

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



INTERIM REPORT 2002

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this report.*

*This report, for which the directors (the “Directors”) of hongkong.com Corporation (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: – (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **MESSAGE FROM MR. RUDY CHAN, CHIEF EXECUTIVE OFFICER**

During the second quarter, we were able to maintain profitability amidst the ongoing economic slump. The absence of the extended holidays of the second quarter coupled with slight improvement in our businesses resulted in a sequential increase in revenue.

Our portal business was able to maintain its revenue compared to the previous quarter despite continued weakness in the advertising industry, once again, demonstrating its value to advertisers. In order to continue to provide the most value to our users and to maximize the potential of our brand name, we launched a series of subscription-based products and services including premium email and enhanced SMS e-Coupons. Subscription revenue from these new services has thus far been encouraging and we look towards the introduction of new value added services in coming quarters.

Performance at Travel Trade Gazette Asia ("TTG Asia") improved during the second quarter and we anticipate further improvements. At the time of this printing, TTG Asia successfully concluded the DM Asia Conference and Exhibition in Singapore at the end of July. The DM Asia Conference was a showcase for Asia's world-class excellence in strategy, creativity and results in online and offline marketing campaigns. In addition, TTG Asia's tourism group was appointed the official publication/official daily for several major trade events including TIME 2002, an annual travel show endorsed by the Indonesia Tourism Promotion Board, Hotel Investment Conference Asia Pacific ("HICAP") 2002, a conference targeting hotel investors, financiers and leading industry professionals in Asia, International Travel Fair ("ITF") 2002, organized by Taiwan Visitors Association, and Pacific Asia Travel Association ("PATA") Annual Conference 2003, the premier annual gathering of the Pacific Asia Travel and Tourism Industry with delegates and members representing government tourism bodies, airlines and industry firms.

Revenue growth for Times Software was weaker than expected due to unforeseen delays in the budgeting process of Chinese institutional customers, that resulted in a temporary slowdown in their information technology spending. However, the company continued to make good progress in the development and selling of proprietary travel-related information technology products and we are seeing early signs of a spending recovery in the third quarter. Ongoing product developments of a Passenger Flow Analysis System ("PFAS") by integrating Decision Support Systems ("DSS") / Management Information Systems ("MIS") and developments on a Mobile Ticketing System ("MTS") will further enhance the transportation network solutions. In addition, Times Software reached an agreement with IBM, to provide specialized PC Cards drivers as an OEM product preinstalled in IBM machines. Such initiative further increases the gross margin for each driver sold. Through the ownership of such products, the Group aims to propagate such technology into other areas of online travel ticketing products and services across the region.

Our financial position has never been stronger. Through vigilant management of our financial resources, our net cash and investments in interest-bearing securities increased to HK\$1.25 billion at the end of the quarter, affording us the time to carefully assess the best investment opportunities.

I would like to take this opportunity to thank for our shareholders and dedicated staff for their continuous support.

## RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months (the "Quarterly Period") and six months (the "Half-Yearly Period") ended 30th June, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the three months and six months ended 30th June, 2002*

	Notes	Three months ended 30th June		Six months ended 30th June	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	<b>13,107</b>	20,106	<b>24,783</b>	50,418
Cost of sales		<b>(7,151)</b>	(14,931)	<b>(13,143)</b>	(31,248)
Gross profit		<b>5,956</b>	5,175	<b>11,640</b>	19,170
Other revenue	2	<b>10,573</b>	17,767	<b>28,080</b>	37,122
Selling and distribution expenses		<b>(223)</b>	(760)	<b>(564)</b>	(3,859)
Administrative expenses		<b>(16,292)</b>	(19,795)	<b>(31,703)</b>	(35,488)
Other operating gains/(expenses)		<b>2,070</b>	(126)	<b>(1,345)</b>	(862)
Profit from operating activities	4	<b>2,084</b>	2,261	<b>6,108</b>	16,083
Finance cost		<b>(1,811)</b>	-	<b>(3,454)</b>	-
Share of profits/(losses) of associates		<b>(39)</b>	(770)	<b>197</b>	(1,274)
Profit before tax		<b>234</b>	1,491	<b>2,851</b>	14,809
Tax	5	<b>467</b>	359	<b>865</b>	(536)
Profit before minority interests		<b>701</b>	1,850	<b>3,716</b>	14,273
Minority interests		<b>(319)</b>	7	<b>(214)</b>	7
Net profit from ordinary activities attributable to shareholders		<b>382</b>	1,857	<b>3,502</b>	14,280
Earnings per share	6				
- Basic		<b>0.01 cent</b>	0.05 cent	<b>0.08 cent</b>	0.35 cent
- Diluted		<b>0.01 cent</b>	0.05 cent	<b>0.08 cent</b>	0.35 cent

