment activities and its subsidiary's venture operations. He has extensive experience as an international attorney and venture capitalist. He was previously Senior Vice President of Templeton's Emerging Markets group, overseeing its global private equity investments, and a principal of several Asian venture capital funds, including ones supported by China Development Industrial Bank (Taiwan), Asian Development Bank and Standard Chartered Bank (UK). He has an MBA and Juris Doctorate from the University of California, Los Angeles.

Hung Shuk Tak, Vicky (aged 41)

Ms. Hung was appointed to the Board on 25th November, 1999. She is also Chief Operating Officer, China Media Assets and Senior Vice President, Global Products of chinadotcom corporation. Ms. Hung was a key member involved in the listing of chinadotcom corporation on NASDAQ in 1999 and hongkong.com Corporation on GEM in 2000. Other than being the founder of hongkong.com and taiwan.com, Ms. Hung has been instrumental in expanding the community and e-commerce capabilities of portal networks. Ms. Hung spent more than 11 years with Reuters, rising to Business Development Manager for East Asia, focused on developing new information delivery strategies for the then emerging regional Internet and wireless markets.

NON-EXECUTIVE DIRECTOR

Chan Wing Tak, Douglas (aged 52)

Mr. Chan was appointed to the Board on 25th November, 1999. He is a veteran industrialist and Managing Director of New World Infrastructure, the first infrastructure company listed on the Hong Kong Stock Exchange; Executive Director of New World China Land, one of the mainland's largest property developers; and Deputy Chairman of Pacific Ports Company Limited, a major PRC port operator. All are listed on Hong Kong's Main Board.



Silas Chou



S J Wong



Fred Wang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chou Kei Fong, Silas (aged 55)

Mr. Chou was appointed to the Board on 25th November, 1999. He is a Director of Novel Holdings (BVI) Limited and Novel Enterprises Limited, a vertically integrated textile and apparel manufacturer. Mr. Chou is Co-Chairman of Tommy Hilfiger Corporation, a leading sportswear design and marketing company listed on the New York Stock Exchange in the US and Chairman of Novel Denim Holdings Limited, a manufacturer of denim and chino garments and fabric, listed on the US NASDAQ National Market. Besides, Mr. Chou has since July 2000 served as Co-Chairman of Asprey & Garrard Limited, a designer and manufacturer of luxury goods in London and the British Crown Jeweller.

Wong Sin Just (aged 36)

Mr. Wong was appointed to the Board on 25th November, 1999. Mr. Wong possesses over 11 years of investment banking and finance experience and has held positions with a number of premier international investment banks. Prior to establishing e2-Capital Limited (subsequently renamed as OpenIBN (HK) Limited), Mr. Wong was the Managing Director and the Head of Equity Capital Markets at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering from Imperial College, University of London and is a member of the Association of Chartered Accountants, England and Wales. Mr. Wong is Executive Co-Chairman and Acting Chief Executive Officer of e2-Capital (Holdings) Limited, Executive Director and Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of Capital Strategic Investment Limited.

Wang Cheung Yue, Fred (aged 58)

Mr. Wang was appointed to the Board on 11th February, 2002. The Wang family found Salon Films (Hong Kong) Limited in 1969. Mr. Wang has been a director of Salon since 1970. With over 30 years of film production experience, Mr. Wang has worked with various major Hollywood film and television companies in setting up projects in Asia, including Hawaii Five-O, Shogun, Noble House, etc. Since 1985, Mr. Wang has been involved with various investment groups including Unifund S.A., a prominent investment fund company based in Geneva, the Anglo Chinese Group in Hong Kong, and the Pan Asia Development Corporation. Mr Wang is a member of the Hong Kong Trade Development Council Media and Communications Services Advisory Committee and an advisor of the China Film Foundation expert committee.



Zeus Chen

SENIOR MANAGEMENT

Chen Szu Ping, Zeus (Chief Financial Officer, aged 34)

Mr. Chen is responsible for the overall financial planning, investment strategy and management of the Company. Previous to his current role, he was a director in the Strategy group of chinadotcom corporation. Mr. Chen brings with him extensive experience in the finance industry and has held senior positions with leading financial institutions. He is a specialist in the Asian telecommunications sector and has been a regularly cited equity research analyst. He has a degree in Electrical Engineering from Santa Clara University.



Danny Li

Li Che Ting, Danny (Vice President, Portal Operations, aged 32)

Mr. Li is responsible for day-to-day portal operations of the Company. He has extensive experience in the IT industry across a broad spectrum of technologies, both locally and abroad. He co-founded eGlobal Technology in Hong Kong, a pioneering e-business software and services consultancy and was previously a technology advisor to numerous Fortune 500 companies. One of his notable achievements was creating Asia's first Web-based EDI solution in collaboration IBM, and the first Windows application to integrate Government with commercial electronic messaging systems. He has a Bachelor of Applied Science degree, majoring in Information Technology, from University of Technology, Sydney.



Vivien Lee

Lee Ooi Ping, Vivien (Vice President, Marketing, aged 41)

Ms. Lee is responsible for the overall strategic marketing, media relations and customer service for the Company. Two major achievements with hongkong.com was the establishment of the Hong Kong's first web-to-mobile SMS inter-operator service and solidifying the strategic alliance with Visa International to further develop secured online shopping arena. Before joining hongkong.com, Ms. Lee has over 16 years of experience in the Communications industry working with a number of multi-national agencies based in Malaysia, Hong Kong and London. She has gained extensive experience in building news businesses and managing multi-national brands. Ms. Lee has a Bachelor of Social Science degree (Social Psychology major) from The National University of Malaysia and an MBA in International Business (Asia Pacific focus) from Royal Melbourne Institute of Technology University of Australia.



Edmund Mak

Mak Tak Cheong, Edmund (Financial Controller, aged 37)

Mr. Mak is responsible for the financial management of the Company. He is also the Company Secretary and the Qualified Accountant of the Company. He is a member of the Illinois Certified Public Accountants Society and a member of the American Institute of Certified Public Accountants of the United States and brings with him more than 10 years experience in finance, operations, information technology and investments activities in China. Prior to joining the Company, Mr. Mak was the Financial Controller for chinadotcom group and a key member in planning and listing of hongkong.com Corporation on the GEM board. He has a Bachelor of Computer Science degree and a Bachelor of Commerce degree majoring in Financial Accounting from the University of Windsor.



CHAIRMAN'S STATEMENT

We want to make sure every step
we take helps us achieve
economic value added on
shareholders' funds.

DR. CH'IEN KUO FUNG, RAYMOND

We look back at 2001, our first full year as a listed company, with both humility and a sense of accomplishment.

Humility, in that had it not been for the strength of our balance sheet, we might well have become part of the detritus of the dotcom bust. Accomplishment, in that we are indeed growing up as a company. We have become bottom line focused and have the wherewithal to deliver sustainable growth in financial value to our shareholders.

I am pleased to report these highlights of our achievements in 2001:

- The Group has been profitable for seven consecutive quarters and showed a net profit from ordinary activities attributable to shareholders of HK\$28,441,000 for the year ended 31st December, 2001 compared to HK\$4,419,000 for the year ended 31st December, 2000, representing 544% year-on-year improvement;
- Taking out the effects of the AOL Hong Kong service, turnover for the year ended 31st December, 2001 rose 42% over the previous year while turnover for the fourth quarter of 2001 rose 60% quarter-on-quarter;
- The Group improved its net cash reserve by HK\$20,864,000 to HK\$1,227,218,000 by the end of 2001;
- Travel Trade Gazette Asia ("TTG Asia"), an acquisition made by the Group in October 2000, had a successful 2001 in spite of the travel industry's woes, making a healthy profit contribution to the Group;
- The Group's online travel business started to gain early traction in Taiwan with over 50 major hotels and resorts signing up for PowerHotel, a web-based hotel information and reservation platform; and
- The Group successfully completed the acquisition of already profitable Times Software, which specializes in secure ticketing solutions in China, in the final quarter of 2001.

One of the challenges we faced in 2001 was the cessation of the AOL Hong Kong service at the start of the third quarter. It was a low margin business that accounted for much of our turnover at that time. The event marked a watershed for the company, in that we became margin and profit driven rather than revenue driven. TTG Asia and Times Software acquisitions have been earnings accretive.

We look to 2002 with a strong measure of caution regarding the business environment. Although nominal interest rates have dropped significantly over the past year, the real cost of capital has in fact increased in these deflationary times.

We want to make sure every step we take helps us achieve economic value added on shareholders' funds. Disciplined cost management alone will not get us to the promised land. We would like to pursue opportunities presented by the China momentum and the more dynamic sectors of Asian economies. We are honing our knowledge about promising niches in the travel, entertainment, education and media industries, particularly in respect with whether the Internet can be used as leverage.

All these activities will be tempered by the caution and humility engendered by surviving the storms of 2001. The China theatre for us is a compelling but long-term proposition. For the immediate future, we can only promise to further strengthen the Company's foundation in 2002 for supporting profitable growth well into the future.

Dr. Ch'ien Kuo Fung, Raymond

Chairman

Hong Kong, 19th February, 2002

FINANCIAL REVIEW

Turnover and gross profit

The Group's turnover increased by 9% to HK\$86,526,000 this year as compared to HK\$79,498,000 in the previous year. The rise was mainly attributed to a full year contribution from TTG Asia which was acquired in October 2000, the launch of our travel business in the first half year of 2001 and our acquisition of Times Software in the fourth quarter of 2001. The increase in turnover was offset by the drop in content and Internet service provision fee as a result of the termination of the Support Services Agreement with China Internet Corporation Limited ("CIC") in respect of the AOL Hong Kong service from July 2001, and a decline in turnover from online advertising owing to poor market conditions in 2001. However, stripping out the effects of the termination of the Support Services Agreement with CIC in respect of the AOL Hong Kong service, this year's turnover was HK\$72,598,000, an increase of 42% over last year.

The Group's gross profit decreased to HK\$37,301,000 (2000: HK\$42,722,000) and its gross profit margin was 43% as compared to 54% in 2000. The drop was primarily a result of the reduction in higher-margin online advertising revenue in 2001.

Other revenue

Other revenue in this year was HK\$96,420,000 (2000: HK\$68,966,000). The increase was mainly due to the rise in interest income from the investments in interest-bearing securities.

Selling and distribution expenses

Selling and distribution expenses decreased significantly by 87% to HK\$4,429,000 as compared to HK\$33,592,000 in the previous year. Significant marketing expenses were incurred in the promotion of the Group after the Company's listing in 2000. In 2001, as a result of the Group's cost cutting efforts, selling and distribution expenses reduced drastically.

Administrative expenses

Administrative expenses increased by 5% to HK\$70,668,000 as compared to HK\$67,482,000 in the previous year. The increase was mainly due to the inclusion of administrative expenses of our new travel business and the inclusion of Times Software starting the fourth quarter of 2001. This was offset by the drop in administrative expenses of our existing businesses as a result of the implementation of tighter cost controls.

Other operating expenses

Other operating expenses increased by 566% to HK\$26,876,000 as compared to HK\$4,035,000 in the previous year. The increase was mainly due to the impairment of goodwill previously eliminated against the goodwill reserve and full provisions for the limited exploratory expenses incurred for Shanghai Yatai.

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders improved by 544% to HK\$28,441,000 as compared to HK\$4,419,000 in the previous year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to be in a strong financial position with HK\$1,290,790,000 shareholders' funds as at 31st December, 2001 (2000: HK\$1,247,384,000). Total assets amounted to HK\$1,589,098,000 as at 31st December, 2001 (2000: HK\$1,291,652,000), of which HK\$1,491,638,000 (2000: HK\$1,206,354,000) were cash and bank balances and investments in interest-bearing securities. As at 31st December, 2001, amount of HK\$312,897,000 (2000: Nil) of investments in interest-bearing securities were held by a bank as collateral for securing the Group's bank borrowings of HK\$264,420,000 (2000: Nil), and time deposits of HK\$480,000 (2000: Nil) were pledged to banks as guarantee to certain suppliers of the Group.

As at 31st December, 2001, the Group's total bank borrowings were all repayable within one year and denominated in United States Dollars.

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was 21% as at 31st December, 2001 (2000: Nil). The Group's net cash and investments in interest-bearing securities was HK\$1,227,218,000 at the end of 2001 compared to HK\$1,206,354,000 at the end of the previous year.

The board of directors (the "Board") believes that its strong financial position will help enable the continued execution of the long-term investment and acquisition strategy of the Group.

BUSINESS REVIEW

Overall

Year 2001 will long be remembered as the year where world issues, both political and economic took centre stage, against a backdrop of tragedy and uncertainty. Amidst the pressures of an unyielding economy and an Internet industry in further consolidation, the Group remained focused in its ongoing developments of key businesses. The Group was proactive in reflecting the changes and demands of the market whilst maintaining a prudent management approach as is reflected in the progress during the year.

Portal

The Group continued to diversify the business focus in multiple areas to drive revenue growth, sustain pageview and attract new users. Complimentary to the target of providing a prime advertising medium for customers, are initiatives such as the ongoing deployment of service based e-commerce offerings and the development of products and services which can monetize on the Group's large user base, all executed through the launch and re-launch of many interactive subscriber channels.

