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hongkong.com Corporation

[incorporated in the Cayman Islands with limited liability]

hongkong.com

F I R S T
Q U A R T E R
R E P O R T **2003**

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

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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

In addition to reporting yet another profitable quarter, we are delighted to have completed the acquisition of Newpalm (China) Information Technology Co., Ltd. ("Newpalm"), a fast growing short message service (SMS) and mobile applications provider in China, in early April 2003.

With the acquisition of Newpalm, we have established a strong foothold in China for our expansion in the fast growing SMS and mobile applications sector. We expect the planned integration of Newpalm with our portal network to further enhance the profitability of the group. Newpalm's financial results will be consolidated beginning with the second quarter report and we anticipate a positive contribution from this new business.

On the other hand, the SARS (severe acute respiratory syndrome) outbreak will inevitably have some negative impact to our businesses, in particular to TTG, from the second quarter. During the first quarter, TTG successfully managed Asean Tourism Forum 2003 ("ATF 2003") on behalf of Ministry of Tourism, Cambodia in Phnom Penh. It was also appointed the official publisher for various shows including ATF 2003, ITB Berlin and the Singapore Food Festival 2003. However, we expect to see some reductions in revenues for TTG and our other existing businesses as a result of the disease, thus dampening to some extent the positive effects of the Newpalm acquisition.

After the acquisition of Newpalm, the company continues to have a strong financial position, with HK\$1.2 billion in net cash and interest-bearing securities on hand. Taking advantage of its strong financial position, the company will continue to pursue investment opportunities that are revenue and earnings accretive and synergistic with our current portfolio of businesses. I look forward to announcing more new acquisitions and progress of our existing businesses in the coming quarters.

Finally, on behalf of hongkong.com, I would like to take this opportunity to express our deep gratitude and respect to all the front-line medical personnel fighting against the SARS epidemic. We sincerely hope the situation will be brought under control soon and a gradual recovery imminent.

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 ended 31st March, 2003 (the "Quarterly Period") together with the comparative unaudited figures for the corresponding period in 2002 as follows:

		Three months ended 31st March,	
		2003	2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	18,243	11,676
Cost of sales		(11,489)	(5,992)
Gross profit		6,754	5,684
Other revenue		15,976	17,507
Selling and distribution expenses		(438)	(341)
Administrative expenses		(10,857)	(15,411)
Other operating expenses		(383)	(3,415)
Profit from operating activities		11,052	4,024
Finance cost		(3,020)	(1,643)
Share of profits of associates		-	236
Profit before tax		8,032	2,617
Tax	3	-	398
Profit before minority interests		8,032	3,015
Minority interests		9	105
Net profit from ordinary activities attributable to shareholders		8,041	3,120
Earnings per share	4		
Basic		0.19 cent	0.08 cent
Diluted		0.19 cent	0.08 cent

Notes:

1. Basis of presentation

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.

2. Turnover

Turnover represents portal advertising content and Internet services, travel-related advertising, publishing and event organizing fees and income from production and sale of railway ticketing system hardware and software.

3. Taxation

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Quarterly Period (2002: Nil).

Taxes on profits assessable elsewhere for the quarter ended 31st March, 2002 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.

4. 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 of approximately HK\$8,041,000 (2002: HK\$3,120,000) and weighted average number of 4,131,558,942 (2002: 4,131,558,942) 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 Quarterly Period of approximately HK\$8,041,000 (2002: HK\$3,120,000) and weighted average number of 4,131,573,672 (2002: 4,139,435,426) ordinary shares, after adjusting for the effects of all dilutive potential shares during the Quarterly Period.