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2002

	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 2001	409,600	904,170	(47,580)	2,001	-	(20,807)	1,247,384
Changes in accounting policy	-	-	-	-	-	2,860	2,860
Restated balance	409,600	904,170	(47,580)	2,001	-	(17,947)	1,250,244
Deficit on revaluation of short term investments	-	-	-	(1,677)	-	-	(1,677)
Profit for the period	-	-	-	-	-	14,280	14,280
Issue of shares, net of issuing expenses	535	1,172	-	-	-	-	1,707
At 30th June, 2001	<u>410,135</u>	<u>905,342</u>	<u>(47,580)</u>	<u>324</u>	<u>-</u>	<u>(3,667)</u>	<u>1,264,554</u>
At 1st January, 2002	413,156	913,204	(31,215)	(13,794)	(1,055)	10,494	1,290,790
Surplus on revaluation of short term investments	-	-	-	2,363	-	-	2,363
Exchange realignments	-	-	-	-	563	-	563
Profit for the period	-	-	-	-	-	3,502	3,502
At 30th June, 2002	<u>413,156</u>	<u>913,204</u>	<u>(31,215)</u>	<u>(11,431)</u>	<u>(492)</u>	<u>13,996</u>	<u>1,297,218</u>

## CONSOLIDATED BALANCE SHEET

As at 30th June, 2002

		<b>30th June, 2002 (Unaudited) HK\$'000</b>	31st December, 2001 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	<b>14,355</b>	20,600
Interests in associates		<b>197</b>	–
Goodwill		<b>10,071</b>	11,279
		<b><u>24,623</u></b>	<u>31,879</u>
<b>CURRENT ASSETS</b>			
Amounts due from fellow subsidiaries		<b>10,225</b>	12,940
Short term investments		<b>819,531</b>	1,152,866
Pledged securities		<b>128,569</b>	312,897
Accounts receivable	8	<b>12,054</b>	17,328
Prepayments, deposits and other receivables		<b>22,954</b>	35,313
Cash and cash equivalents		<b>404,357</b>	25,875
		<b><u>1,397,690</u></b>	<u>1,557,219</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to fellow subsidiaries		<b>3,533</b>	3,219
Tax payable		<b>679</b>	2,588
Accounts payable	9	<b>5,956</b>	7,568
Other payables and accrued liabilities		<b>8,166</b>	13,991
Interest-bearing bank borrowings		<b>99,372</b>	264,420
Deferred revenue		<b>1,302</b>	649
		<b><u>119,008</u></b>	<u>292,435</u>
<b>NET CURRENT ASSETS</b>		<b><u>1,278,682</u></b>	<u>1,264,784</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,303,305</b>	1,296,663
<b>MINORITY INTERESTS</b>		<b>6,087</b>	5,873
		<b><u>1,297,218</u></b>	<u>1,290,790</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	10	<b>413,156</b>	413,156
Reserves	11	<b>884,062</b>	877,634
		<b><u>1,297,218</u></b>	<u>1,290,790</u>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2002

	<b>Six months ended 30th June,</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net cash inflow/(outflow) from operating activities	<b>42,676</b>	(4,249)
Net cash inflow from investing activities	<b>500,574</b>	72,640
Net increase in cash and cash equivalents	<b>543,250</b>	68,391
Cash and cash equivalents at beginning of period	<b>(238,545)</b>	39,840
Effect of foreign exchange rate changes, net	<b>280</b>	–
Cash and cash equivalents at end of period	<b><u>304,985</u></b>	<u>108,231</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>28,702</b>	68,966
Time deposits	<b>375,655</b>	39,265
Interest-bearing bank borrowings	<b>(99,372)</b>	–
	<b><u>304,985</u></b>	<u>108,231</u>

Notes:

### 1. Basis of preparation and accounting policies

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) Number 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounts have been prepared under the historical cost convention except for the remeasurement of debt securities at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

The accounting policies adopted in the interim financial statements are consistent with those followed in the annual financial statements for the year ended 31st December, 2001, except for the following revised SSAP which is effective for the first time for the current year’s interim financial statements and the change in accounting policy in segment reporting:

- SSAP 15 (revised): Cash flow statements

SSAP 15 (revised) prescribes the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The formats of the cash flow statements have been revised in accordance with the SSAP.

- Change in accounting policy in segment reporting:

As the dominant source and nature of the Group's risks and returns has changed from 1st January, 2002, the Board has determined that business segments be the Group's primary reporting format and geographical segments based on location of assets be its secondary reporting format for all financial statements relating to periods beginning on or after 1st January, 2002. The formats of new segment reporting have been revised in accordance with the new policy. Comparative figures have been restated to conform with the Half-Yearly Period's presentation.

## 2. Turnover and other revenue

Turnover represents portal advertising, content and internet service provision, travel-related advertising, publishing, event organizing and production and sale of hardware and software.