12 MANAGEMENT DISCUSSION AND ANALYSIS

During the year, amidst the slowdown in the online advertising market, the Group continued to attract advertising customers and further extended its reach by successfully launching campaigns with customers from all major industries. The Group successfully launched campaigns with:

| | |
|-----------------------------------|--|
| <i>Telecommunications</i> | PCCW, Now.com.hk, One2Free, Smartone, Worldcom, Sony So-Net, iCare |
| <i>Technology</i> | Microsoft, Hewlett Packard, Samsung |
| <i>Fast Moving Consumer Goods</i> | Perrier, San Miguel, Hennessy, P&G, Max Factor, Nescafe, Essence Brand |
| <i>Finance & Insurance</i> | Hang Seng Bank, Citibank, ANZ PT100, Principal |
| <i>Airlines</i> | Cathay Pacific, Lufthansa |
| <i>Clothing & Accessories</i> | Adidas, Christian Dior |
| <i>Media</i> | Elle Hong Kong |
| <i>Automotive</i> | Nissan, Mitsubishi |
| <i>Education</i> | ALE, Open University, Informatics |
| <i>Government</i> | Hong Kong Trade Development Council |
| <i>Entertainment</i> | Ocean Park |
| <i>Pharmaceutical</i> | Eyemo, Po Chai Pills.com |
| <i>Food & Beverages</i> | Pizza Hut, Maxim's |

Across different industries, the Group continued to drive customer acquisitions with great success. Throughout the year, the Group demonstrated its ongoing commitment to partnerships, by working closely with existing partners such as Principal to further build upon their already successful brand marketing campaigns.

The Group enforced its commitment to develop a comprehensive and engaging Internet experience to its users through the launch of a new design for the portal, deploying new features and technologies such as Global Tools, a single point access tool palette for easy navigation to the portal's services, as well as new creative advertising designs, to better serve the user community as well as creating greater value for advertisers.

The Group launched 3 new channels during 2001, with the SMS channel providing the first web to mobile short messaging facilities to bridge across all subscriber networks in Hong Kong, the Photo4U channel, an online photo channel offering a comprehensive array of photo services, such as online photo album and digital-to-print processing service, and the Lifestyle channel, providing the latest in entertainment news, latest trends and information on happenings in and around Hong Kong.

The Group further enhanced the online experience for the user community by relaunching 10 channels during the year, with the games channel, providing the latest in gaming news and tips and incorporating an innovative interactive gaming platform, the technology channel, offering the latest in technology news and gadgets, the fate channel, enhancing the already comprehensive horoscope and fortune telling services, the travel channel, in partnership with Travio Global Inc., offering information and packages for wide range of travel destinations, the finance channel, providing news on financial markets and business trends from around the region, the car channel, offering the latest automotive news and information and a second hand marketplace for the car enthusiast, the education channel, providing a comprehensive database of schools and related services as well as an online subscription based English grammar course, the women's channel, providing information on women's lifestyle, health and beauty, the love channel, offering information and advice on personal relationships, and the weather channel, providing up to date local and international weather information.

The Group continued to further develop subscription-based products and services through enhancements in the SMS Center, with the launch and ongoing enhancements of SMS alert services, SMS quiz games featuring local celebrities, Leon Lai and Sammi Cheng's concert promotions, an SMS based logo design competition and a logo download section to allow users to purchase their own personalized logos from the comprehensive database. Along with the web to mobile short messaging service that allows users to send short messages to any mobile phone regardless of the recipient's subscribed network, the Group continued to build value into its business model by staying at the forefront, adopting new technologies for deployment across different media. This commitment to on-going developments of subscription based products and services, was further highlighted with the launch of a subscriber based interactive gaming platform in partnership with GamezoneX, offering an innovative multiplayer gaming environment. The @Class online subscription based English grammar course, launched in the Education channel was further enhanced to reflect the increase demands on online educational products and a variety of financial, business and SME specific information products and services were launched in the finance channel, in partnerships with SHK Financial Data Limited, SHK Online.com and Busytrade.com.

The Group continued to enhance its e-commerce platform through a strategic partnership with VISA, as the preferred payment card and as a partner in the development of future e-commerce products and services, providing further flexibility and peace of mind to customers. In addition, the Group continued to extend its e-commerce offerings through the on-going developments of quality merchants and channel based products, with several key additions, including DVD Shelf, offering the latest in music and movie titles, the ever growing catalog of the latest personal computer games available for purchase from ICON and New Era Interactive Limited, the appointment as the exclusive online distributor for the interactive game based on the box-office hit, Shaolin Soccer, the introduction of online subscriptions to world renowned news and business magazines Time and Fortune as well as offering the latest in computing products from SIS. Complimentary to the existing portfolio, the Group remained committed to furthering the integration between content, community and commerce.

Travel

The Group's continued move into the e-travel industry gathered momentum, with the travel related businesses progressing forward despite the deterioration in the economic climate during the year, which were further exacerbated after the September 11 tragedies.

Operating performance from TTG Asia, the leading travel publisher and exhibition organizer in Asia, improved as a result of the business unit's effective cost control and ability to develop new products and services to adapt to the current business environment, as well as the innovation in diversifying from a traditionally offline business to online, as reflected through the launch of its online initiatives, which further generated heightened interest from customers. In 2001, TTG Asia continued to build upon its solid foundations by posting a profitable year despite the less than favorable economic climate.

During the fourth quarter of the year, the Group acquired Times Software, an already profitable company providing proprietary ticketing security solutions for the transportation industry. Through the ownership of such intellectual property, the Group aims to propagate such technology into other areas of online travel ticketing products and services across the region. In respect of the terms and conditions for the acquisition of Times Software, the relevant entities of Times Software have satisfied the profit guarantee requirement and no adjustment of the consideration or share structure of the relevant entities is required.

Also playing a significant role in the company's Greater China travel offering is Travio Global Inc., a joint venture with Taiwan's leading South East Travel Service Company Limited, one of the largest travel wholesalers and travel agencies in Taiwan. In December 2001, the Company's travel group made its first headway into the market through the launch of PowerHotel, an online application aimed at the hotel market in Greater China. Delivered over the web as an Application Services Provider, PowerHotel has seen an excellent early response with its initial rollout in Taiwan, with over thirty major hotels and resorts in Taiwan having already signed for service at year end. By the end of January 2002, twenty more hotels in Taiwan signed for the service.

PowerHotel helps hotels improve efficiency and expand its marketing and distribution capabilities. PowerHotel provides very user-friendly development tools for hotels to cost-effectively build its websites, and manage its room allotments, pricing and inventory. Through PowerHotel, the Group aims to generate revenue through multiple sources including licensing, set up, maintenance and transactions.

The investments and joint venture will further positioned the Group to significantly broaden its range of online/offline travel products and help extend services beyond consumers to businesses.

OUTLOOK

The business environment remained weak during the year and the outlook for raising new financing and general sustainability will continue to be challenging for companies in this sector in the short term. The recent tragedies in the United States have further cast a cloud of uncertainty on global economies and financial markets. This is expected to provide the backdrop for further company closures and industry consolidation.

In contrast, the Board believes that the Group's financial position is healthy and will not be materially affected by current conditions. The challenges in 2001 have provided invaluable lessons for the Group and we believe we are well equipped to tackle upcoming changes in the business environment. Business prospects remain encouraging with continued interest from potential partners, advertising customers and Internet users, while competitors' activities are somewhat restricted – at least in the short-term. The accession of China into the World Trade Organization and China's successful bid to host the 2008 Olympic Games in Beijing will present great business opportunities in the future.

As the Group is well funded, with HK\$1,227,218,000 in net cash and investments in interest-bearing securities as at the end of December 2001, such sound capital reserve, coupled with declining valuations, will continue to provide the Group with a definite edge in making the best of merger and acquisition opportunities.

We will continue to assess opportunities for acquisition of businesses that fulfill our strategic needs and expand our services portfolio. Our continued move into the e-travel industry through Travio Global Inc. and the launch of PowerHotel, forms an important part of the Group's overall online travel strategy and is another example of the Group's continued drive to expand and diversify its recurrent revenue base. Synergies from PowerHotel are also being developed with plans to tie it more closely into the travel group's other e-commerce travel products. This and strengthened by the business of TTG Asia and Times Software, positions the Group to significantly broaden the range of online/offline travel products and services offered by *hongkong.com* to the Greater China market and beyond. According to the World Travel & Tourism Council's Year 2001 report, the Greater China travel industry is set for strong growth in the coming years and the fastest growing travel market with potential to be the largest in the region in the near future. In 2000, the personal, business and governmental travel and tourism market in China alone amounted to approximately US\$56 billion, and projections are that by 2006, that market will grow to US\$97 billion.

We anticipate the combination of our solid foundation, strong cash position, market conditions and a good brand name will enable the Group to extend its leading role in the regional Internet industry and e-commerce markets. The Group will continue to execute its business plan, and move towards its strategic objective of creating a cross-media community and e-commerce platform serving both consumers and businesses throughout Asia.

Furthermore, the Group will continue to take a pragmatic approach to its development within industry sectors and markets that are themselves being defined – and redefined – as they grow. A key ingredient to success will be to remain flexible and recognizing the need to change from within, as the global and regional business landscapes transform.

EMPLOYEE INFORMATION

As at 31st December, 2001, the Group has 139 full-time employees of which 66 are based in Hong Kong and the rest in China, Taiwan and Singapore. The Company has introduced a Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme at the time of listing and the schemes will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 27 to the financial statements.

16 COMPARISON OF BUSINESS OBJECTIVES AGAINST ACTUAL BUSINESS PROGRESS

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

1. Continue to increase the depth of the content and variety of features on *hongkong.com*

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2001

During the year ended 31st December, 2001, 3 new channels were launched. The new channels were:

sms.hongkong.com – providing web to mobile short messaging facilities.

photo4u.hongkong.com – providing online photo resource and services.

lifestyle.hongkong.com – providing the latest in entertainment news, latest trends and information on happenings in and around Hong Kong.

In addition, *hongkong.com* enhanced and re-launched the portal as well as 10 channels. The re-launched channels were:

games.hongkong.com – providing various game resources for the community.

technology.hongkong.com – providing news on the latest technology and gadgets.

fate.hongkong.com – providing comprehensive horoscope and fortune telling services.

travel.hongkong.com – offering information and packages for a wide range of travel destinations.

finance.hongkong.com – providing news on financial markets and business trends from around the region.

car.hongkong.com – providing the latest in automotive information for the car enthusiast.

edu.hongkong.com – providing education products and services.

women.hongkong.com – providing information on women's lifestyle, health and beauty.

love.hongkong.com – providing information on personal relationships.

weather.hongkong.com – providing up to date local and international weather information.

hongkong.com's channel based community services – were further enhanced. These included:

ematch.hongkong.com – a meeting point for fostering friendship with further enhanced premium membership based subscription services.

Club4U Women – an online community for professional women.

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2001

- @-Class* – an online subscription based English grammar course, launched in the Education channel.
Owners Club – online communities of car enthusiast.
Shop4U – a comprehensive online shopping platform with e-fulfillment services from 7-Eleven.
2. Provide online auction services
 In light of the regional uncertainty on the online auction business model, the Group is of the opinion that the online auction business requires further development prior to the provision of these services.
 3. Continue to increase the features on the Group's websites to improve functionality and services for customers
 The Group continued to improve functionality and services for customers through the launch of a new design for the Group's website in September 2001 as well as the launch of Global Tools, a one-click navigation bar to access all services in December 2001.
 4. Develop wireless application protocol capability so that users of mobile phones or other wireless products may view the content of the portal
 A WAP channel, *wap.hongkong.com*, was launched in April 2000, providing wireless access to *hongkong.com* content.
 5. Introduce content specifically for broadband access
 Discussions were initiated with various broadband content providers. However, due to the slow uptake in broadband services and the limited broadband content available in the market, the Group is of the opinion that broadband access and content needs to further mature prior to introducing content specific to broadband access.
 6. Continue to establish an e-commerce presence in countries that offer opportunities for the Group
 The Group continued to further establish its e-commerce offering in Hong Kong through Shop4U and channel based products and service offerings, to leverage the opportunities in the local market.
 7. Offer up to an additional 10 product lines on the portal
 As at 31st December, 2001, *hongkong.com* featured over 100 product lines, with over 30 new product lines offered during the year, spanning across consumer electronics, subscription services, computer and music software, sports and leisure packages and food and beverages.

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2001

- | | |
|---|---|
| 8. Broaden the range of available e-commerce products | <i>hongkong.com</i> broadened the range of e-commerce products to include the latest in computing products from SIS, office supplies from AI Office, magazine subscriptions from Time/Fortune, software products from PCC Skyhorse, interactive games from ICON, New Era Interactive Software and GamezoneX, financial information products and services from SHK Data, latest movies from DVD Shelf, a variety of action sports and leisure packages from Qtimes, food and beverages from Chinesetea.cc Limited and PetsAsia.com, and compact disks from CD-WOW. |
| 9. Offer customer service in those additional countries with localised websites | In light of the global slowdown in the e-commerce market, the Group will focus on consolidating and enhancing its existing e-commerce ventures while developing a viable regional model for e-commerce. |
| 10. Offer product comparison tools to assist online shoppers | In light of the global slowdown in the e-commerce market, the Group will focus on consolidating and enhancing its existing e-commerce ventures while reviewing the value of product comparison tools to assist online shoppers. |
| 11. Offer a "personal shopper" experience, where an online customer's shopping experience can be personalised according to his or her preferences | In light of the relative infancy of the local e-commerce market, the Group will focus on consolidating and enhancing its existing e-commerce platform while reviewing the value of personalised shopping engine. |

BUSINESS OBJECTIVES AS STATED IN THE PROSPECTUS

ACTUAL BUSINESS PROGRESS UP TO THE END OF DECEMBER 2001

12. Continue to explore and capitalise on strategic opportunities

hongkong.com's position as the leading portal in Hong Kong has allowed the Group to continue to explore and capitalise on strategic opportunities for the Group's portal and regional expansion activities. Deals were closed with Visa, kwiksure.com, URPhoto.com, MDY2, MyEventsAsia, Developmental Centre Limited, English4us, GamezoneX, SHK Data, SHK Online, Halsburg, KaraTV, Travio Global, Busytrade and iNFOiSLIVE during the year, to broaden the Group's portal services by providing an enriched online shopping program, an insurance service center, an online photo service, a downloadable wallpaper service, an eFax service, an online English course, online interactive games, local and international financial information data services, online karaoke services, travel and tour packages, SME products and service, and an SMS center respectively to our users. The other content, marketing and e-commerce partners which the Group works closely include Heineken, Perrier, Time/Fortune Magazine, 7-Eleven, CarNet.com, Qtimes, DVD Shelf, Photo-On-Net.com and Wiz-Q.