5. Movement of reserves

	Share premium	Goodwill reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	913,204	(31,215)	595	(271)	37,633	919,946
Profit for the period	-	-	-	-	8,041	8,041
Investment revaluation reserves released on disposals	-	-	1,041	-	-	1,041
Movement in fair value	-	-	766	-	-	766
Exchange realignment	-	-	-	(18)	-	(18)
	<u>913,204</u>	<u>(31,215)</u>	<u>2,402</u>	<u>(289)</u>	<u>45,674</u>	<u>929,776</u>
At 1st January, 2002	913,204	(31,215)	(13,794)	(1,055)	10,494	877,634
Profit for the period	-	-	-	-	3,120	3,120
Investment revaluation reserves released on disposals	-	-	3,595	-	-	3,595
Movement in fair value	-	-	(36,527)	-	-	(36,527)
Impairment of debt securities	-	-	3,586	-	-	3,586
Exchange realignment	-	-	-	384	-	384
	<u>913,204</u>	<u>(31,215)</u>	<u>(43,140)</u>	<u>(671)</u>	<u>13,614</u>	<u>851,792</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Quarterly Period (2002: Nil).

FINANCIAL REVIEW

Turnover and gross profit

A turnover of HK\$18,243,000 was recorded for the Quarterly Period, representing a 56% increase as compared with the same quarter of last year (2002: HK\$11,676,000). Such prominent increment in turnover was largely attributable to the revenue from event organizing activities in TTG Asia. One of the notable activities held in the first quarter of 2003 was ATF 2003. However, no such forum was held in the same quarter of last year.

The gross profit of the Group increased to HK\$6,754,000 (2002: HK\$5,684,000). However, its gross margin was 24% lower as compared to 49% in 2002. Such decline was primarily a result of the reduction in higher-margin online advertising revenue and revenue from sales of PC cards.

Other revenue

Other revenue decreased to HK\$15,976,000 (2002: HK\$17,507,000), mainly attributed to the net effect of a decrease in interest income from interest-bearing debt securities by HK\$6,568,000, an increase in bank interest income by HK\$384,000 and a decrease in loss on disposal of debt securities by HK\$4,806,000.

Selling and distribution expenses

Selling and distribution expenses increased to HK\$438,000 (2002: HK\$341,000). An increase in such expenses was reasonably expected for the promotional and marketing activities of ATF 2003 in TTG.

Administrative expenses

Administrative expenses decreased by 30% to HK\$10,857,000 (2002: HK\$15,411,000). The reduction in personnel expenses of HK\$2,345,000 has explained about 51% of such decline in the administrative expenses. The drop in other administrative expenses, for example, HK\$406,000 in professional fee, HK\$944,000 in price sponsorship fee and HK\$926,000 in depreciation was also conducive to the reduction in administrative expenses.

Other operating expenses

As no loss on revaluation of debt securities was recorded for the Quarterly Period (2002: HK\$3,586,000), other operating expenses dropped significantly by 89% to HK\$383,000 (2002: HK\$3,415,000).

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders improved by 158% to HK\$8,041,000 as compared to HK\$3,120,000 in the corresponding period of 2002.

BUSINESS REVIEW

Portal

The online advertising market in Hong Kong continued to face a difficult and depressed economy. The outbreak of SARS has further caused many advertisers to delay marketing activities and expenditures, which are affecting both online and traditional media.

Despite the slowdown, the Group continued to develop innovative services to attract new customers and retain existing users. During the Quarterly Period, the Group continued to introduce new packages and value-adds to the paid email service to cater for a broadening group of customers. These include the launch of a special Valentines Couple's promotion as well as special discounts on a range of electronic products for every subscribed package.

The Group further consolidated its offerings for the Small and Medium Enterprises market (SME) with the launch of several products and services targeted to this growing market, all incorporated under a new channel, *mybizdesk.hongkong.com*. Mybizdesk incorporates a host of information, products and services to assist SMEs in better incorporating technology into their businesses. Within the channel, the Group launched three new products with i-conference, in partnership with Media3way, an application which helps people to make real-time communication via Internet. With i-conference, people connected to the web-based video conference platform are able to see and talk with each other for purpose of corporate meetings, presentation and closed group information exchange. Besides the main features, people can perform data collaboration such as document sharing, Internet browsing, electronic whiteboard and so on, which make the conference more effective and multi-functional. GeniusEye, in partnership with Protectserve Pacific, is a simple surveillance and security solution for businesses and individuals to provide an all-in-one remote internet surveillance solution in an economical and easy-to-install package is for just about anyone with an interest in video surveillance.