An analysis of turnover and other revenue is as follows:

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover:		
Portal advertising and content and internet service provision	<b>3,761</b>	24,424
Travel-related services	<b>14,887</b>	25,994
Production and sale of hardware and software	<b>6,135</b>	-
	<b>24,783</b>	50,418
Other revenue:		
Interest income	<b>878</b>	1,625
Interest income on debt securities	<b>45,420</b>	35,273
Loss on disposal of debt securities, net	<b>(18,179)</b>	-
Foreign exchange gain/(loss), net	<b>(39)</b>	109
Others	-	115
	<b>28,080</b>	37,122
Total revenue	<b>52,863</b>	87,540



### 3. Segment information

#### (a) Business segments

	Portal advertising and content and internet service provision		Travel-related services		Production and sale of hardware and software		Eliminations		Consolidated	
					Six months ended 30th June,					
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER										
External sales	3,761	24,424	14,887	25,994	6,135	-	-	-	24,783	50,418
Inter-segment sales	1,935	-	-	-	-	-	(1,935)	-	-	-
Total turnover	<u>5,696</u>	<u>24,424</u>	<u>14,887</u>	<u>25,994</u>	<u>6,135</u>	<u>-</u>	<u>(1,935)</u>	<u>-</u>	<u>24,783</u>	<u>50,418</u>
RESULTS										
Segment results	<u>(9,347)</u>	<u>(19,105)</u>	<u>(7,903)</u>	<u>(780)</u>	<u>(823)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,073)</u>	<u>(19,885)</u>
Unallocated expenses									(3,899)	(1,154)
Other revenue									<u>28,080</u>	<u>37,122</u>
Profit from operating activities									<u>6,108</u>	<u>16,083</u>
OTHER INFORMATION										
Depreciation and amortization	5,639	6,223	864	104	2,001	-			8,504	6,327
Non-cash expenses other than depreciation and amortization	<u>1,738</u>	<u>2,773</u>	<u>(12)</u>	<u>262</u>	<u>97</u>	<u>-</u>			<u>1,823</u>	<u>3,035</u>

#### (b) Geographical segments

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	3,937	24,845
Other Asian countries*	<u>20,846</u>	<u>25,573</u>
Total external sales	<u>24,783</u>	<u>50,418</u>

\* Other Asian countries include Singapore, the People's Republic of China and Taiwan.

#### 4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Depreciation	7,296	6,327
Amortization of goodwill	1,208	–
	<u>8,504</u>	<u>6,327</u>

#### 5. Tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Half-Yearly Period. (Six months ended 30th June, 2001: 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.

#### 6. 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 Quarterly Period and Half-Yearly Period of HK\$382,000 and HK\$3,502,000 respectively (three months and six months ended 30th June, 2001: HK\$1,857,000 and HK\$14,280,000 respectively) and weighted average number of 4,131,558,942 ordinary shares for the Quarterly Period and Half-Yearly Period (three months and six months ended 30th June, 2001: 4,098,528,718 and 4,097,271,344 ordinary shares respectively).

##### (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 Quarterly Period and Half-Yearly Period of HK\$382,000 and HK\$3,502,000 respectively (three months and six months ended 30th June, 2001: HK\$1,857,000 and HK\$14,280,000 respectively) and weighted average number of 4,133,605,221 and 4,136,597,224 (three months and six months ended 30th June, 2001: 4,110,980,558 and 4,109,907,782 respectively) ordinary shares respectively, after adjusting for the effects of all dilutive potential ordinary shares during the periods.

#### 7. Fixed assets

During the Half-Yearly Period, the Group has acquired HK\$1,276,000 and disposed HK\$706,000 fixed assets.

## 8. Accounts receivable

	<b>30th June, 2002</b>	31st December, 2001
	<b>HK\$'000</b>	HK\$'000
The aged analysis of accounts receivable is as follows:		
Within 90 days	<b>11,055</b>	16,312
91 – 120 days	<b>269</b>	391
121 – 180 days	<b>671</b>	584
Over 180 days	<b>59</b>	41
	<u><b>12,054</b></u>	<u>17,328</u>

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.

## 9. Accounts payable

	<b>30th June, 2002</b>	31st December, 2001
	<b>HK\$'000</b>	HK\$'000
The aged analysis of accounts payable is as follows:		
Within 90 days	<b>4,179</b>	6,705
91 – 120 days	<b>320</b>	528
121 – 180 days	<b>1,381</b>	114
Over 180 days	<b>76</b>	221
	<u><b>5,956</b></u>	<u>7,568</u>

## 10. Issued capital

	<b>30th June, 2002</b>	31st December, 2001
	<b>HK\$'000</b>	HK\$'000
Authorized:		
10,000,000,000 (31st December, 2001: 10,000,000,000) ordinary shares of HK\$0.10 each	<u><b>1,000,000</b></u>	<u>1,000,000</u>
Issued and fully paid:		
4,131,558,942 (31st December, 2001: 4,131,558,942) ordinary shares of HK\$0.10 each	<u><b>413,156</b></u>	<u>413,156</u>