The Group continued to advance regional expansion strategy through e-travel service and cross-media activities by establishing a joint venture with Southeast Travel Service Company Limited in Taiwan to offer online and offline travel products and services, through investment in Times Software, an exclusive supplier of ticket control card and ticketing technology for China and through the launch of PowerHotel, the first hotel reservation solution in Greater China region, combining the features of both an online booking system and marketing tool platform.

13. Continue to provide services relating to the AOL Hong Kong service and the Netscape service to the CIC group according to its requirements

The Group completed its commitment to the AOL Hong Kong service and the Netscape service to the CIC group in June 2001 and September 2000 respectively.

20 USE OF PROCEEDS

The Group raised approximately HK\$1,384 million through the placing of shares upon the listing of the Company. After deducting related expenses, net proceeds were approximately HK\$1,314 million.

During the period from 9th March, 2000 (date of listing) to 31st December, 2001, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

| | As stated in the Prospectus (Note) HK\$ million | Actual HK\$ million |
|---|--|--------------------------------|
| For the expansion of the Group's network infrastructure and computer equipment | 131 | 13 |
| For the purchase of software applications for network infrastructure and e-commerce activities | 98 | 11 |
| For marketing and advertising in Hong Kong | 244 | 28 |
| For marketing and advertising outside Hong Kong, including in Asia, North America and Europe | 267 | – |
| For future acquisitions of and investments in Internet related companies that are complementary to the Group's business | 292 | 66 |
| For the repayment of all loans extended by the chinadotcom group | 55 | 58 |
| For general working capital, including, but not limited to, paying expenses such as staff expenses and network operating expenses | 136 | 190 |
| | 1,223 | 366 |

Note: The breakdown for the use of proceeds as stated in the Prospectus included the proceeds from the exercise of the over-allotment option and such proceeds are allocated evenly to the purposes as stated in the Prospectus.

The remaining net proceeds of HK\$948,000,000 have been partly deposited in licensed banks in Hong Kong and partly invested in interest-bearing securities pending appropriate investments.

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31st December, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 14 to the financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31st December, 2001, and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 70.

The directors do not recommend the payment of any dividend in respect of the year.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights either under the Company's articles of association, or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

At 31st December, 2001, the Company's reserves available for distribution amounted to HK\$832,231,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers and suppliers accounted for less than 30% of the total sales and total purchases of the Group respectively for the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Ch'ien Kuo Fung, Raymond (*Chairman*)

Yip Hak Yung, Peter (*Vice-Chairman*)

Zhou Shun Ao (*Vice-Chairman*)

Chan Kai Yu, Rudy (*Chief Executive Officer*)

Lin, Jack

Hung Shuk Tak, Vicky

Hamilton, Peter John (resigned on 11th February, 2002)

Non-executive directors

Chan Wing Tak, Douglas

Edelson, Harry (resigned on 5th February, 2002)

Independent non-executive directors

Chou Kei Fong, Silas

Wong Sin Just

Wang Cheung Yue, Fred (appointed on 11th February, 2002)

Koh Boon Hwee (resigned on 29th August, 2001)

In accordance with articles 99 and 116 of the Company's articles of association, Messrs Wang Cheung Yue, Fred, Ch'ien Kuo Fung, Raymond, Chou Kei Fong, Silas and Wong Sin Just, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each non-executive director was disclosed under the Prospectus as expiring on 31st December, 2001. During the year the Board resolved that no set term of office should apply to the non-executive directors but that each non-executive director should retire from office subject to rotational retirement provisions in accordance with the Company's articles of association.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company. Save for the service agreements with Messrs Zhou Shun Ao, Chan Kai Yu, Rudy and Lin, Jack, all the service agreements are for an initial term of two years commencing 25th November, 1999, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice. As at 31st December, 2001, none of these service contracts had been terminated by either party.

Mr. Zhou Shun Ao has entered into a service agreement with the Company for an initial term of two years commencing 7th December, 1999, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice. As at 31st December, 2001, the service contract had not been terminated by either party.

Each of Messrs Chan Kai Yu, Rudy and Lin, Jack has entered into a service agreement with the Company for an initial term of two years commencing 3rd February, 2000 and 12th December, 2000, respectively, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice.

During the year the Board resolved that no set term of office should apply to the executive directors but that each executive director should retire from office subject to rotational retirement provisions in accordance with the Company's articles of association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company in respect of his service to the Company in the capacity of a director which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Messrs Yip Hak Yung, Peter and Zhou Shun Ao, being directors of China Internet Corporation (Hong Kong) Limited (for Mr. Yip Hak Yung, Peter, was up until 17th October, 2001), were interested in a contract for content and Internet service provided by the Group. Further details of the transactions undertaken in connection therewith are included in note 30 to the financial statements. Save as disclosed above, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of the directors and their associates in the securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Ordinary shares in the Company:

| Name of director | Number of shares held and nature of interests | | |
|--------------------------|---|---|---------------------------------------|
| | Personal interests (number of shares) | Corporate interests (number of shares) | Total interests (number of shares) |
| Ch'ien Kuo Fung, Raymond | 2,274,000 | – | 2,274,000 |
| Chan Kai Yu, Rudy | 3,416,000 | – | 3,416,000 |
| Chan Wing Tak, Douglas | 3,416,000 | – | 3,416,000 |
| Edelson, Harry | 3,416,000 | – | 3,416,000 |
| Hamilton, Peter John | 3,000,000 | – | 3,000,000 |
| Hung Shuk Tak, Vicky | 1,416,000 | – | 1,416,000 |
| Wong Sin Just | 1,000,000 | – | 1,000,000 |
| Yip Hak Yung, Peter | – | 3,416,000 | 3,416,000 |
| | | (Note) | |
| Zhou Shun Ao | 5,000,000 | – | 5,000,000 |

Note: These shares were beneficially owned by Asia Internet Holdings Limited in which Mr. Yip Hak Yung, Peter, is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings under the SDI Ordinance.

- (b) **Class A common shares in chinadotcom corporation which is, according to the SDI Ordinance, an associated corporation of the Company:**

| Name of director | Number of shares held and nature of interests | | | |
|--------------------------|---|--|--|---------------------------------------|
| | Personal interests (number of shares) | Family interests (number of shares) | Corporate interests (number of shares) <i>(Note)</i> | Total interests (number of shares) |
| Ch'ien Kuo Fung, Raymond | 721,773 | – | – | 721,773 |
| Edelson, Harry | 481,348 | – | 166,870 | 648,218 |
| Hamilton, Peter John | 244,804 | – | – | 244,804 |
| Hung Shuk Tak, Vicky | 52,012 | – | – | 52,012 |
| Yip Hak Yung, Peter | – | 53,382 | 11,935,686 | 11,989,068 |
| Zhou Shun Ao | 17,794 | – | – | 17,794 |

Note: In each of these cases, the shares were beneficially owned by a company in which the relevant director is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power at general meetings under the SDI Ordinance. Mr. Yip Hak Yung, Peter, holds his corporate interests in chinadotcom corporation through Asia Pacific Online Limited and Mr. Edelson, Harry holds his corporate interests in chinadotcom corporation through Edelson Technology Partners.

Save as disclosed in sub-sections (a) and (b) above, none of the Company's directors, chief executive and their associates had any family, corporate or other interests in the share capital of the Company and chinadotcom corporation as recorded in the register as at 31st December, 2001 maintained under Section 29 of the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Options to subscribe for ordinary shares in the Company:

Pursuant to the share option schemes of the Company, certain directors of the Company were granted options to subscribe for the Company's ordinary shares and the details of which as at 31st December, 2001 are as follows:

| Name of director | Date of grant | Exercise Price HK\$ | Number of share options | | |
|-----------------------------|-------------------|------------------------|---|-------------------------------|---|
| | | | Outstanding as at 1st January, 2001 | Granted during the year | Outstanding as at 31st December, 2001 |
| Ch'ien Kuo Fung, Raymond | 9th March, 2000 | 1.880 | 10,000,000 | – | 10,000,000 |
| | 10th April, 2001 | 0.286 | – | 4,000,000 | 4,000,000 |
| Chan Kai Yu, Rudy | 9th March, 2000 | 1.880 | 60,000,000 | – | 60,000,000 |
| | 5th October, 2000 | 0.582 | 10,000,000 | – | 10,000,000 |
| | 10th April, 2001 | 0.286 | – | 20,000,000 | 20,000,000 |
| Chan Wing Tak, Douglas | 9th March, 2000 | 1.880 | 1,000,000 | – | 1,000,000 |
| | 10th April, 2001 | 0.286 | – | 600,000 | 600,000 |
| Chou Kei Fong, Silas | 9th March, 2000 | 1.880 | 1,000,000 | – | 1,000,000 |
| | 10th April, 2001 | 0.286 | – | 600,000 | 600,000 |
| Edelson, Harry * | 9th March, 2000 | 1.880 | 1,000,000 | – | 1,000,000 |
| | 10th April, 2001 | 0.286 | – | 600,000 | 600,000 |
| Hamilton, Peter John # | 9th March, 2000 | 1.880 | 5,000,000 | – | 5,000,000 |
| | 10th April, 2001 | 0.286 | – | 2,000,000 | 2,000,000 |
| Hung Shuk Tak, Vicky | 9th March, 2000 | 1.880 | 5,000,000 | – | 5,000,000 |
| | 10th April, 2001 | 0.286 | – | 2,000,000 | 2,000,000 |
| Lin, Jack | 9th March, 2000 | 1.880 | 530,000 | – | 530,000 |
| | 10th April, 2001 | 0.286 | – | 2,000,000 | 2,000,000 |
| Wong Sin Just | 9th March, 2000 | 1.880 | 1,000,000 | – | 1,000,000 |
| | 10th April, 2001 | 0.286 | – | 600,000 | 600,000 |
| Yip Hak Yung, Peter | 9th March, 2000 | 1.880 | 6,000,000 | – | 6,000,000 |
| | 10th April, 2001 | 0.286 | – | 2,400,000 | 2,400,000 |
| Zhou Shun Ao | 9th March, 2000 | 1.880 | 6,000,000 | – | 6,000,000 |
| | 10th April, 2001 | 0.286 | – | 2,400,000 | 2,400,000 |

Notes:

1. All the above outstanding options may be exercised in accordance with the terms of the relevant share option schemes at any time during the period commencing one year after the date of grant and ending 10 years after the date of grant of the options in accordance with the schedule set out in sub-section (a) of the "Share Option Schemes" section below.
 2. None of the above options were exercised or lapsed during the year.
- * Please note that 600,000 share options lapsed on 5th February, 2002, the date of Mr. Edelson, Harry's resignation as a non-executive director of the Company and 1,000,000 share options will lapse on date which is 3 months after the date of his resignation.
- # Please note that 2,000,000 share options lapsed on 11th February, 2002, the date of Mr. Hamilton, Peter John's resignation as an executive director of the Company and 5,000,000 share options will lapse on date which is 3 months after the date of his resignation.

(d) Options to subscribe for Class A common shares in chinadotcom corporation:

Pursuant to the share option scheme of chinadotcom corporation, certain directors of the Company were granted options to subscribe for Class A common shares in chinadotcom corporation and the details of which as at 31st December, 2001 are as follows:

| Name of director | Number of share options outstanding and exercise price per share | | | | Other exercise price |
|--------------------------|--|------------------------|-----------------------|---------------------|----------------------------|
| | US\$3.375 (Note 1) | US\$4.2813 (Note 3) | US\$5.00 (Note 4) | US\$6.8125 | |
| Ch'ien Kuo Fung, Raymond | 66,667 | 30,000 | – | 100,000 (Note 5) | 800,000 (Note 8) |
| Chan Kai Yu, Rudy | – | – | – | 8,265 (Note 6) | 127,000 (Note 9) |
| Chan Wing Tak, Douglas | 40,000 | 30,000 | – | – | 50,000 (Note 10) |
| Edelson, Harry | 60,000 | 30,000 | – | 20,000 (Note 5) | 50,000 (Note 10) |
| Hamilton, Peter John | 680,000 | 30,000 | – | – | 300,000 (Note 11) |
| Hung Shuk Tak, Vicky | 640,000 | – | – | – | 58,000 (Note 12) |
| Lin, Jack | – | – | – | 111,919 (Note 7) | 294,000 (Note 13) |
| Yip Hak Yung, Peter | 60,000 | 30,000 | 1,881,442 (Note 2) | – | – |
| Zhou Shun Ao | 120,000 (Note 2) | 30,000 | – | – | 78,000 (Notes 2 and 14) |

Notes:

1. These options were granted on 22nd June, 1999 and are exercisable from 22nd June, 2000 to the year ending 10 years after the grant date.
2. These options were granted to companies in which the relevant directors are deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power at general meetings under the SDI Ordinance. Mr. Yip Hak Yung, Peter, holds the share options through Asia Pacific Online Limited, and Mr. Zhou Shun Ao holds the share options through Golden Tripod Technology Limited.
3. These options were granted on 9th January, 2001 and are exercisable from 9th January, 2001 to the year ending 10 years after the grant date.
4. These options were granted on 12th July, 1999 and are exercisable from 12th July, 2000 to the year ending 10 years after the grant date.
5. These options were granted on 17th October, 2000 and are exercisable from 17th January, 2001 to the year ending 10 years after the grant date.
6. These options were granted on 17th October, 2000 and are exercisable from 25th November, 2000 to 14th November, 2009.
7. 11,919 and 100,000 options were granted on 17th October, 2000 and are exercisable from 17th April, 2001 to 16th April, 2010 and 17th July, 2001 to 16th October, 2010 respectively.
8. 400,000 options were granted on 27th April, 2001 and are exercisable from 27th July, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.74 per share. Further 400,000 options were granted on 13th July, 2001 and are exercisable from 13th October, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.97 per share.
9. 38,000 options were granted on 15th November, 1999 and are exercisable from 25th November, 2000 to the year ending 10 years after the grant date at an exercise price of US\$14.50 per share. 4,500 options were granted on 15th April, 2000 and are exercisable from 25th February, 2001 to 14th April, 2005 at an exercise price of US\$14.2375 per share. Further 4,500 options were granted on 29th July, 2000 which are exercisable from 25th February, 2001 to the year ending 10 years after the grant date at an exercise price of US\$15.75 per share. Further 80,000 options were granted on 11th July, 2001 and are exercisable from 11th October, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.381 per share.
10. 50,000 options were granted on 12th July, 2001 and are exercisable from 12th July, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.58 per share.
11. 60,000 options were granted on 15th April, 2000 and are exercisable from 15th January, 2001 to the year ending 10 years after the grant date at an exercise price of US\$16.75 per share. Further 100,000 options were granted on 5th December, 2000 and are exercisable from 5th March, 2001 to the year ending 10 years after the grant date at an exercise price of US\$6.7812 per share. Further 140,000 options were granted on 11th July, 2001 and are exercisable from 11th October, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.381 per share.