The Group launched several seasonal campaigns. For instance, during Chinese New Year and Valentine's Day, the Group continued to offer a comprehensive and engaging user experience along with attractive e-commerce offers for these special occasions.

The Group continued the tradition of giving back to the community by participating in several charitable organizational events such as Po Leung Kuk Rubber Duck Race, the Hong Kong Red Cross Valentine's Day Blood Donation promotion and Oxfam.

Media and Travel

TTG successfully managed ATF 2003 on behalf of Ministry of Tourism, Cambodia. This event took place in Phnom Penh, Cambodia between the 20th to 28th, January 2003. ATF is ASEAN's biggest travel trade event and is held once a year among ASEAN countries on a rotational basis. The exhibition component attracted 406 booths with some 1,500 regional and international delegates. The event was a resounding success with many delegates commenting that this year's event as one of the best ever in the 21 years history of ATF. During the show, TTG was also appointed the official daily for ATF 2003, publishing 4 issues of the daily newspaper. In addition, TTG also published a full-colour 8 pages special picture supplement, which was distributed to all delegates on the last day. Overall, TTG's branding has reached another milestone - the positive outcome as the event manager of ATF 2003 and the high profile from our publishing activities during the show.

ITB Berlin is the world's biggest annual travel trade show with some 10,000 exhibiting companies from 178 countries. The number of visitors to this event reached well over 200,000 travel trade members from around the world. The TTG publishing team had successfully produced 3 issues of TTG-ITB dailies during this year's event in Berlin, Germany from 9th to 11th March, 2003. This was the first time that the publishing team has published a daily newspaper at ITB.

TTG won the bid to produce the official travel publication for Singapore Food Festival 2003 which took place in Singapore from 28th March, to 26th April, 2003. 80,000 copies of 'This Week Singapore' was distributed island-wide mainly to tourist information centres, airports, travel agencies and shopping centres.

Although the first quarter proved highly successful for TTG, the effects of SARS to the travel industry was already being felt and we anticipate that performance of TTG will be impacted in the coming quarters.

Times Software continues the developments from 2002, with the successful completion and launch of the PC card for the Mobile Ticketing System (MTS) to the market. Initial market feedback has been positive, with revenue contributions made during the Quarterly Period. In addition, Times Software has begun pre-launch sales and marketing work for the Passenger Flow Analysis System ("PFAS"). However, the sales of proprietary travel related product for this quarter was slow due to changes occurring in the transportation industry. Like TTG, Time Software anticipates the effects of SARS to have a direct impact to its business.

OUTLOOK

The overall business environment during the quarter remained unfavourable and is expected to stay weak in the next one or two quarters due to the ongoing issues associated with SARS not only in Hong Kong but across the region, particularly in Mainland China. The Group has already seen the impacts of SARS on both the portal and TTG's business and is expected to see further impacts in the next few quarters. The company has been reviewing the overall financial implications resulting from SARS towards the Group and will continue to monitor the situation and respond accordingly.

Despite the deteriorating economic condition, the Group has made solid progress in its investment strategy by acquiring Newpalm, a leading SMS and mobile application service provider in China. As the Group begins to consolidate the financial results of Newpalm in the second quarter of 2003, it is expected to bring significant revenue growth to the entire group. The ongoing growth of the SMS market in China is reflected in Newpalm's fast business growth, with the paid user base increasing from 2.8 million at the end of 2002 to over 3 million at the end of March this year.

The Group will continue to consolidate the portal network and build integrations with Newpalm, which has already begun to take place. A weather news channel has been launched and more similar content, info-channels and services will continue to be launched. The natural partnership of web and mobile content and services and the combined distributional reach of the portal network and Newpalm will present excellent growth opportunities in the near future.

The Group's financial position remains strong with over HK\$1.2 billion net cash and interest-bearing securities after this Newpalm acquisition. It will continue to look at investment opportunities that fit into the company's strategy and complimentary to its existing businesses.