## 11. Reserves

	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 2002	913,204	(31,215)	(13,794)	(1,055)	10,494	877,634
Profit for the period	-	-	-	-	3,502	3,502
Investment revaluation reserves released on disposals	-	-	6,895	-	-	6,895
Movement in fair value	-	-	(4,532)	-	-	(4,532)
Exchange realignments	-	-	-	563	-	563
	<u>913,204</u>	<u>(31,215)</u>	<u>(11,431)</u>	<u>(492)</u>	<u>13,996</u>	<u>884,062</u>
At 30th June, 2002	<u>913,204</u>	<u>(31,215)</u>	<u>(11,431)</u>	<u>(492)</u>	<u>13,996</u>	<u>884,062</u>
At 1st January, 2001						
- As previously reported	904,170	(47,580)	2,001	-	(20,807)	837,784
- Adjustment to opening balances of accumulated losses	-	-	-	-	2,860	2,860
	<u>904,170</u>	<u>(47,580)</u>	<u>2,001</u>	<u>-</u>	<u>(17,947)</u>	<u>840,644</u>
- as restated	904,170	(47,580)	2,001	-	(17,947)	840,644
Profit for the period	-	-	-	-	14,280	14,280
Issue of shares, net of issuing expenses	1,172	-	-	-	-	1,172
Movement in fair value	-	-	(1,677)	-	-	(1,677)
	<u>905,342</u>	<u>(47,580)</u>	<u>324</u>	<u>-</u>	<u>(3,667)</u>	<u>854,419</u>
At 30th June, 2001	<u>905,342</u>	<u>(47,580)</u>	<u>324</u>	<u>-</u>	<u>(3,667)</u>	<u>854,419</u>

## 12. Related party transactions

The Group had the following material transactions with related parties during the Half-Yearly Period:

		<b>Six months ended</b>	
		<b>30 June,</b>	
		<b>2002</b>	2001
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Content and internet service provision fees receivable from a related company	(i)	–	13,928
Advertising service fees receivable from fellow subsidiaries	(ii)	<b>207</b>	1,789
Slotting advertising service fees receivable from fellow subsidiaries	(iii)	–	3,120
Advertising service fees payable to a fellow subsidiary	(iv)	<b>480</b>	480

*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) 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.
- (iii) Slotting advertising service fees charged to 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.
- (iv) 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 the ordinary course of business.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Half-Yearly Period (2001: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial review**

The Group's turnover dropped by 51% to HK\$24,783,000 in the Half-Yearly Period as compared to HK\$50,418,000 in the same period last year. The drop was mainly attributed to loss in turnover from the termination of the Support Services Agreement with China Internet Corporation Limited ("CIC") in respect of the AOL Hong Kong service from July 2001, continued weakness in online advertising market and lack of event organizing activities from TTG Asia. The decline was offset by the new revenue source from Times Software.

The gross profit margin improved to 47% for the Half-Yearly Period as compared with 38% for the same previous period as a result of the termination of low-margin AOL Hong Kong service.

Other revenue dropped by 24% to HK\$28,080,000 for the Half-Yearly Period as compared with HK\$37,122,000 for the same period last year. However, stripping out the effect on the net loss on disposal of debt securities of HK\$18,179,000 during the Half-Yearly Period, other revenue, mainly representing interest income from debt securities and time deposits, should have increased by 25%.

The Group's continued effort in cost control and the absence of start up expenses for the Group's travel business and one-off professional expenses during the Half-Yearly Period resulted in a further reduction of operating expenses by 16% to HK\$33,612,000 for the Half-Yearly Period as compared with HK\$40,209,000 for the same period last year.

During the Half-Yearly Period, the Group generated HK\$24,665,000 in net investment income from its cash and debt security investments. Our debt portfolio fluctuates in value based on various market conditions, including interest rate trends and the credit quality of our investments. Currently, the Group's accounting policy is for interest income to be recorded to the profit and loss account and the gains or losses from the changes in fair values of the investment portfolio recorded to investment revaluation reserve in accordance with accounting principles generally accepted in Hong Kong.

As at 30th June, 2002, there was a drop of HK\$11,431,000 in the market value of our HK\$959,531,000 investment portfolio and this decline was recognized as a debit in the balance sheet under investment revaluation reserve. The Board does not see any objective evidence that any of the Group's debt securities is impaired.

We will assess the value of our debt instruments on a quarterly basis in accordance with the Group's accounting for investments. Any impairment will be expensed to the profit and loss account.

### **Liquidity and financial resources**

The Group generally financed its operations with its internally generated cash flows, bank borrowings and remaining net proceeds from the placing of shares upon the listing of the Company. The Group continued to be in a strong financial

position with HK\$1,297,218,000 shareholders' funds as at 30th June, 2002 (31st December, 2001: HK\$1,290,790,000). Total assets amounted to HK\$1,422,313,000 as at 30th June, 2002 (31st December, 2001: HK\$1,589,098,000), of which HK\$1,352,457,000 (31st December, 2001: HK\$1,491,638,000) were cash and bank balances and investments in interest-bearing securities.

### **Capital structure**

Except that the Group's bank borrowings was decreased by HK\$165,048,000 to HK\$99,372,000 during the Half-Yearly Period, there was no change in the capital structure of the Group as at 30th June, 2002 as compared with that as at 31st December, 2001.

As at 30th June, 2002, the Group's bank borrowings were all repayable within one year and denominated in United States Dollars.