12. 20,000 options were granted on 9th January, 2001 and are exercisable from 9th April, 2001 to the year ending 10 years after the grant date at an exercise price of US\$4.2813 per share. Further 38,000 options were granted on 5th November, 2001 and are exercisable from 5th February, 2002 to the year ending 10 years after the grant date at an exercise price of US\$2.04 per share.
13. 9,000 options were granted on 15th April, 2000 and are exercisable from 15th April, 2001 to 14th April, 2005 at an exercise price of US\$14.2375 per share. 36,000 options were granted on 17th April, 2000 and are exercisable from 17th April, 2001 to the year ending 10 years after the grant date at an exercise price of US\$16.75 per share. 9,000 options were granted on 29th July, 2000 and are exercisable from 17th July, 2001 to the year ending 10 years after the grant date at an exercise price of US\$15.75 per share. Further 100,000 options were granted on 9th January, 2001 and are exercisable from 17th July, 2001 to the year ending 10 years after the grant date at an exercise price of US\$4.2813 per share. Further 140,000 options were granted on 11th July, 2001 and are exercisable from 11th October, 2001 to the year ending 10 years after the grant date at an exercise price of US\$2.381 per share.
14. 9,000 options were granted on 15th April, 2000 and are exercisable from 15th January, 2001 to 14th April, 2005 at an exercise price of US\$14.2375 per share. Another 9,000 options were granted on 29th July, 2000 and are exercisable from 29th January, 2001 to the year ending 10 years after the grant date at an exercise price of US\$15.75 per share. Further 60,000 options were granted on 20th October, 2000 and are exercisable from 20th January, 2001 to the year ending 10 years after the grant date at an exercise price of US\$8.125 per share.

Save as disclosed in sub-sections (c) and (d) above, at no time during the year was the Company or any of its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, or their spouses or children under 18 years of age, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEMES

The principal purposes of the share option schemes are to recognize the significant contributions of the employees, directors and any consultant or advisor of or to any member of the Group to the growth of the Group by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long term success and prosperity.

(a) Pre-IPO Share Option Scheme

Options to subscribe for shares in the Company at an exercise price of HK\$1.88 for each share were granted on 9th March, 2000 under the Pre-IPO Share Option Scheme of the Company. Details of grants of pre-IPO share options to the directors are set out in the previous sub-section (c) headed "Directors' Interests in Securities - Options to subscribe for ordinary shares in the Company" in this report.

Details of grant/lapse of pre-IPO share options are set out below:

| | Number of underlying shares |
|------------------------------|------------------------------------|
| As at 1st January, 2001 | 129,474,540 |
| Less: Lapsed options in 2001 | <u>(13,201,080)</u> |
| As at 31st December, 2001 | <u>116,273,460</u> |

(Note)

Note: The underlying shares of the outstanding pre-IPO share options as at 31st December, 2001 represent 2.81% of the issued share capital of the Company.

All the above outstanding options may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during the period commencing one year after the date of grant of the options which is 9th March, 2001 and ending 10 years after the date of grant of the options which is 9th March, 2010 in accordance with the following schedule (each anniversary below refers to the anniversary of the date of grant of the options):

| Period since date of grant | Percentage of shares comprised in options which become exercisable |
|--|---|
| Date of grant – first anniversary | Zero |
| First anniversary – second anniversary | Up to 25 per cent |
| Second anniversary – third anniversary | Up to 50 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary) |
| Third anniversary – fourth anniversary | Up to 75 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary) |
| Fourth anniversary and thereafter | All shares in respect of which the option has not been previously exercised |

The principal terms of the Pre-IPO Share Option Scheme are set out in the Prospectus.

(b) Post-IPO Share Option Scheme

Details of grant/lapse of post-IPO share options are set out below:

| Date when options granted | Exercise price <i>HK\$</i> | Closing price of shares immediately before date of options granted <i>HK\$</i> | Number of underlying shares |
|------------------------------|-------------------------------|--|--------------------------------|
| As at 1st January, 2001 | | | 27,814,979 |
| Add: Options granted in 2001 | | | |
| 10th April, 2001 | 0.286 | 0.280 | 49,653,657 |
| 21st May, 2001 | 0.370 | 0.365 | 1,404,960 |
| 29th June, 2001 | 0.433 | 0.415 | 206,680 |
| 24th August, 2001 | 0.337 | 0.340 | <u>1,252,880</u> |
| Total granted options | | | 52,518,177 |
| Less: Lapsed options in 2001 | | | <u>(13,508,236)</u> |
| As at 31st December, 2001 | | | <u>66,824,920</u> |

(Note)

Note: The underlying shares of the outstanding post-IPO share options as at 31st December, 2001 represent 1.62% of the issued share capital of the Company.

The above options may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during the period commencing one year after the date of grant of the option and ending 10 years after the date of grant of the option in accordance with the same schedule as set out in the Pre-IPO Share Option Scheme above. The principal terms of the Post-IPO Share Option Scheme are also set out in the Prospectus.

In assessing the value of the share options granted during the year ended 31st December, 2001, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodology to calculate the value of options and is one of the recommended options pricing models as set out in Rule 23.08 of the GEM Listing Rules. The variables of the Black-Scholes Model include, risk-free interest rate, expected life of the options, and expected volatility and expected dividend of the shares of the Company, if applicable.

The range of interest rate applied in the Black-Scholes Model is 4.99% to 5.37% representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options (the "Measurement Date"). The expected life of the options used is 5 years. The range or expected volatility of the expected share prices of the Company ranging from 87.4% to 90.1%, is used in the Black-Scholes Model. It is assumed that, based on historical pattern, no dividend would be paid out during the vesting period.

Using the Black-Scholes Model in assessing the value of 52,518,177 share options granted under the Post-IPO Share Option Scheme during the year, the options would have an aggregate value of approximately HK\$10,162,000, representing a value of HK\$0.193 per option.

The summary of the treatment of forfeiture of option prior to the expiry date is set out in Appendix V of the Prospectus under the section headed "Share Options".

It should be noted that the value of options calculated using the Black-Scholes Model is only an estimate of the value of share options granted during the year. Amongst other variables, it uses the time to expiry to determine a value based on the past performance of the share price as measured by the volatility factor. If, however, the Company's future financial and/or operating performance fluctuates, it is likely that the share price will be affected. In such case, the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

The maximum number of shares subject to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme must not in aggregate exceed 50%* of the total issued share capital of the Company from time to time.

* *With effect from 1st October, 2001, the maximum number of shares which can be granted and yet to be exercised under all share option schemes must not exceed 30% of the total issued share capital of the Company from time to time in accordance with Chapter 23 of the GEM Listing Rules.*

SUBSTANTIAL SHAREHOLDERS

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

| Name | Number of shares | Percentage of issued share capital |
|-------------------------|------------------|------------------------------------|
| chinadotcom corporation | 3,361,828,000 | 81.37% |

Saved as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests in Securities" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

INTEREST OF SPONSOR

Two employees of BNP Paribas Peregrine Capital Limited ("BNP Paribas") held a total of 4,000 shares in the Company as at 31st December, 2001. Save as disclosed herein, the Company's sponsor, BNP Paribas, its respective directors, employees and associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rule), 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.

By a termination agreement dated 11th July, 2001, Lehman Brothers Asia Limited ceased to be one of the Company's continuing joint sponsors with effect from 1st July, 2001. BNP Paribas remains as the Company's sole sponsor, for a monthly fee, effective from 1st July, 2001 until 31st December, 2002.

COMPETING INTERESTS

Mr. Chan Wing Tak, Douglas, a non-executive director, was up until 26th November, 2001, a director of New World CyberBase Limited, which engages in operating, researching and developing new international technology businesses in the areas of connectivity services, e-commerce and software development and was up until 1st March, 2001, a director of Skynet (International Group) Holdings Limited, which engages in operating websites (under the domain names *www.HKCyber.com*, *www.HKStock.com* and *www.Gameplayers.com*), provides local and foreign news, financial information and commentaries as well as entertainment and computer games. Both companies are listed on the Main Board of the Stock Exchange. The directors believe that the business of New World CyberBase Limited and Skynet (International Group) Holdings Limited may compete with the Group's business. Save as disclosed above, 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.

CONNECTED TRANSACTIONS

Waivers

All the following non-exempt continuing connected transactions have been granted waivers by the Stock Exchange at the time of listing of the Company in the strict compliance with the announcement requirements set out in Rule 20.35 and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules:

1. Pursuant to an assignment entered into between china.com Corporation Limited ("CCCL") and hongkong.com Limited ("HKCL") on 18th February, 2000, CCCL has assigned to HKCL a portion of the 21st Floor, Citicorp Centre, 18 Whitfield Road, Hong Kong (with a gross floor area of approximately 6,840 square feet) for a term commencing on 1st January, 2000 and expiring on 30th September, 2002 at a monthly rent of HK\$106,717.88 exclusive of rates, air-conditioning charges and management fees and subject to the benefit of two rent free periods namely 1st October to 30th November, 2000 (both days inclusive) and 1st October to 30th November, 2001 (both days inclusive). Such rent is calculated based on the attributable gross floor area occupied by the Group. The annual rent, management fees and air-conditioning charges payable by HKCL under the assignment was HK\$1,079,107 in 2001 and this amount did not exceed the annual cap of HK\$1,750,000 for this connected transaction for the purposes of the waiver application. Pursuant to the Surrender Agreement between the landlord, CCCL and HKCL on 12th September, 2001, the assignment agreement was terminated on 31st August, 2001. The waiver granted by the Stock Exchange in respect of the said assignment ceases to be applicable.
2. Pursuant to a service agreement dated 1st September, 1999 between 24/7 Media Asia Limited ("24/7 Asia") and HKCL, HKCL will display 24/7 Asia's logo on the *www.hongkong.com* website and hyperlink *www.hongkong.com* to 24/7 Asia's website in consideration for which 24/7 Asia will pay HKCL a quarterly fee of US\$100,000, which has been determined based on normal commercial negotiations. The service agreement has an indefinite term and is terminable by either party on three months' notice. The annual fee receivable by HKCL under the agreement was HK\$3,120,000 in 2001 and this amount did not exceed the annual cap of HK\$3,120,000 for this connected transaction for the purposes of the waiver application. On 30th September, 2001, 24/7 Asia has entered into an agreement with HKCL to terminate the said agreement with effect from 1st January, 2002. The waiver granted by the Stock Exchange in respect of the said agreement ceases to be applicable.
3. Pursuant to a service agreement dated 1st September, 1999 between Ion Global Limited ("Ion Global") (formerly known as "The Hong Kong Web Connection Limited") and HKCL, HKCL will display Ion Global's logo on *www.hongkong.com* and hyperlink *www.hongkong.com* to Ion Global's website in consideration for

which Ion Global will pay HKCL a quarterly fee of US\$100,000, which has been determined based on normal commercial negotiations. The term of the agreement is one year expiring on 30th June, 2000 and renewing thereafter unless terminated on 3 months' notice by either party. The annual fee receivable by HKCL under the agreement was HK\$3,120,000 in 2001 and this amount did not exceed the annual cap of HK\$3,120,000 for this connected transaction for the purposes of the waiver application. On 1st October, 2001, Ion Global has entered into an agreement with HKCL to terminate the said agreement with effect from 1st January, 2002. The waiver granted by the Stock Exchange in respect of the said agreement ceases to be applicable.