Looking forward, the company is expected to grow both organically as well as through acquisition. More subscription based products and services will be developed by leveraging the online capabilities of the portal network as well as the mobile application technology from Newpalm. The Group will continue to execute its business plan and is committed to delivering results and creating long-term shareholder values.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March, 2003, the interests of the directors, chief executive 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)
Directors			
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
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	Personal interests (number of shares)	Number of shares held and nature of interests		Total interests (number of shares)
		Family interests (number of shares)	Corporate interests (number of shares)	
Directors				
Ch'ien Kuo Fung, Raymond	921,773	-	-	921,773
Yip Hak Yung, Peter	-	442,219	16,135,686 (Note)	16,577,905
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 31st March, 2003 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 pre-IPO share option scheme (the "Pre-IPO Scheme") and the post-IPO share option scheme (the "Post-IPO Scheme") of the Company, certain directors were granted options to subscribe for the Company's ordinary shares and the details of which were as follows:

Name of director	Date of grant	Exercise Price <i>HK\$</i>	Number of share options outstanding as at 31st March, 2003
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 (resigned on 30th January, 2003)	9th March, 2000	1.880	5,000,000 <i>(note 1)</i>
	10th April, 2001	0.286	2,000,000 <i>(lapsed)</i>
Lin, Jack (resigned on 30th January, 2003)	9th March, 2000	1.880	530,000 <i>(note 1)</i>
	10th April, 2001	0.286	2,000,000 <i>(lapsed)</i>
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. Share options in the amount of 5,000,000 and 530,000 granted to Hung Shuk Tak, Vicky and Lin, Jack respectively under the Pre-IPO Scheme have lapsed on 30th April, 2003.
2. 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 1 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 4 years commencing on the first anniversary at the date of grant.

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

Name of director	Date of grant	Exercise price US\$	Option exercise period	Number of share options outstanding as at 31st March, 2003
Directors				
Ch'ien Kuo Fung, Raymond	22nd June, 1999	3.3750	Note (1)	66,667
	17th October, 2000	6.8125	Note (3)	100,000
	9th January, 2001	4.2813	Note (2)	30,000
	27th April, 2001	2.7400	Note (3)	400,000
	13th July, 2001	2.9700	Note (3)	400,000
Chan Kai Yu, Rudy	15th November, 1999	14.5000	Note (4)	38,000
	15th April, 2000	14.2375	25th February, 2001 to 14th April, 2005	4,500
	29th July, 2000	15.7500	Note (5)	4,500
	17th October, 2000	6.8125	25th November, 2000 to 14th November, 2009	8,265
	11th July, 2001	2.3810	Note (3)	70,000
Chan Wing Tak, Douglas	22nd June, 1999	3.3750	Note (1)	40,000
	9th January, 2001	4.2813	Note (2)	30,000
	12th July, 2001	2.5800	Note (2)	50,000

Name of director	Date of grant	Exercise price US\$	Option exercise period	Number of share options outstanding as at 31st March, 2003
Yip Hak Yung, Peter	22nd June, 1999	3.3750	Note (1)	60,000
	12th July, 1999	5.0000	Note (1)	1,881,442*
	9th January, 2001	4.2813	Note (2)	30,000
	6th June, 2002	2.8200	Note (2)	200,000
Zhou Shun Ao	22nd June, 1999	3.3750	Note (1)	120,000*
	15th April, 2000	14.2375	15th January, 2001 to 14th April, 2005	9,000
	29th July, 2000	15.7500	Note (7)	9,000
	20th October, 2000	8.1250	Note (3)	60,000
	9th January, 2001	4.2813	Note (2)	30,000

* *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.*

Notes:

- (1) One year after the date of grant to the year ending 10 years after the grant date.
- (2) From the date of grant to the year ending 10 years after that date.
- (3) Three months after the date of grant to the year ending 10 years after the grant date.
- (4) From 25th November, 2000 to the year ending 10 years after the grant date.
- (5) From 25th February, 2001 to the year ending 10 years after the grant date.
- (6) From 17th July, 2001 to the year ending 10 years after the grant date.
- (7) Six months after the date of grant to the year ending 10 years after the grant date.

Save as disclosed in sub-sections (c) and (d) above, at no time during the Quarterly 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 Quarterly Period.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, 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' and Chief Executive's 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.

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 Quarterly Period.

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.

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 this quarterly results and has provided advice and comments thereon.

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

Hong Kong, 6th May, 2003