### **Business review**

#### *Portal*

The online advertising market continued the trend set forth in previous quarters, remaining slow and selective. Amidst the slowdown, the Group continued to diversify the business focus in multiple areas to stimulate revenue growth, sustain pageview and attract new users. Complimentary to the target of providing a prime advertising medium for customers, the Group further developed innovative ideas geared towards enhancing results for advertisers, as well as 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.

During the Half-Yearly Period, the Group continued to attract advertising customers, launching campaigns with 3G World Congress 2002, 7-Eleven, Acuvue, AMR Interactive, Asia Financial Services, The British Council, BUPA, Campbell's Soup, Citibank, Club Nokia, Coca Cola, Epson, FX Creations, Guinness, Hong Kong Trade Development Council, Hang Seng Bank, Icare, Informatics, JWJ Enterprises, Learning Technologies, Moet Hennessy, Naturala Products, Nissin Foods, Now.com.hk, PCCW, Pacific One Net, Samsung, So-Net, UA Finance, Wacoal, Wallstreet Institute and Wing Hang Bank to drive customer acquisitions with great success. The Group's ongoing efforts in delivering a prime advertising platform was further enhanced through the launch and the ongoing development of two user-group oriented portals, 'Young' and 'Mature', to provide better focused content and resources, and at the same time delivering stronger and relevant profiles to advertisers. The Group launched two new channels during the Half-Yearly Period, with Dicity providing a database of the latest consumer electronic products and gadgets and a soccer channel providing a comprehensive coverage of worldwide soccer news and results which was further enhanced with the launch of the 2002 FIFA World Cup feature site, providing comprehensive coverage on the teams, the players, the schedules and the results. The Group's match channel was further enhanced as a meeting point for fostering friendship. Along with launches of seasonal campaigns such as during Chinese New Year, Valentine's Day and Mother's Day, the Group continues to offer a comprehensive and engaging user experience.

The Group embarked on a major push to monetize on the it's large user base through the launch of the Value Added Email Service, a series of different subscription plans providing a variety of different email services under the @hongkong.com email domain. The Group continued to further develop subscription-based products and services through enhancements in the SMS Center, with the several new launches such as SMS e-Coupons, allowing users to download SMS coupons to their mobile phones for special promotional discounts across a variety of retail outlets as well as an innovative soccer quiz game utilizing both SMS and an Interactive Voice Response System ("IVRS") solutions to generate user participation. Augmented with the ever increasing portfolio of short messages and logos downloads, such developments compliment the well established web-to-mobile short messaging service that allows users to send short messages to any mobile phone regardless of the recipient's subscribed network. In addition, the Group launched several services targeted towards the SME community, including a web-hosting service offering multiple plans designed for different business need as well as Post4U – DIY, a subscription based email newsletter service, allowing customers to build and distribute their own newsletters to their respective members and communities.

The Group continued to focus on building the community through innovative products and services, with the launch of a directory service, providing a growing database of information on a variety of topics, the launch of MyClub, a user driven platform allowing members to create their own clubs and communities and the relaunch of Club4U, an online club offering member activities and special promotions as well as the ongoing enhancements in Club4U Women, an online community for professional career women. In addition, the Group extended its cross-media initiatives through the launch of the 2002 Soccer World Cup competition, an online/offline media campaign in conjunction with M-Channel, a new advertising media in Hong Kong.

The Group continued to enhance its e-commerce offerings through the ongoing developments with VISA, as the preferred payment card and as a partner in the development of future e-commerce products and services, and through the launch of Dotfuncity, *hongkong.com's* prepaid card payment solution in partnership with Inpower1, providing further flexibility and peace of mind to customers. The Group further developed new avenues for e-commerce with the launch of an online hotel reservation service in partnership with HotelClub.net, offering a simple method for users to make hotel bookings worldwide. In addition, continue to extend its e-commerce offerings through enhancements in Shop4U, with the launch of hongkong.com's own online flower store, and through quality merchants with the addition of Chillout Lounge, offering lifestyle products, the Thinking Group, providing the latest in hi-tech products such as digital dictionaries, Intercontinental Video and Typhoon Game, both offering the latest in PC games, and YesAsia, an online compact disk and movies retailer.

#### *Travel*

The Group's e-travel industry initiatives continued to perform to expectations despite the ongoing weak economic climate during the Half-Yearly Period. Operating performance from all travel related business units showed encouraging signs despite an expected seasonal slowdown typically associated with the Half-Yearly Period.



