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hongkong.com Corporation

[incorporated in the Cayman Islands with limited liability]

hongkong.com

I N T E R I M
R E P O R T **2003**

hongkong.com Corporation (GEM Stock 8006) is a chinadotcom company(NASDAQ:CHINA)



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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

I am pleased to report a quarter of outstanding results with a distinctly transformed outlook for the hongkong.com Group for the quarter ended 30th June, 2003.

Financial highlights of the second quarter 2003 include:

- Net profit increased 148% to about HK\$20 million compared with HK\$8 million in Q1 2003
- Turnover climbed 170% to HK\$49 million versus Q1 2003
- Gross margin improved to 75% compared with 37% in Q1 2003
- EPS reached 0.48 HK cent, representing a 153% increase quarter-on-quarter
- Maintained a strong position in net cash and investments in interest-bearing securities of HK\$1.3 billion (after payment of the first installment of the acquisition consideration of Newpalm (China) Information Technology Co., Ltd. ("Newpalm"))

With the acquisition of Newpalm, the Group successfully gained a strong foothold in the burgeoning SMS (short message service) and mobile value added services market in China. With contributions from Newpalm, the Group's total turnover about doubled to more than HK\$49 million in Q2 2003, compared with the previous quarter. Newpalm continued to grow healthily during the quarter despite the challenges brought on by the SARS outbreak.

We expect to leverage on Newpalm's mobile capabilities to monetize on the valuable content resources of our portal network. During the quarter, new services which combined the strengths of the two platforms were launched in the China market, such as China News SMS, which generated strong initial responses from subscribers. We will continue to introduce new services with the aim to unlock the inherent value within our various assets.

With the addition of Newpalm, our China based businesses now account for a majority of our revenue base. Looking ahead, we will see further business development coming out of this market. To-date China has over 200 million mobile users and over 60 million Internet users, making it a big platform on which to develop our mobile and online businesses.

Although the addition of Newpalm has brought positive contributions to the Group overall, our other businesses, including TTG, hongkong.com portal and Times Software, were impacted by the SARS outbreak as well as general poor economic conditions in the region. While we are seeing signs of recovery in advertising revenue in July, we do not expect a full recovery for some of these businesses at least until the fourth quarter of this year.

We are excited about the changes effected during this quarter. In addition to organic growth, we will continue to leverage on our strong balance sheet and actively look for quality acquisition opportunities that are earnings accretive, with sound business model, provide high margins and most importantly offer strategic fit to our core businesses. Moreover, we will be reviewing our portfolio of businesses on a regular basis and dispose of those assets that may be unprofitable or otherwise not consistent with our strategic direction. With the operating and financial resources of the Group, we will continue to strive to improve long-term shareholder value for our investors.

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, 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30th June, 2003

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	49,247	13,107	67,490	24,783
Cost of sales		(12,540)	(7,151)	(24,029)	(13,143)
Gross profit		36,707	5,956	43,461	11,640
Other revenue	2	13,472	10,573	29,448	28,080
Selling and distribution expenses		(2,402)	(223)	(2,840)	(564)
Administrative expenses		(19,027)	(16,292)	(29,884)	(31,703)
Other operating gains/(expenses)		(3,429)	2,070	(3,812)	(1,345)
Profit from operating activities	4	25,321	2,084	36,373	6,108
Finance cost		(1,991)	(1,811)	(5,011)	(3,454)
Share of profits/(losses) of associates		89	(39)	89	197
Profit before tax		23,419	234	31,451	2,851
Tax	5	(3,678)	467	(3,678)	865
Profit before minority interests		19,741	701	27,773	3,716
Minority interests		233	(319)	242	(214)
Net profit from ordinary activities attributable to shareholders		19,974	382	28,015	3,502
Earnings per share	6				
Basic		0.48 cent	0.01 cent	0.68 cent	0.08 cent
Diluted		0.48 cent	0.01 cent	0.68 cent	0.08 cent