4. Pursuant to a support services agreement dated 18th February, 2000 ("Support Services Agreement") entered into between chinadotcom corporation ("chinadotcom"), China Internet Corporation ("CIC") and HKCL, HKCL has agreed to provide personnel to CIC in order to enable the CIC group to satisfy its obligations to AOL under the AOL Licence Agreement. Pursuant to the AOL Licence Agreement, CIC is licensed to distribute the AOL Hong Kong service in Hong Kong, including establishing and maintaining AOL's communications network systems in Hong Kong, developing localised content for the AOL Hong Kong service, marketing and promoting the AOL Hong Kong service, and co-producing the *aol.com.hk* website. In consideration thereof, HKCL shall charge CIC a fee which is equal to HKCL's cost in providing such personnel plus 10 per cent. The Support Services Agreement will terminate upon the earlier of 18th February, 2003 and the termination of the AOL Licence Agreement, unless the support service is terminated prior thereto by CIC or HKCL giving 30 days' prior written notice to the other. The AOL License Agreement is for an initial term expiring on 28th September, 2002 and renews automatically thereafter for a further four years subject to the CIC group achieving specified performance milestones. In June 1999, chinadotcom and CIC entered into a non-binding letter of intent with AOL to negotiate in good faith to transfer the AOL Licence Agreement from CIC to chinadotcom, and to negotiate in good faith the formation of a joint venture which would be established specifically to provide the AOL Hong Kong service. Under an amendment agreement dated 8th June, 1999 amending the AOL Licence Agreement, AOL has the right to terminate the AOL Licence Agreement on 30 days' prior written notice to CIC and chinadotcom in the event that the joint venture is not formed by AOL with CIC or chinadotcom by 31st March, 2000, or if the AOL Licence Agreement is not transferred to the joint venture by a date falling six months from the closing date of chinadotcom's initial public offering. The latter date has now passed, with neither of the above events having occurred, although the Group is not aware of any notice of termination having been served by AOL on chinadotcom or CIC, nor of any intent by AOL to do so. The annual fee receivable by HKCL under the Support Services Agreement was HK\$13,928,097 in 2001 and this amount did not exceed the annual cap of HK\$41,000,000 for this connected transaction for the purposes of waiver application. The Support Services Agreement was terminated on 30th June, 2001. The waiver granted by the Stock Exchange in respect of the said assignment ceases to be applicable.
5. Pursuant to a non-exclusive network affiliation agreement entered into between 24/7 Asia and HKCL dated 22nd February, 2000, HKCL has agreed to become a member of the 24/7 Asia network of websites and has granted 24/7 Asia the right to sell advertising on *www.hongkong.com* to third parties. Under the agreement 24/7 Asia is entitled to retain a commission of 30 per cent of all fees generated by 24/7 Asia from the sale of such advertising (determined by the number of impressions delivered each month) and HKCL is entitled to the balance of such fees. The non-exclusive network affiliation agreement continues in effect until 31st December, 2003 unless terminated by either party on four months' written notice. The annual fee receivable by HKCL under the agreement was HK\$3,367,502 in 2001 and this amount did not exceed the annual cap of HK\$77,000,000 for this connected transaction for the purposes of the waiver application.

All the other non-exempt continuing connected transactions which have also been granted waivers by the Stock Exchange at the time of the listing of the Company in strict compliance with the announcement requirements set out in Rule 20.35 and the shareholders' approval requirements set out in Rule 20.36 of the GEM Listing Rules, but which have not been set out above, have not recorded any actual amounts for the year ended 31st December, 2001.

Pursuant to the waiver granted by the Stock Exchange, the above connected transactions have been reviewed by the independent non-executive directors and were, in their opinion, entered into by the Group: (a) in the ordinary and usual course of the Group's business; (b) on normal commercial terms; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole.

Non-exempt connected transactions entered into during the year

During the year, the Group has also entered into the following non-exempt connected transactions as defined under the GEM Listing Rules:

1. On 4th April, 2001, chinadotcom has entered into a guarantee in favour of HKCL whereby chinadotcom guaranteed that it will pay to HKCL any outstanding fees which is payable by CIC to HKCL in respect of the period from 1st January, 2001 to 31st March, 2001 in accordance with the terms of the Support Services Agreement upon 7 business days' prior written notice if HKCL calls upon chinadotcom to make such payment provided that such outstanding fees will amount to no more than HK\$7,000,000. The amount of the outstanding fees during the said period is HK\$6,927,685. An announcement regarding the guarantee was published on the GEM website on 29th May, 2001 pursuant to Rule 20.35 of the GEM Listing Rules.
2. On 29th May, 2001, chinadotcom has extended the guarantee in favour of HKCL, wherein chinadotcom guaranteed that it will pay to HKCL any outstanding fees in respect of the period from 1st April, 2001 to 30th June, 2001, which is payable by CIC to HKCL in accordance with the terms of the Support Services Agreement upon 7 business days' prior written notice if HKCL calls upon chinadotcom to make such payment provided that such outstanding fees will amount to no more than HK\$7,000,000. The amount of the outstanding fee during the said period is HK\$7,000,000. An announcement regarding the guarantee was published on the GEM website on 11th June, 2001 pursuant to Rule 20.35 of the GEM Listing Rules.

The directors of the Company, including the independent non-executive directors of the Company, consider that the above guarantees are an instrument to guarantee the service fees under the Support Service Agreement for the two said periods, which enhances the Company's likelihood of payment collection of the outstanding fees, and considers the terms of the above guarantees entered into are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

Non-exempt continuing connected transaction entered into after the listing of the Company

On 22nd February, 2000, HKCL entered into an agreement with 24/7 Asia whereby HKCL agreed to, at its discretion, elect 24/7 Asia to serve promotional or barter advertisement attained by HKCL on www.hongkong.com. On 1st January, 2001, HKCL and 24/7 Asia entered into a supplemental agreement to supplement the said agreement so that, commencing from 1st January, 2001, HKCL shall pay 24/7 Asia a fixed monthly fee of HK\$80,000 ("Advertising Serving Fees") in consideration of their provision of the said service until the expiry of the said agreement on 31st December, 2003. The Advertising Serving Fees payable by HKCL to 24/7 Asia in respect of the said services amounted to HK\$960,000 in 2001. Details of the said continuing connected transaction was disclosed in the circular dated 6th April, 2001 of the Company.

The directors of the Company, including the independent non-executive directors of the Company, consider that the above continuing connected transaction was entered into in the interests of the Company, in its ordinary and usual course of business on normal commercial terms, and that the terms of the said supplemental agreement are fair and reasonable and in the interests of the Company so far as the independent shareholders are concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 29 to the financial statements.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 6 to the financial statements, respectively.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has four members comprising three independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Chou Kei Fong, Silas, Wang Cheung Yue, Fred (appointed on 11th February, 2002), and one executive director, Mr. Yip Hak Yung, Peter. The primary duties of the audit committee is to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee has met twice reviewing and supervising the financial reporting process, the Company's annual report and financial statements, and providing advice and recommendations to the Board.

Mr. Koh Boon Hwee resigned as an independent non-executive director and a member of the audit committee on 29th August, 2001.

CHANGE OF COMPANY SECRETARY AND AUTHORIZED REPRESENTATIVE

Ms. Kwan Shin Luen, Susanna resigned as the Company Secretary and Authorized Representative of the Company, and Mr. Mak Tak Cheong, Edmund was appointed as the Company Secretary and Authorized Representative of the Company, both with effect from 4th June, 2001.

CHANGE OF QUALIFIED ACCOUNTANT

Ms. Chu Siu Yin, Belinda resigned as the Qualified Accountant of the Company, and Mr. Mak Tak Cheong, Edmund was appointed as the Qualified Accountant of the Company, both with effect from 1st August, 2001.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong
19th February, 2002



To the members

hongkong.com Corporation

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 37 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Hong Kong

19th February, 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2001

37

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| TURNOVER | 4 | 86,526 | 79,498 |
| Cost of sales | | <u>(49,225)</u> | <u>(36,776)</u> |
| Gross profit | | 37,301 | 42,722 |
| Other revenue | 4 | 96,420 | 68,966 |
| Selling and distribution expenses | | (4,429) | (33,592) |
| Administrative expenses | | (70,668) | (67,482) |
| Other operating expenses and charges | 6 | <u>(26,876)</u> | <u>(4,035)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 6 | 31,748 | 6,579 |
| Finance costs | 7 | (995) | – |
| Share of profits and losses of associates | | <u>(802)</u> | <u>(1,815)</u> |
| PROFIT BEFORE TAX | | 29,951 | 4,764 |
| Tax | 10 | <u>(1,581)</u> | <u>(345)</u> |
| PROFIT BEFORE MINORITY INTERESTS | | 28,370 | 4,419 |
| Minority interests | | <u>71</u> | <u>–</u> |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 11 | <u>28,441</u> | <u>4,419</u> |
| EARNINGS PER SHARE | 12 | | |
| Basic | | <u>0.69 cent</u> | <u>0.11 cent</u> |
| Diluted | | <u>0.69 cent</u> | <u>0.11 cent</u> |

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| Surplus/(deficit) on revaluation of short term investments | 25 | (13,794) | 2,001 |
| Exchange differences on translation of financial statements of foreign entities | 25 | (1,055) | – |
| Net profit from ordinary activities attributable to shareholders | 25 | <u>28,441</u> | <u>4,419</u> |
| Total recognized gains and losses | | 13,592 | 6,420 |
| Goodwill on acquisition eliminated directly against reserves | 25 | <u>–</u> | <u>(47,580)</u> |
| | | 13,592 | (41,160) |

In addition to the gains and losses detailed above, certain gains arose since 31st December, 2000 as a result of a prior year adjustment arising from a change in accounting policy as further described in note 2 to the financial statements as follows:

| | HK\$'000 |
|--|---------------|
| For the year ended 31st December, 2001, as reported above | 13,592 |
| Recognized gains arising from a prior year adjustment relating to periods prior to 1st January, 2001 | <u>2,860</u> |
| Total recognized gains and losses arising since the last annual report | <u>16,452</u> |

CONSOLIDATED BALANCE SHEET

31st December, 2001

39

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 20,600 | 26,048 |
| Interests in associates | 15 | – | 3,775 |
| Goodwill | 16 | 11,279 | – |
| | | 31,879 | 29,823 |
| CURRENT ASSETS | | | |
| Amount due from a related company | 17 | – | 13,552 |
| Amounts due from fellow subsidiaries | 18 | 12,940 | 3,774 |
| Short term investments | 19 | 1,152,866 | 1,166,514 |
| Pledged securities | 19 | 312,897 | – |
| Accounts receivable | 20 | 17,328 | 9,560 |
| Prepayments, deposits and other receivables | | 35,313 | 28,589 |
| Cash and cash equivalents | 21 | 25,875 | 39,840 |
| | | 1,557,219 | 1,261,829 |
| CURRENT LIABILITIES | | | |
| Amounts due to fellow subsidiaries | 18 | 3,219 | 18,838 |
| Tax payable | | 2,588 | 345 |
| Accounts payable | 22 | 7,568 | 1,663 |
| Other payables and accrued liabilities | | 13,991 | 14,003 |
| Interest-bearing bank borrowings | 23 | 264,420 | – |
| Deferred revenue | | 649 | 9,419 |
| | | 292,435 | 44,268 |
| NET CURRENT ASSETS | | 1,264,784 | 1,217,561 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,296,663 | 1,247,384 |
| MINORITY INTERESTS | | 5,873 | – |
| | | 1,290,790 | 1,247,384 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 24 | 413,156 | 409,600 |
| Reserves | 25 | 877,634 | 837,784 |
| | | 1,290,790 | 1,247,384 |

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|--|-------|------------------|------------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 26(a) | (53,740) | (105,888) |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 95,380 | 65,879 |
| Interest paid | | (995) | – |
| Net cash inflow from returns on investments and servicing of finance | | 94,385 | 65,879 |
| TAX | | | |
| Overseas taxes paid | | (371) | – |
| INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (5,624) | (21,659) |
| Purchases of short term investments | | (7,700,086) | (6,522,883) |
| Acquisition of subsidiaries/business | 26(d) | 3,235 | (39,043) |
| Acquisition of associates | | – | (12,170) |
| Proceeds from sale of fixed assets | | – | 185 |
| Proceeds from disposal of short term investments | | 7,385,042 | 5,358,370 |
| Net cash outflow from investing activities | | (317,433) | (1,237,200) |
| NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES | | (277,159) | (1,277,209) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of new shares | 26(b) | – | 1,383,680 |
| Share issue expenses | | (37) | (69,911) |
| Net cash inflow/(outflow) from financing activities | | (37) | 1,313,769 |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (277,196) | 36,560 |
| Cash and cash equivalents at 1st January | | 39,840 | 3,280 |
| Effect of foreign exchange rate changes, net | | (1,189) | – |
| CASH AND CASH EQUIVALENTS AT 31ST DECEMBER | | (238,545) | 39,840 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 22,033 | 8,366 |
| Time deposits | | 3,842 | 31,474 |
| Interest-bearing bank borrowings | | (264,420) | – |
| | | (238,545) | 39,840 |

31st December, 2001

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 14 | 19,764 | 1,246,006 |
| CURRENT ASSETS | | | |
| Short term investments | 19 | 1,152,866 | – |
| Pledged securities | 19 | 312,897 | – |
| Other receivables | | 25,488 | – |
| | | <u>1,491,251</u> | – |
| CURRENT LIABILITIES | | | |
| Amounts due to fellow subsidiaries | 18 | 1 | – |
| Other payables and accrued liabilities | | 1,207 | 1,600 |
| Interest-bearing bank borrowings | 23 | 264,420 | – |
| | | <u>265,628</u> | 1,600 |
| NET CURRENT ASSETS/(LIABILITIES) | | <u>1,225,623</u> | (1,600) |
| | | <u>1,245,387</u> | 1,244,406 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 24 | 413,156 | 409,600 |
| Reserves | 25 | 832,231 | 834,806 |
| | | <u>1,245,387</u> | 1,244,406 |

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

1. CORPORATE INFORMATION

The registered office of hongkong.com Corporation is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

During the year, the Group was involved in the operation of a portal site, the provision of content and Internet services and advertising services through the Internet, event organizing services and magazine publication and the production and sale of hardware and software.

The Company is a subsidiary of chinadotcom corporation ("chinadotcom"), a limited company incorporated in the Cayman Islands and listed on NASDAQ, which is considered by the directors to be the Company's ultimate holding company.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") AND INTERPRETATIONS

The following new/ revised SSAPs and Interpretations are effective for the first time for the current year's consolidated financial statements:

- SSAP 9 (revised): Events after the balance sheet date
- SSAP 14 (revised): Leases
- SSAP 26: Segment reporting
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 29: Intangible assets
- SSAP 30: Business combinations
- SSAP 31: Impairment of assets
- SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12: Business combinations – subsequent adjustment of fair values and goodwill initially reported
- Interpretation 13: Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

Those SSAPs which have had a significant effect on financial statements are summarised as follows:

SSAP 14 (revised) prescribes the accounting measurement treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements with regard to the accounting for leases; however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitment would expire within that year; in the second to fifth years, inclusive; and over five years. In the current year, the disclosure has been changed to the total of the future minimum lease payments under non-cancellable operating leases analysed into those not later than one year; later than one year but not later than five years; and later than five years. The disclosures are set out in note 28 to these financial statements.