TTG Asia, the leading travel publisher and exhibition organizer in Asia, continued to diversify from its traditional offline business to online by leveraging the Group's online capabilities through the launch of TTG TravelHub.Net during the Half-Yearly Period. TTG TravelHub.Net is a travel trade community hub for members of the trade industry to network, source for information and conduct or regenerate business. Following the launch, the confidence and interest in the travel hub increased significantly, with a number of potential clients showing keen interest. TTG Asia continued to demonstrate its market leadership during the Half-Yearly Period, with several appointments by major industry organizations, with the ASEAN Tourism Forum ("ATF"), appointing TTG Asia, the official publisher for the daily newspaper during ATF 2002 in Yogyakarta, Indonesia. The dailies were read by some 1,500 travel trade delegates attending this prestigious trade event in January 2002. In addition, TTG Asia's tourism group were appointed the official publication/official daily for several major trade events including TIME 2002, an event endorsed by the Indonesia Tourism Promotion Board and is the only domestic travel show targeting at Indonesia travel suppliers/sellers and International travel buyers, HICAP 2002, a conference targeting hotel investors, financiers and leading industry professionals in Asia, ITF 2002, targeting the trade and consumers, organized by Taiwan Visitors Association, PATA Annual Conference 2003, the premier annual gathering of the Pacific Asia Travel and Tourism Industry with delegates and members representing government tourism bodies, airlines and industry firms and for the Singapore Fashion Festival 2002, which appointed TTG Asia as the Official Travel Publisher, producing the official guide on behalf of Singapore Retailers Association, distributing 80,000 copies island-wide targeting at consumers and tourists visiting Singapore. This is the second year of the festival and the first time TTG Asia was appointed an Official Travel Publisher for the event. TTG Asia's leadership position in the industry was further cemented through the award by The Ministry of Tourism, Cambodia to manage the ATF 2003, on their behalf.

In further recognition to TTG Asia's achievements, TTG Asia's Group Editor was awarded the PATA Travel Journalism Award for 2002, with the Consulting Editor being awarded Gold Award Honourable Mention by PATA, the recognized authority on Pacific Asia travel and tourism.

Times Software, a company engaged in the development and selling of proprietary travel-related information technology products showed encouraging progress during the Half-Yearly Period. Ongoing product developments of the PFAS by integrating DSS / MIS and developments on a MTS further enhances the transportation network solutions. In addition, Times Software reached an agreement with IBM, to provide specialized PC Cards drivers as an OEM product preinstalled in IBM machines. Such initiative further increases the gross margin for each driver sold. Through the ownership of such products, the Group aims to propagate such technology into other areas of online travel ticketing products and services across the region.

During the quarter, the Group also made the decision to reorganize the e-travel business in order to re-focus resources and efforts on PowerHotel, the Group's online hotel reservation platform in Taiwan. Since its inception in December 2001, acceptance by hotels in Taiwan to use the PowerHotel ASP platform has been encouraging. 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.

In addition, hotel.taiwan.com was launched in December 2001 as part of the Group's Greater China online hotel booking platform to compliment the PowerHotel ASP platform. Through these, the Group aims to further leverage on technology to enhance the traditional distribution strategies of the travel industry.

Although the Group incurred some one-time re-organization costs, the Group remains optimistic in this business and will continue to assess investment opportunities in the travel industry that would offer a strategic fit and provide a long-term growth platform for this business.

### **Material acquisitions and disposals of subsidiaries and affiliated companies**

There were no material acquisitions and disposals of subsidiaries and affiliated companies during the Half-Yearly Period.

### **Segmental information**

The drop in turnover from portal advertising, content and internet service provision and travel-related services was mainly attributed to loss in turnover from the termination of the Support Services Agreement with CIC in respect of the AOL Hong Kong service from July 2001, continued weakness in online advertising market and lack of event organizing activities from TTG Asia. The decline was offset by the new revenue source from the production and sale of hardware and software.

As a result of the Group's continued effort in cost control, the segmental loss for portal advertising and content and internet service provision was reduced. The increase in segmental loss for travel-related services was mainly due to the drop in segmental turnover and inclusion of one-time re-organization costs in the Half-Yearly Period.

### **Employee information**

As at 30th June, 2002, the Group has 110 full-time employees of which 54 are based in Hong Kong and the rest are in China, Taiwan and Singapore. The Company has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

### **Charges on group assets**

As at 30th June, 2002, amount of HK\$128,569,000 (31st December, 2001: HK\$312,897,000) of investments in interest-bearing securities were held by a bank as collateral for securing the Group's bank borrowings of HK\$99,372,000 (31st December, 2001: HK\$264,420,000), and time deposits of HK\$240,000 (31st December, 2001: HK\$480,000) were pledged to banks as guarantee to certain suppliers of the Group.

## **Outlook**

The business environment remained weak during the Half-Yearly Period and the outlook for raising new financing and general sustainability will continue to be challenging for companies in this sector in the short term.

In contrast, the Board believes that the Group's financial position is healthy and will enable management to continue to build a long term sustainable business. The challenges to date 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\$1.25 billion net cash and investments in interest-bearing securities as at the end of June 2002, such sound capital reserve, coupled with declining valuations, will continue to position the Group favorably in making the best of merger and acquisition opportunities. We are currently pursuing acquisition of businesses that fulfill our strategic needs and expand our services portfolio.

The Group's ongoing developments in subscription products and service through the launch of the valued added email service continue to build momentum. Although such concepts are still in its infancy, the initial signs have been very encouraging.

Our continued move into the e-travel industry through TTG Asia 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.

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.

## **Gearing ratio**

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was 8% as at 30th June, 2002 (31st December, 2001: 21%).

## **Exposure to fluctuations in exchange rates and any related hedges**

As most of the Group's monetary assets and liabilities were denominated in Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 30th June, 2002, no related hedges were made by the Group.