SSAP 26 requires listed companies to report data for business segments (groups of related products or services) and geographical segments. Disclosures as required are set out in note 5 to these financial statements.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. The Group accrued a staff bonus of HK\$2,860,000 for the year ended 31st December, 2000 which does not meet the criteria under the new SSAP to be recognized as a provision, and therefore, has been adjusted for in these financial statements as a prior year adjustment. The Group has adopted the transitional provision of not to restate the comparative information and has adjusted the opening balance of accumulated losses (note 25). There is no attributable tax effect in respect of this adjustment. There is no impact of the change on current year's provision.

SSAP 30 prescribes the accounting treatment and disclosures for business combinations.

In prior years, goodwill/negative goodwill arising on the consolidation of subsidiaries and on the acquisition of associates, representing the excess/shortfall of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal of a subsidiary or associate, the attributable amount of goodwill/negative goodwill is included in calculating the profit or loss on disposal.

With effect from 1st January, 2001, with the introduction of SSAP 30 "Business combinations", the Group adopted an accounting policy to recognize goodwill as an asset which is amortized on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which has not yet been recognized, is recognized in the profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognized in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the profit and loss account. On disposal of a consolidated controlled enterprise, any attributable amount of purchased goodwill/negative goodwill not previously amortized through the profit and loss account is included in the calculation of the profit or loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 in that the goodwill/negative goodwill that arose from acquisition prior to 1st January, 2001, which has been previously eliminated against/taken to reserves, has not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisition prior to 1st January, 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the subsidiaries/associates, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be credited to the profit and loss account at the time of disposal of the relevant subsidiary or associate.

SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against reserves in accordance with the provisions of Interpretation 13 issued by the Hong Kong Society of Accountants.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. As a result, the goodwill arising from the acquisition of a subsidiary and an associate in 2000 was determined to have been impaired as at 31st December, 2001. The goodwill impaired at an amount of HK\$16,365,000 was written back from reserves and charged to the profit and loss account for the year ended 31st December, 2001.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the remeasurement of debt securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over five years. Prior to 1st January, 2001, goodwill arising on the consolidation of subsidiaries and on the acquisition of associates, representing the excess of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal of a subsidiary, the attributable amount of goodwill is included in calculating the profit or loss on disposal.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rate used for this purpose are as follows:

| | |
|---------------------------------|---|
| Leasehold improvements | Over the lesser of lease terms or the asset useful lives |
| Furniture and fixtures | 20% |
| Office equipment | 20% |
| Computer equipment and software | 33 ⁻¹ / ₃ % |

The gain or loss on disposal or retirement of a fixed asset recognized in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Short term investments

Short term investments are investments in securities held for non-trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Repurchase agreements

Debt securities sold under agreements to repurchase are classified as secured borrowings. Its agreements with the third party specify the third parties' rights to request additional collateral. Both parties monitor the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and may request a cash transfer at least equal to that net exposure as necessary.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced of its recoverable amount. Any impairment loss arising is recognized as an expense immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Deferred revenue

Deferred revenue represents amounts received in advance for services to be rendered.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line method over the lease terms.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Advertising service fees are derived from the sales of banner advertisements and sponsorships in which the Group delivers advertising for a fixed fee on the Group's websites and advertising affiliates, which comprise third party websites. Advertising revenue is derived principally from short term advertising contracts pursuant to which the Group may guarantee a minimum number of impressions to advertisers over a specific period of time for a fixed fee. Revenue from advertising is recognized ratably in the period in which the advertisement is displayed, provided that no significant Group obligations remain, at the lesser of the ratio of impressions delivered over total guaranteed impressions or the straight-line basis over the term of contract, and collection of the resulting receivable is probable. Advertising service fees from direct mailing are derived from advertisement sent to electronic mail users registered with the Group and are recognized when each advertisement is sent;
- (b) from the rendering of services, as the underlying services are provided;
- (c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Barter transactions

When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue and barter revenue and expenses are recognized. Barter revenue and expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, barter revenue and expenses are measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognized until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation subsequent to a past event which will result in a probable outflow of economic benefits that can be reasonably estimated.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

In addition, retirement benefits are paid by the overseas subsidiaries to the overseas employees who, at their own discretion, contribute to the retirement benefit plans managed by the relevant authorities of the countries in which they operate. The retirement benefits paid by the overseas subsidiaries are based on certain percentages of the overseas employees' basic salaries in accordance with the relevant regulations in the countries and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement benefits to the overseas employees.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

Turnover represents advertising service fees, content and Internet service provision fees and publishing and event organizing service fees.

An analysis of turnover and other revenue is as follows:

| | Group | |
|--|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Turnover: | | |
| Advertising service fees | 43,816 | 40,400 |
| Content and Internet service provision fees | 14,790 | 31,842 |
| Publishing and event organizing service fees | 21,449 | 5,489 |
| Others | 6,471 | 1,767 |
| | 86,526 | 79,498 |
| Other revenue: | | |
| Interest income | 3,724 | 1,788 |
| Interest income on debt securities | 91,656 | 64,091 |
| Foreign exchange gains, net | 925 | 2,789 |
| Others | 115 | 298 |
| | 96,420 | 68,966 |
| Total revenue | 182,946 | 148,464 |

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments based on location of assets are its primary reporting format and business segments are its secondary reporting format.

The Group's operating businesses are organized and managed separately, according to the location of assets producing the revenues. Inter-segment sales and transfers are transacted by reference to the selling prices that would have been used for sales made to third parties at the then current market prices. Revenue is attributed to business segments based on the nature of services provided.

5. SEGMENT INFORMATION (continued)

(a) Geographical segments

The following tables present revenue and profit information on each of the geographical segments for the years ended 31st December, 2001 and 2000, and certain assets, liabilities and other information regarding geographical segments at 31st December, 2001 and 2000.

| | Hong Kong | | Other Asian countries* | | Eliminations | | Consolidated | |
|--|----------------|----------------|------------------------|---------------|----------------|----------|------------------|------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 30,764 | 66,746 | 55,762 | 12,752 | - | - | 86,526 | 79,498 |
| Inter-segment sales | 2,130 | - | - | - | (2,130) | - | - | - |
| Other revenue | 95,575 | 68,930 | 845 | 36 | - | - | 96,420 | 68,966 |
| Total revenue | 128,469 | 135,676 | 56,607 | 12,788 | (2,130) | - | 182,946 | 148,464 |
| RESULTS | | | | | | | | |
| Profit from operating activities | 37,837 | 5,255 | (6,089) | 1,324 | - | - | 31,748 | 6,579 |
| Finance costs | | | | | | | (995) | - |
| Share of profits and losses of associates | | | | | | | (802) | (1,815) |
| Tax | | | | | | | (1,581) | (345) |
| Minority interests | | | | | | | 71 | - |
| Net profit from ordinary activities attributable to shareholders | | | | | | | 28,441 | 4,419 |
| ASSETS | | | | | | | | |
| Segment assets | 1,580,669 | 1,313,581 | 58,011 | 13,823 | (49,582) | (39,527) | 1,589,098 | 1,287,877 |
| Interests in associates | | | | | | | - | 3,775 |
| Total assets | | | | | | | 1,589,098 | 1,291,652 |
| LIABILITIES | | | | | | | | |
| Total liabilities | 270,655 | 31,958 | 71,362 | 51,837 | (49,582) | (39,527) | 292,435 | 44,268 |
| OTHER INFORMATION | | | | | | | | |
| Capital expenditure | 5,686 | 30,192 | 16,163 | 39,047 | | | 21,849 | 69,239 |
| Depreciation and amortization | 12,619 | 8,622 | 1,247 | 3 | | | 13,866 | 8,625 |
| Non-cash expenses other than depreciation and amortization | 20,298 | 9,552 | 9,292 | 26 | | | 29,590 | 9,578 |

* Other Asian countries include Singapore, the People's Republic of China ("PRC") and Taiwan.

5. SEGMENT INFORMATION (continued)

(b) Business segments

The following table presents revenue and expenditure information regarding business segments for the years ended 31st December, 2001 and 2000, and certain assets information regarding business segments at 31st December, 2001 and 2000.

| | Advertising service | | Content and Internet service provision | | Publishing and event organizing service | | Others | | Unallocated | | Consolidated | |
|---------------------------------|---------------------|----------|--|----------|---|----------|----------|----------|-------------|-----------|--------------|-----------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 43,816 | 40,400 | 14,790 | 31,842 | 21,449 | 5,489 | 6,471 | 1,767 | - | - | 86,526 | 79,498 |
| Segment assets | 31,161 | 37,897 | 6,645 | 13,552 | 8,473 | 5,950 | 40,853 | 1,310 | 1,501,966 | 1,229,168 | 1,589,098 | 1,287,877 |
| Capital expenditure | 2,409 | 37,229 | - | 14,403 | 578 | 16,807 | 18,862 | 800 | - | - | 21,849 | 69,239 |

6. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging:

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Auditors' remuneration | 798 | 626 |
| Operating lease rentals in respect of land and buildings | 3,088 | 4,403 |
| Staff costs*: | | |
| Salaries and allowances | 49,567 | 61,823 |
| Pension contributions [@] | 1,767 | 101 |
| | 51,334 | 61,924 |
| Depreciation | 13,060 | 8,625 |
| Marketing and promotion expenses | 3,060 | 31,498 |
| Portal development costs [#] | - | 27,470 |

6. PROFIT FROM OPERATING ACTIVITIES (continued)

Profit from operating activities is arrived at after charging:

| | Group | |
|--|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Other operating expenses: | | |
| Impairment of goodwill | 16,365 | – |
| Amortization of goodwill | 806 | – |
| Loss on disposal of fixed assets | 1,432 | 9 |
| Provision for doubtful debts | 2,277 | 4,026 |
| Provision for investment deposits paid | 3,900 | – |
| Provision for interests in associates | 2,050 | – |
| Others | 46 | – |
| | 26,876 | 4,035 |

* Including directors' remuneration as disclosed in note 8.

@ At 31st December, 2001, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2000: Nil).

The prior year amount included staff costs of HK\$13,423,000 and depreciation of HK\$4,254,000 as disclosed above.

7. FINANCE COSTS

| | Group | |
|---|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Interest on bank borrowings repayable within five years | 995 | – |

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance is as follows:

| | Group | |
|--------------------------------------|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Executive directors: | | |
| Fees | 328 | 70 |
| Salaries and allowances | 1,474 | 1,464 |
| Pension contributions | 12 | 1 |
| | 1,814 | 1,535 |
| Non-executive directors: | | |
| Fees | 117 | 58 |
| Independent non-executive directors: | | |
| Fees | 222 | 105 |
| | 2,153 | 1,698 |

The remuneration of the directors fell within the following bands:

| | Number of directors | |
|-------------------------------|---------------------|------|
| | 2001 | 2000 |
| Nil – HK\$1,000,000 | 12 | 12 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |
| | 13 | 13 |

For the year ended 31st December, 2001, all the executive directors received fees of HK\$1 each save for two executive directors who received fees of HK\$164,000 each and another executive director who received an emolument of HK\$1,486,000. Two non-executive directors received fees of HK\$70,000 and HK\$47,000 respectively. Three independent non-executive directors received fees of HK\$105,000, HK\$70,000 and HK\$47,000 respectively. Apart from the aforesaid remunerations, none of the non-executive directors nor independent non-executive directors received any other emoluments in respect of their service to the Company in the capacity of a director.

For the year ended 31st December, 2000, all the executive directors received fees of HK\$1 each save for one executive director who received a fee of HK\$70,000 and another executive director who received an emolument of HK\$1,465,000. Two non-executive directors received fees of HK\$46,000 and HK\$12,000 respectively. Three independent non-executive directors received fees of HK\$59,000, HK\$35,000 and HK\$11,000 respectively. Apart from the aforesaid remunerations, none of the non-executive directors nor independent non-executive directors received any other emoluments in respect of their service to the Company in the capacity of a director.

8. DIRECTORS' REMUNERATION (continued)

During the year, 37,800,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share Option Schemes" in the Report of the Directors on pages 28 to 31. The estimated value of such options, which has not been charged to the profit and loss account, was HK\$7,182,000 as at the date of the grant. This was determined using the Black-Scholes Model.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2000: one) executive director of the Company, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining four (2000: four) highest paid, non-director employees are as follows:

| | Group | |
|-----------------------------|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Salaries and allowances | 3,939 | 3,302 |
| Performance related bonuses | 649 | 476 |
| Pension contributions | 215 | 3 |
| | 4,803 | 3,781 |

The remuneration of the highest paid, non-director employees fell within the following bands:

| | Number of employees | |
|-------------------------------|---------------------|------|
| | 2001 | 2000 |
| Nil – HK\$1,000,000 | – | 2 |
| HK\$1,000,001 – HK\$1,500,000 | 4 | 2 |
| | 4 | 4 |

During the year, 3,213,020 share options were granted to the four non-director, highest paid employees in respect of their services to the Group, further details of which are set out under the heading "Share Option Schemes" in the Report of the Directors on pages 28 to 31. The estimated value of such options, which has not been charged to the profit and loss account, was approximately HK\$610,000 as at the date of the grant. This was determined using the Black-Scholes Model.

10. TAX

| | Group | |
|------------------------------|----------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Group – overseas profits tax | <u>(1,581)</u> | <u>(345)</u> |

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2000: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The principal components of the Group's unprovided deferred tax asset calculated at 16% (2000: 16%) at the balance sheet date are as follows:

| | Group | |
|--------------------------------|---------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Accelerated capital allowances | (1,075) | (3,839) |
| Tax losses carried forward | <u>15,495</u> | <u>8,271</u> |
| | <u>14,420</u> | <u>4,432</u> |

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$2,185,000 (2000: Net loss of HK\$69,336,000).

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$28,441,000 (2000: HK\$4,419,000) and weighted average number of 4,107,852,476 (2000: 3,955,497,268) ordinary shares.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$28,441,000 (2000: HK\$4,419,000) and the weighted average number of 4,116,909,803 (2000: 3,965,843,945) ordinary shares, after adjusting for the effects of all dilutive potential shares during the year.

12. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

The reconciliation of weighted average number of shares used in the calculation of basic earnings per share and diluted earnings per share is as follows:

| | 2001 | 2000 |
|--|---------------|---------------|
| Weighted average number of ordinary shares used in basic earnings per share calculation | 4,107,852,476 | 3,955,497,268 |
| Weighted average number of shares assumed issued at no consideration on deemed exercise of share options during the year | 9,057,327 | 10,346,677 |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | 4,116,909,803 | 3,965,843,945 |

13. FIXED ASSETS

| Group | Leasehold improvements HK\$'000 | Furniture and fixtures HK\$'000 | Office equipment HK\$'000 | Computer equipment and software HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|---------------------------------------|---------------------------------|---|-------------------|
| Cost: | | | | | |
| At 1st January, 2001 | 2,412 | 782 | 823 | 31,523 | 35,540 |
| Exchange adjustments | 31 | – | – | (60) | (29) |
| Additions through acquisition of subsidiaries | 174 | 660 | 416 | 1,183 | 2,433 |
| Additions during the year | 1,085 | 73 | 166 | 6,007 | 7,331 |
| Disposals | (2,412) | (797) | – | – | (3,209) |
| At 31st December, 2001 | 1,290 | 718 | 1,405 | 38,653 | 42,066 |
| Accumulated depreciation: | | | | | |
| At 1st January, 2001 | 911 | 159 | 197 | 8,225 | 9,492 |
| Exchange adjustments | 31 | (5) | – | (52) | (26) |
| Additions through acquisition of subsidiaries | 95 | 262 | 84 | 276 | 717 |
| Charge for the year | 743 | 234 | 192 | 11,891 | 13,060 |
| Written back on disposals | (1,487) | (290) | – | – | (1,777) |
| At 31st December, 2001 | 293 | 360 | 473 | 20,340 | 21,466 |
| Net book value: | | | | | |
| At 31st December, 2001 | 997 | 358 | 932 | 18,313 | 20,600 |
| At 31st December, 2000 | 1,501 | 623 | 626 | 23,298 | 26,048 |

14. INTERESTS IN SUBSIDIARIES

| | Company | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Unlisted shares, at cost | 1 | 1 |
| Amounts due from subsidiaries | 87,763 | 1,314,005 |
| | 87,764 | 1,314,006 |
| Provisions against amounts due from subsidiaries | (68,000) | (68,000) |
| | 19,764 | 1,246,006 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity and voting shares attributable to the Company | | | | Principal activities |
|--|---|--|--|----------|--------|----------|--|
| | | | 2001 | | 2000 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| 北京中鐵時代科技 有限責任公司 Beijing China-Railway Times Science and Technology Company Limited* | PRC | RMB1,000,000 | - | 60% | - | - | Production and sale of hardware and software |
| 北京時代派爾科技 發展有限公司 Beijing Times Prime Science and Technology Company Limited# | PRC | US\$1,000,000 | - | 60% | - | - | Production and sale of hardware and software |
| Clovelly Logistics Limited# | British Virgin Islands | US\$1 | - | 100% | - | - | Investment holding |

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity and voting shares attributable to the Company | | | | Principal activities |
|--|---------------------------------------|--|--|----------|--------|----------|---|
| | | | 2001 | | 2000 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| hongkong.com Limited | Hong Kong | HK\$1,000 | 100% | – | 100% | – | Operation of a portal site, provision of content and Internet services, and advertising services through Internet |
| hongkong.com Nominees Limited | British Virgin Islands | US\$1 | 100% | – | 100% | – | Provision of nominee services |
| hongkong.com Strategic, Inc.# | British Virgin Islands | US\$1 | 100% | – | – | – | Holding of domain names |
| hongkong.com Travel Holdings (HK) Limited | Hong Kong | HK\$100 | – | 100% | – | 100% | Investment holding |
| hongkong.com Travel Holdings Limited | Hong Kong | HK\$100 | – | 100% | – | 100% | Investment holding |
| Linkwise Technology Limited# | British Virgin Islands | US\$1 | – | 100% | – | – | Investment holding |
| Prime Model Technology Limited# | British Virgin Islands | US\$10,000 | – | 60% | – | – | Investment holding |
| Travellerzone Limited | Hong Kong | HK\$1,000,000 | – | 100% | – | 100% | Travel agency |
| Travio Global Inc.# | British Virgin Islands | US\$458,001 | – | 77.5% | – | – | Investment holding |
| 台灣華網旅行社股份有限公司 Travio Global Inc., Taiwan# | Taiwan | NT\$6,000,000 | – | 77.5% | – | – | Travel agency |
| TTG Asia Limited | British Virgin Islands | US\$1 | – | 100% | – | 100% | Investment holding |

14. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation and operations | Nominal value of issued ordinary share capital | Percentage of equity and voting shares attributable to the Company | | | | Principal activities |
|---|---------------------------------------|--|--|----------|--------|----------|--|
| | | | 2001 | | 2000 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| TTG Asia Media Pte Limited | Singapore | S\$100,000 | - | 100% | - | 100% | Provision of advertising, event organizing services and magazine publication |
| Universal Multimedia Inc. [#] | British Virgin Islands | US\$1 | 100% | - | - | - | Investment holding |
| 旅聯科技股份有限公司 Yes Net International Enterprises Inc.* | Taiwan | NT\$16,750,000 | - | 100% | - | - | Provision of hotel Internet booking system |

The above table lists the subsidiaries of the Group which, in the opinion of the directors, either principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* Acquired during the year.

Incorporated/established during the year.

15. INTERESTS IN ASSOCIATES

| | Group | |
|------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Share of net assets | 5 | 1,789 |
| Amount due from an associate | 2,045 | 1,986 |
| | <hr/> | <hr/> |
| | 2,050 | 3,775 |
| Provision | (2,050) | - |
| | <hr/> | <hr/> |
| | - | 3,775 |
| | <hr/> | <hr/> |

The amount due from an associate is unsecured, bears interest at US Dollar prime rate (2000: US Dollar prime rate) and is repayable within six months from the date of draw-down.

15. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

| Name | Business structure | Place of incorporation and operations | Percentage of indirect ownership interest attributable to the Group | | Principal activities |
|---------------------------------|--------------------|---------------------------------------|---|-------|--|
| | | | 2001 | 2000 | |
| GameisLive Corporation Limited* | Corporate | Hong Kong | 35.5% | 35.5% | Provision of wireless application services |
| iNFOiSLIVE Corporation Limited* | Corporate | Hong Kong | 35.5% | 35.5% | Provision of wireless application services |

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

16. GOODWILL

Group

| | HK\$'000 |
|--|----------|
| Cost: | |
| Additions and at 31st December, 2001 | 12,085 |
| Accumulated amortization: | |
| Charge for the year and at 31st December, 2001 | 806 |
| Net book value: | |
| At 31st December, 2001 | 11,279 |

17. AMOUNT DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

| | 31st December, 2001 HK\$'000 | Maximum outstanding during the year HK\$'000 | 1st January, 2001 HK\$'000 |
|--|------------------------------------|---|----------------------------------|
| China Internet Corporation (Hong Kong) Limited | – | 13,552 | 13,552 |

China Internet Corporation (Hong Kong) Limited is a company of which Mr. Yip Hak Yung, Peter and Zhou Shun Ao, directors of the Company, are directors thereof (for Mr. Yip Hak Yung, Peter, was up until 17th October, 2001).

The amount due from the related company was unsecured, interest-free and was repaid during the year.

18. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

19. SHORT TERM INVESTMENTS AND PLEDGED SECURITIES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Overseas listed debt securities, at fair value | 1,416,342 | 1,166,514 | 1,416,342 | – |
| Overseas unlisted securities, at fair value | 49,421 | – | 49,421 | – |
| | 1,465,763 | 1,166,514 | 1,465,763 | – |
| Less: Pledged securities | (312,897) | – | (312,897) | – |
| Short term investments | 1,152,866 | 1,166,514 | 1,152,866 | – |

As at 31st December, 2001, pledged securities are listed debt securities held by the bank as collaterals of approximately HK\$312,897,000 (equivalent to US\$40,115,000) (2000: Nil) for securing short term bank borrowings of HK\$264,420,000 (equivalent to US\$33,900,000) (2000: Nil) (note 23) under repurchase agreements.

20. ACCOUNTS RECEIVABLE

| | Group | |
|---|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| The aged analysis of accounts receivable is as follows: | | |
| Within 90 days | 16,312 | 8,383 |
| 91 – 120 days | 391 | 785 |
| 121 – 180 days | 584 | 358 |
| Over 180 days | 41 | 34 |
| | 17,328 | 9,560 |

The trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by management.

21. CASH AND CASH EQUIVALENTS

| | Group | |
|------------------------|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Cash and bank balances | 22,033 | 8,366 |
| Time deposits | 3,842 | 31,474 |
| | 25,875 | 39,840 |

Time deposits of HK\$480,000 (2000: Nil) were pledged to bank as guarantees to certain suppliers of the Group.

22. ACCOUNTS PAYABLE

| | Group | |
|--|----------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| The aged analysis of accounts payable is as follows: | | |
| Within 90 days | 6,705 | 1,585 |
| 91 – 120 days | 528 | 62 |
| 121 – 180 days | 114 | – |
| Over 180 days | 221 | 16 |
| | 7,568 | 1,663 |

23. INTEREST-BEARING BANK BORROWINGS

All the interest-bearing bank borrowings are secured by the pledge of certain debt securities of the Group and the Company (note 19) and repayable within one year.

During the year, the Group entered into an Global Master Repurchase Agreement (“the Agreement”) with a bank pursuant to which the Group sold certain debt securities to the bank at a discounted price (“Purchase Price”) and the bank agreed to sell back the same debt securities to the Group at the Purchase Price at a later date (the “Repurchase Date”). During the period between the date that the Group sold the debt securities to the bank (the “Purchase Date”) and the Repurchase Date, the bank shall pay to the Group any income in respect of the debt securities and the Group shall pay to the bank an interest calculated at the Purchase Price at LIBOR plus 0.23% per annum and the number of days between the Purchase Date and the Repurchase Date. Either party with a net exposure from the transaction exposures arising from the fluctuations in the market value of the securities or other means may request the other party to make a cash transfer at least equal to that net exposure.

24. SHARE CAPITAL**(a) Share capital**

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| <i>Authorized:</i> | | |
| 10,000,000,000 (2000: 10,000,000,000) ordinary shares of HK\$0.10 | 1,000,000 | 1,000,000 |
| <i>Issued and fully paid:</i> | | |
| 4,131,558,942 (2000: 4,096,000,000) ordinary shares of HK\$0.10 | 413,156 | 409,600 |

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

| | 2001 Number of of shares | 2000 Number of of shares | 2001 HK\$'000 | 2000 HK\$'000 |
|---|--------------------------------|--------------------------------|------------------|------------------|
| At beginning of year | 4,096,000,000 | 1 | 409,600 | 1 |
| Issue of shares | 35,558,942 | 10,078 | 3,556 | 1 |
| Repurchase of shares | – | (1) | – | (1) |
| Shares issued through capitalization | – | 3,359,989,922 | – | 335,999 |
| Issue of shares on placement | – | 640,000,000 | – | 64,000 |
| Issue of shares on exercise of over-allotment options | – | 96,000,000 | – | 9,600 |
| At end of year | 4,131,558,942 | 4,096,000,000 | 413,156 | 409,600 |

24. SHARE CAPITAL (continued)

(b) Share options

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Scheme") and post-IPO share option scheme (the "Post-IPO Scheme") on 25th February, 2000.

Pursuant to the terms of the Post-IPO Scheme, 37,800,000 and 14,718,177 options to subscribe for ordinary shares of the Company were granted to the directors and employees of the Company for the consideration of HK\$1 per grant at exercise prices ranging from HK\$0.286 to HK\$0.433 per share during the year.

13,201,080 Pre-IPO share options and 13,508,236 Post-IPO share options lapsed during the year and the Company had a total of 183,098,380 share options outstanding at the balance sheet date with exercise prices ranging from HK\$0.286 to HK\$2.500 per share.

Both Pre-IPO and Post-IPO share options have a vesting period of 4 years and an option life of 10 years. Each of the grantees of the options is not allowed to exercise in aggregate in excess of 25%, 50% and 75% of all the options granted within the first, second and third years, respectively. The maximum number of shares subject to the Pre-IPO Scheme and the Post-IPO Scheme must not in aggregate, exceed 50%* of the total issued share capital of the Company from time to time. All the Pre-IPO or Post-IPO share options can be exercised on or after 9th March, 2001.