## **Contingent liabilities**

Details of contingent liabilities were the same as that disclosed in the Company's annual report for the year ended 31st December, 2001.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

### Business objectives as stated in the Prospectus

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

### Actual business progress up to the end of June 2002

During the Half-Yearly Period, 2 new channels were launched. The new channels were:

*soccer.hongkong.com* – comprehensive coverage of worldwide soccer news and results

*digicity.hongkong.com* – providing a database of the latest consumer electronic products and gadgets

In addition, *hongkong.com* enhanced and re-launched the portal and 1 channel. The re-launched portal and revamped channel included:

*young.hongkong.com* – a sub-portal targeting the interest of teens and youths

*mature.hongkong.com* – a sub-portal targeting the over 25s user community

*worldcup.hongkong.com* – providing comprehensive coverage on the teams, the players, the schedules and the results of the 2002 FIFA World Cup

*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* – an online community for members

*Dotfuncity* – an online micro-payment solution

2. 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.

3. Offer up to an additional 3 product lines on the portal

As at 30th June, 2002, *hongkong.com* featured over 100 product lines, with over 30 new product lines offered during the Half-Yearly Period,

spanning across consumer electronics, subscription services, computer and music software, sports and leisure packages and food and beverages.

4. 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 2 sub-portals, Post4U DIY newsletter service, web-hosting, Dotfuncity micro-payment solution and a value added email service.

5. 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 or renewed with CDWOW, GameAZ, Typhoon Games, Addmark, HotelClub.net, Quamnet and Thinking Group during the Half-Yearly Period, to broaden the Group's portal services by providing compact disc products, online interactive games, lifestyle related products, an online hotel booking engine, financial information data services and consumer electronic products respectively to our users. The other content, marketing and e-commerce partners which the Group works closely include Time/Fortune Magazine, CarNet.com, SHK Finance, Qtimes, DVDSHelf, Photo-On-Net.com and Wiz-Q.

The Group continued to advance regional expansion strategy through e-travel service and cross-media activities 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.

6. 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.

## 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 30th June, 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

	<b>As stated in the Prospectus (Note) HK\$ million</b>	<b>Actual HK\$ million</b>
For the expansion of the Group's network infrastructure and computer equipment	131	14
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	213
	<u>1,223</u>	<u>390</u>

*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\$924 million have been partly deposited in licensed banks in Hong Kong and partly invested in interest-bearing securities pending appropriate investments.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2002, 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
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 (Note)	3,416,000
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 interest			Total interests (number of shares)
	Personal interests (number of shares)	Family interests (number of shares)	Corporate interests (number of shares)	
Ch'ien Kuo Fung, Raymond	721,773	–	–	721,773
Hung Shuk Tak, Vicky	52,012	–	–	52,012
Yip Hak Yung, Peter	–	53,382	11,835,686	11,889,068
Zhou Shun Ao	17,794	–	–	17,794

Note: These shares were beneficially owned by Asia Pacific Online 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.

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 30th June, 2002 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:**

<b>Name of director</b>	<b>Date of grant</b>	<b>Exercise price HK\$</b>	<b>Number of share options outstanding as at 30th June, 2002</b>
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000
	10th April, 2001	0.286	4,000,000
Chan Kai Yu, Rudy	9th March, 2000	1.880	60,000,000
	5th October, 2000	0.582	10,000,000
	10th April, 2001	0.286	20,000,000
Chan Wing Tak, Douglas	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
Chou Kei Fong, Silas	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
Hung Shuk Tak, Vicky	9th March, 2000	1.880	5,000,000
	10th April, 2001	0.286	2,000,000
Lin, Jack	9th March, 2000	1.880	530,000
	10th April, 2001	0.286	2,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000
	10th April, 2001	0.286	2,400,000
Zhou Shun Ao	9th March, 2000	1.880	6,000,000
	10th April, 2001	0.286	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 from one year after the date of grant and ending 10 years after the date of grant of the options. These options vest over a period of four years commencing on the first anniversary at the date of grant.



2. No share options were granted to the directors and none of the above options were exercised or lapsed during the Half-Yearly Period.

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

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)
Hung Shuk Tak, Vicky	640,000	–	–	–	58,000 (Note 11)
Lin, Jack	–	–	–	111,919 (Note 7)	294,000 (Note 12)
Yip Hak Yung, Peter	60,000	30,000	1,881,442 (Note 2)	–	200,000 (Note 13)
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. These 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. 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.
12. 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.
13. These options were granted on 6th June, 2002 and are exercisable from 6th June, 2002 to 5th June, 2012 at an exercise price of US\$2.82 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 Half-Yearly Period 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, 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 Half-Yearly Period.

### **SUBSTANTIAL SHAREHOLDERS**

As at 30th June, 2002, 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:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
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.

### **SHARE OPTION SCHEMES**

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. The summary of the principal terms of the Pre-IPO Scheme and the Post-IPO Scheme is set out in Appendix V of the Prospectus under the section headed "Share Options".