* *With effect from 1st October, 2001, the maximum number of shares which can be granted and yet to be exercised under all share option schemes must not exceed 30% of the total issued share capital of the Company from time to time in accordance with Chapter 23 of the GEM Listing Rules.*

25. RESERVES

| Group | Share premium HK\$'000 | Goodwill reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits/ losses (accumulated) HK\$'000 | Total HK\$'000 |
|---|---------------------------|------------------------------|--|--|--|-------------------|
| At 1st January, 2000 | – | – | – | – | (25,226) | (25,226) |
| Profit for the year | – | – | – | – | 4,419 | 4,419 |
| Issue of shares, net of issuing expenses | 1,240,169 | – | – | – | – | 1,240,169 |
| Bonus shares issued | (335,999) | – | – | – | – | (335,999) |
| Goodwill on acquisition | – | (47,580) | – | – | – | (47,580) |
| Movement in fair value | – | – | 2,001 | – | – | 2,001 |
| At 31st December, 2000 | 904,170 | (47,580) | 2,001 | – | (20,807) | 837,784 |
| At 1st January, 2001: | | | | | | |
| – as previously reported | 904,170 | (47,580) | 2,001 | – | (20,807) | 837,784 |
| – Adjustment to opening balances of accumulated losses (note 2) | – | – | – | – | 2,860 | 2,860 |
| – as restated | 904,170 | (47,580) | 2,001 | – | (17,947) | 840,644 |
| Profit for the year | – | – | – | – | 28,441 | 28,441 |
| Issue of shares, net of issuing expenses | 9,034 | – | – | – | – | 9,034 |
| Impairment of goodwill | – | 16,365 | – | – | – | 16,365 |
| Investment revaluation reserve released on disposals | – | – | (2,001) | – | – | (2,001) |
| Movement in fair value | – | – | (13,794) | – | – | (13,794) |
| Exchange realignments | – | – | – | (1,055) | – | (1,055) |
| At 31st December, 2001 | 913,204 | (31,215) | (13,794) | (1,055) | 10,494 | 877,634 |

25. RESERVES (continued)

An analysis of the retained profits/(accumulated losses) of the Group at the end of the year is as follows:

| | Group | |
|--------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Company and subsidiaries | 14,093 | (18,992) |
| Associates | (3,599) | (1,815) |
| | 10,494 | (20,807) |

| Company | Investment | | | Total HK\$'000 |
|--|------------------------------|------------------------------------|-----------------------------------|-------------------|
| | Share premium HK\$'000 | revaluation reserve HK\$'000 | Accumulated losses HK\$'000 | |
| At 1st January, 2000 | – | – | (28) | (28) |
| Loss for the year | – | – | (69,336) | (69,336) |
| Issue of shares, net of issuing expenses | 1,240,169 | – | – | 1,240,169 |
| Bonus shares issued | (335,999) | – | – | (335,999) |
| At 31st December, 2000 and 1st January, 2001 | 904,170 | – | (69,364) | 834,806 |
| Profit for the year | – | – | 2,185 | 2,185 |
| Issue of shares, net of issuing expenses | 9,034 | – | – | 9,034 |
| Movement in fair value | – | (13,794) | – | (13,794) |
| At 31st December, 2001 | 913,204 | (13,794) | (67,179) | 832,231 |

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash outflow from operating activities

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Profit from operating activities | 31,748 | 6,579 |
| Interest income | (3,724) | (1,788) |
| Interest income on debt securities | (91,656) | (64,091) |
| Depreciation | 13,060 | 8,625 |
| Amortization of goodwill | 806 | – |
| Impairment of goodwill | 16,365 | – |
| Loss on disposal of fixed assets | 1,432 | 9 |
| Provision for doubtful debts | 2,277 | 4,026 |
| Provision for interests in associates | 2,050 | – |
| Provision for investment deposits paid | 3,900 | – |
| Increase in an amount due from an associate | (59) | (1,986) |
| Decrease/(increase) in an amount due from a related company | 13,552 | (10,288) |
| Decrease/(increase) in amounts due from fellow subsidiaries | (9,166) | 2,974 |
| Increase in accounts receivable | (5,265) | (13,197) |
| Increase in prepayments, deposits and other receivables | (8,827) | (21,120) |
| Decrease in amounts due to fellow subsidiaries | (17,575) | (18,921) |
| Increase/(decrease) in accounts payable, other payables and accrued liabilities | 5,549 | (6,129) |
| Increase/(decrease) in deferred revenue | (8,207) | 9,419 |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | (53,740) | (105,888) |

(b) Analysis of changes in financing during the year

| | Issued capital (including share premium) HK\$'000 |
|--|--|
| At 1st January, 2000 | 1 |
| Net cash inflow from financing activities | <hr/> 1,313,769 |
| At 31st December, 2000 and 1st January, 2001 | 1,313,770 |
| Shares issued for acquisition of a subsidiary and purchase of fixed assets | <hr/> 12,590 |
| At 31st December, 2001 | <hr/> 1,326,360 |

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

- (i) During the year, the Company issued 5,351,473 ordinary shares at an issue price of HK\$0.319 per share or approximately HK\$1,707,000 as part of the consideration for the purchase of fixed assets.
- (ii) During the year, the Company issued 30,207,469 ordinary shares at an issue price of HK\$0.3615 per share or approximately HK\$10,920,000 as part of the consideration for the acquisition of a 60% interest in a subsidiary.

(d) Acquisition of subsidiaries/business

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | 1,716 | – |
| Accounts receivable | 5,411 | – |
| Prepayments, deposits and other receivables | 1,593 | 29 |
| Cash and cash equivalents | 14,452 | – |
| Amount due to fellow subsidiaries | (2,450) | – |
| Tax payable | (1,033) | – |
| Accounts payable | (2,561) | – |
| Other payables and accrued liabilities | (202) | – |
| Minority interests | (5,944) | – |
| | <u>10,982</u> | <u>29</u> |
| Goodwill on acquisition | 12,085 | 39,014 |
| | <u>23,067</u> | <u>39,043</u> |
| Satisfied by: | | |
| Issuance of ordinary shares | 10,920 | – |
| Cash | 11,217 | 39,043 |
| Reclassification to interest in a subsidiary from interest in an associate | 930 | – |
| | <u>23,067</u> | <u>39,043</u> |

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries/business:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Cash consideration | (11,217) | (39,043) |
| Cash and cash equivalents acquired | 14,452 | – |
| Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries/business | <u>3,235</u> | <u>(39,043)</u> |

27. CONTINGENT LIABILITIES

The Internet website address or Uniform Resources Locator ("URL") of *hongkong.com* was licensed from a related company, China Internet Corporation ("CIC"), for no fee/cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc., pursuant to an agreement whereby chinadotcom Strategic, Inc. acquired all of the rights, legal title and interests in the *hongkong.com* URL and the related intellectual property rights from CIC. chinadotcom Strategic, Inc. has informed the Group that it reserves its right to levy additional charges on the Group for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

28. COMMITMENTS

(a) Capital commitments

| | Group | | Company | |
|------------------------------------|----------|----------|----------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital commitments contracted for | - | 1,775 | - | - |

(b) Other commitments

As at 31st December, 2001, the Group had an outstanding commitment under an agreement to acquire unlisted securities of HK\$12,480,000.

(c) Commitments under operating leases

As 31st December, 2001, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings which fall due:

| | Group | | Company | |
|---|--------------|--------------|----------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 1,075 | 1,404 | - | - |
| In the second to fifth years, inclusive | 1,871 | 4,706 | - | - |
| | <u>2,946</u> | <u>6,110</u> | - | - |

29. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group disposed of certain of its short term investments with a total carrying value of HK\$462,621,000 at the balance sheet date, resulting in a loss of approximately HK\$4,682,000.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| Content and Internet service provision fees receivable from a related company | (i) | 13,928 | 29,825 |
| Content and Internet service provision fees receivable from a fellow subsidiary | (ii) | – | 766 |
| Advertising service fees receivable from fellow subsidiaries | (iii) | 3,368 | 3,456 |
| Slotting advertising service fees receivable from a related company | (iv) | – | 3,103 |
| fellow subsidiaries | (iv) | 6,240 | 6,206 |
| Advertising service fees payable to a fellow subsidiary | (v) | (960) | (2,460) |
| Rental expenses payable to a fellow subsidiary | (vi) | (854) | (1,387) |

Notes:

- (i) Content and Internet service provision fees charged to a related company were based on actual costs incurred with a 10% mark-up.
- (ii) Content and Internet service provision fees charged to a fellow subsidiary were based on prices and conditions similar to those offered to other customers in the ordinary course of business.
- (iii) Advertising service fees charged to fellow subsidiaries for the display of advertisements on the *hongkong.com* portal were based on the standard cost per mille ("CPM") rate, i.e., cost per thousand advertisement impressions, less a discount ranging from 30 to 50% and the number of pre-agreed or actual page views on the *hongkong.com* portal site.
- (iv) Slotting advertising service fees charged to a related company and fellow subsidiaries for the display of advertisements on the *hongkong.com* portal were based on a fixed rate per month which are similar to those rates charged to other customers in the ordinary course of business of the Group.
- (v) Advertising service fees charged by a fellow subsidiary for the display of advertisements on the Internet portal were based on a fixed monthly fee in 2001 and standard CPM rate which are similar to the rate charged to other customers by that fellow subsidiary in the ordinary course of business in 2000.
- (vi) Rental expense related to office premises and was charged by a fellow subsidiary based on the attributable gross floor area occupied by the Group.

At the balance sheet date, the Group had amounts due from fellow subsidiaries of HK\$12,940,000 (2000: HK\$3,774,000), mainly arising from transactions described in notes (iii), (iv) and (v) above.

30. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

At the balance sheet date, the Group had amounts due to fellow subsidiaries of HK\$3,219,000 (2000: HK\$18,838,000), mainly arising from fund transfers and transactions described in note (vi) above.

At 31st December, 2000, the Group had an amount due from a related company of HK\$13,552,000 mainly arising from transactions described in note (i) above.

From 24th October, 2001, the Group has been licensed the right to use the URL of *hongkong.com* by chinadotcom Strategic, Inc., a fellow subsidiary of the Group, at no cost. During the year ended 31st December, 2000 and up to 24th October, 2001, such URL was licensed from a related company, CIC, at no cost. Details of the licensing arrangements were set out in note 27.

The above related party transactions also fall into the definition of connected transactions as defined in Chapter 20, para 20.12 of the GEM Listing Rules.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new/revised SSAPs and Interpretations during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 19th February, 2002.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of hongkong.com Corporation (the "Company") will be held at 34/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong, on Tuesday, 30th April, 2002, at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors of the Company for the year ended 31st December, 2001;
2. To re-elect retiring directors and authorize the board of directors to fix their remuneration;
3. To re-appoint auditors and authorize the board of directors to fix their remuneration; and
4. To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

A. "THAT:

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to
 - (i) a Rights Issue (as defined below); or
 - (ii) the grant or exercise of any option under the share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or
 - (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or
 - (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and the said approval shall be limited accordingly.

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).”

B. “THAT:

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of securities of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 % of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution."

C. "THAT:

Subject to the passing of the resolution Nos. 4A and 4B, the general mandate granted to the directors of the Company to allot, issue and deal with additional securities pursuant to resolution No.4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of securities repurchased by the Company under the authority granted pursuant to resolution No. 4B, provided that such amount of securities so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution."

5. To consider as special business and, if thought fit, to pass the following resolution as ordinary resolution of the Company:

"**THAT** the connected transaction No. 5 as set out on page 33 of the Annual Report 2001 of the Company regarding a non-exclusive network affiliation agreement dated 22nd February, 2000 (the "Agreement") entered into between 24/7 Media Asia Limited ("24/7 Asia") and hongkong.com Limited ("HKCL"), stipulated for HKCL to become a member of 24/7 Asia network of websites and stipulated for HKCL's grant to 24/7 Asia the right to sell advertising on *www.hongkong.com* to third parties on consideration that 24/7 Asia will pay to HKCL the monthly fees so received by them after having their retention of a 30% commission. It is expected that the maximum annual fee receivable by HKCL under the Agreement will not exceed HK\$77,000,000 and this amount has accordingly been set as the annual cap for this connected transaction which given that the said annual cap of the transaction is larger than the higher of HK\$10,000,000 or 3% of the Company's net tangible assets as at 31st December, 2001, this connected transaction and its annual cap be and is hereby re-approved pursuant to Rule 20.30 of the Rules Governing The Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited."

6. To consider as special business and, if thought fit, to pass the following resolution as ordinary resolution of the Company:

"**THAT** conditional upon the GEM Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the shares of the Company to be issued pursuant to the exercise of any options granted under the 2002 share option scheme of the Company (the "New Share Option Scheme") (the rules of which are contained in the document marked "A" produced to the meeting and for the purposes of identification signed by the Chairman of the meeting), the New Share Option Scheme be and is hereby

approved and adopted by the Company and the Existing Share Option Scheme (as defined in the circular dated 25th March, 2002) adopted on 25th February, 2000 be and is hereby terminated, and the directors of the Company be and are hereby authorized to implement and administer or to form a committee to implement and administer the New Share Option Scheme in accordance with the terms specified therein and other statutory terms or requirements (if any) imposed by any relevant governing bodies.”

By Order of the Board
Mak Tak Cheong, Edmund
Company Secretary

Hong Kong, 25th March, 2002

Principal Office:
 20/F, Citicorp Centre
 18 Whitfield Road
 Causeway Bay
 Hong Kong

Registered Office:
 Scotia Centre
 4th Floor
 P. O. Box 2804
 George Town
 Grand Cayman
 Cayman Islands

Notes:

1. A shareholder entitled to attend and vote at the Company’s meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company’s Hong Kong branch share registrar and transfer office, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting and in default thereof the form of proxy shall not be treated as valid.
3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. The Register of Members of the Company will be closed on 26th April, 2002 and re-open on 29th April, 2002 during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Company’s meeting, all shares transfer accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 25th April, 2002 for registration.
5. An Explanatory Statement containing further details regarding resolution No. 4B above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the Annual Report 2001.
6. In accordance with Rule 20.30 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, chinadotcom corporation and its associates will abstain from voting on resolution No. 5 as set out above.