#### **(a) Pre-IPO Scheme**

As at 30th June, 2002, options comprising an aggregate of 106,759,520 underlying shares to subscribe for shares in the Company at an exercise price of HK\$1.88 for each share (granted on 9th March, 2000 under the Pre-IPO Scheme) were outstanding. 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 of the Company" in this report. No options have been granted under the Pre-IPO Scheme as the right to do so was terminated upon listing of the Company on GEM.

Details of the outstanding pre-IPO share options during the Half-Yearly Period are set out below:

<b>Type of grantees</b>	<b>As at 1st January, 2002</b>	<b>Lapsed during the Half-Yearly Period</b>	<b>As at 30th June, 2002</b>
Directors	97,530,000	7,000,000 (Note 1)	90,530,000
Employees	3,966,980	32,280 (Note 2)	3,934,700
Other participants	14,776,480	2,481,660 (Note 3)	12,294,820
	<u>116,273,460</u>	<u>9,513,940</u>	<u>106,759,520</u>

Notes:

1. These options granted to three directors were lapsed when they resigned as directors of the Company.
2. These options granted to one employee was lapsed when he ceased to be employed by the Company.
3. These options granted to 19 employees of chinadotcom group were lapsed when they ceased to be employees of chinadotcom group.
4. The underlying shares of the outstanding pre-IPO share options as at 30th June, 2002 represent 2.58% 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 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):

<b>Period since date of grant</b>	<b>Percentage of shares comprised in options which become exercisable</b>
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

## (b) Post-IPO Scheme

As at 30th June, 2002, options granted under the Post-IPO Scheme comprising an aggregate of 63,216,511 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.286 to HK\$2.106 for each share were outstanding. Details of grants of post-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 of the Company" in this report. The Post-IPO Scheme was terminated on 30th April, 2002 and replaced by the 2002 Share Option Scheme.

Details of the outstanding post-IPO share options during the Half-Yearly Period are as follows:

Type of grantees	As at 1st January, 2002	Granted during the Half-Yearly Period	Lapsed during the Half-Yearly Period	As at 30th June, 2002
Directors	47,200,000	-	2,600,000 (Note 1)	44,600,000
Employees	19,624,920	2,454,160 (Note 2)	3,462,569 (Note 3)	18,616,511
	<u>66,824,920</u>	<u>2,454,160</u>	<u>6,062,569</u>	<u>63,216,511</u>

### Notes:

1. These options granted to two directors at an exercise price of HK\$0.286 per share were lapsed when they resigned as directors of the Company.
2. 2,273,340 options granted to 23 employees on 28th February, 2002 at an exercise price of HK\$0.347 and 180,820 options granted to 3 employees on 28th March, 2002 at an exercise price of HK\$0.326. The closing prices of the shares of the Company immediately prior to the said grant dates were HK\$0.345 and HK\$0.325 respectively.
3. These options granted to 36 employees were lapsed when they ceased employment with the Company.
4. The underlying shares of the outstanding post-IPO share options as at 30th June, 2002 represent 1.53% of the issued share capital of the Company.

The above outstanding options may be exercised in accordance with the terms of the Post-IPO 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 Scheme above.

Save as disclosed above, no options pursuant to the Pre-IPO Scheme and Post-IPO Scheme have been exercised and cancelled during the Half-Yearly Period.

**(c) 2002 Share Option Scheme**

On 30th April, 2002, the Company adopted the 2002 Share Option Scheme under which the board of directors of the Company may at its discretion offer to any Eligible Person (as defined in the circular of the Company dated 25th March, 2002) options to subscribe for shares in the Company in accordance with the terms of the 2002 Share Option Scheme and Chapter 23 of the GEM Listing Rules. The principal purposes of the 2002 Share Option Scheme are to recognize the significant contributions of the Eligible Persons to the growth of the Group. The Pre-IPO Scheme and Post-IPO Scheme were simultaneously terminated but the options which have been granted during the life of the said option schemes shall continue to be exercisable in accordance with their respective terms of issue and in all other respects the provisions of the said option schemes shall remain in full force and effect. No share options under the 2002 Share Option Scheme were granted during the Half-Yearly Period.

In assessing the value of the share options granted during the Half-Yearly Period, 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 4.77% to 5.42%, representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options. The expected life of the options used is 5 years. The expected volatility of the expected share prices of the Company ranging from 83.1% to 84.7% 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 2,454,160 share options granted under the Post-IPO Share Option Scheme during the Half-Yearly Period, the options would have an aggregate value of approximately HK\$585,000, representing a value of HK\$0.24 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 Half-Yearly Period. 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.

## **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 Half-Yearly Period.

## **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 30th June, 2002. Save as disclosed herein, the Company's sponsor, BNP Paribas, their respective directors, employees and associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rule), as at 30th June, 2002, 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.

BNP Paribas remains as the Company's sole sponsor, for a monthly fee, effective from 1st July, 2001 until 31st December, 2002.

## **COMPETING INTERESTS**

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.

## **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 Half-Yearly Period.

## **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, and one executive director, Mr. Yip Hak Yung, Peter. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

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

Hong Kong, 12th August, 2002