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30th June, 2003

	Notes	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		6,723	8,500
Interests in associates		617	–
Goodwill		86,830	8,862
Long term investments		62,400	62,400
Pledged securities		37,117	37,108
		<u>193,687</u>	<u>116,870</u>
CURRENT ASSETS			
Amounts due from fellow subsidiaries		6,911	8,152
Short term investments		960,178	964,042
Pledged securities		192,780	907,098
Accounts receivable	7	34,599	8,732
Prepayments, deposits and other receivables		24,684	23,229
Cash and cash equivalents		192,919	118,709
		<u>1,412,071</u>	<u>2,029,962</u>
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries		849	1,158
Tax payable		3,842	187
Accounts payable	8	25,474	6,663
Other payables and accrued liabilities		15,669	10,348
Interest-bearing bank borrowings		156,001	748,801
Deferred revenue		1,635	9,441
		<u>203,470</u>	<u>776,598</u>
NET CURRENT ASSETS		<u>1,208,601</u>	<u>1,253,364</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,402,288</u>	<u>1,370,234</u>
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings		31,492	31,492
MINORITY INTERESTS		<u>5,398</u>	<u>5,640</u>
		<u>1,365,398</u>	<u>1,333,102</u>
CAPITAL AND RESERVES			
Issued capital	9	413,469	413,156
Reserves		951,929	919,946
		<u>1,365,398</u>	<u>1,333,102</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	Share capital	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	HK\$'000
At 1st January, 2002	413,156	913,204	(31,215)	(13,794)	(1,055)	10,494	1,290,790
Investment revaluation reserves released on disposals	-	-	-	6,895	-	-	6,895
Movement in fair value	-	-	-	(4,532)	-	-	(4,532)
Exchange realignment	-	-	-	-	563	-	563
Profit for the period	-	-	-	-	-	3,502	3,502
	<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>
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>
At 1st January, 2003	413,156	913,204	(31,215)	595	(271)	37,633	1,333,102
Exercise of share options	313	776	-	-	-	-	1,089
Goodwill reserve released on disposals	-	-	21	-	-	(21)	-
Investment revaluation reserve released on disposals	-	-	-	823	-	-	823
Movement in fair value	-	-	-	2,355	-	-	2,355
Exchange realignment	-	-	-	-	14	-	14
Profit for the period	-	-	-	-	-	28,015	28,015
	<u>413,469</u>	<u>913,980</u>	<u>(31,194)</u>	<u>3,773</u>	<u>(257)</u>	<u>65,627</u>	<u>1,365,398</u>
At 30th June, 2003	<u>413,469</u>	<u>913,980</u>	<u>(31,194)</u>	<u>3,773</u>	<u>(257)</u>	<u>65,627</u>	<u>1,365,398</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	30,843	42,676
Net cash inflow from investing activities	635,064	500,574
Net cash outflow from financing activities	(591,711)	(165,048)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	74,196	378,202
Cash and cash equivalents at the beginning of period	118,709	25,875
Effect of foreign exchange rate changes, net	14	280
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	192,919	404,357
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	48,701	28,702
Non-pledged time deposits with original maturity of less than three months when acquired	144,218	375,655
	<hr/>	<hr/>
	192,919	404,357
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. Basis of presentation

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 periodic 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, 2002, except the treatment of goodwill from Newpalm. Goodwill arising on the acquisition of Newpalm represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset and amortized on the straight-line basis over its estimated useful life of twenty years. The carrying amount of goodwill is reviewed annually for impairment and the amortization period when it is necessary. Business segments in segment reporting have been changed according to the main revenue streams.

2. Turnover

Turnover represents (1) advertising revenue including advertising, publishing and event organizing fees; (2) subscription revenue from mobile value added services and other subscription-based activities; (3) technology revenue from the production and sale of hardware and software; and (4) e-commerce revenue from Internet and content service provision.

An analysis of turnover, other revenue and gains is as follows:

	Six months ended	
	30th June,	
	2003	2002
	HK\$'000	HK\$'000
Turnover:		
Advertising revenue	20,223	17,709
Subscription revenue	39,440	–
Technology revenue	6,661	6,135
E-commerce revenue	1,166	939
	67,490	24,783
Other revenue:		
Interest income	1,710	878
Interest income on debt securities	28,737	45,420
Loss on disposal of debt securities, net	(1,161)	(18,179)
	29,286	28,119
Gains:		
Foreign exchange gains/(losses), net	162	(39)
	96,938	52,863

3. Segment information

(a) Business segments

	For the six months ended 30th June,										Consolidated	
	Advertising		Subscription		Technology		E-commerce		Eliminations		2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER												
External sales	20,223	17,709	39,440	-	6,661	6,135	1,166	939	-	-	67,490	24,783
Inter-segment sales	1,560	1,560	-	-	-	-	320	375	(1,880)	(1,935)	-	-
Total	21,783	19,269	39,440	-	6,661	6,135	1,486	1,314	(1,880)	(1,935)	67,490	24,783
Segment results	(4,461)	(13,805)	20,399	-	(2,217)	(823)	(3,716)	(3,445)	-	-	10,005	(18,073)
Interest income and unallocated gains											29,448	28,080
Unallocated expenses											(3,080)	(3,899)
Profit from operating activities											36,373	6,108
Finance cost											(5,011)	(3,454)
Share of gain of associates											89	197
Profit before tax											31,451	2,851
Tax											(3,678)	865
Profit before minority interests											27,773	3,716
Minority interests											242	(214)
Net profit from ordinary activities attributable to shareholders											28,015	3,502
ASSETS												
Segment assets	140,847	133,254	157,894	-	22,732	30,063	71,202	28,584	(178,130)	(83,021)	214,545	108,880
Unallocated assets											1,391,213	1,313,433
Total assets											1,605,758	1,422,313
LIABILITIES												
Segment liabilities	187,683	167,369	31,571	-	22,421	24,259	178,777	28,064	(376,122)	(206,506)	44,330	13,186
Unallocated liabilities											190,632	105,822
Total liabilities											234,962	119,008
Other segment information:												
Depreciation and amortization	2,412	5,343	1,605	-	1,541	2,002	1,021	1,159	-	-	6,579	8,504
Non-cash expenses other than depreciation and amortization	2,113	1,071	-	-	(582)	97	67	655	-	-	1,598	1,823

(b) *Geographical segments*

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
China	46,242	6,135
Other Asian countries*	21,248	18,648
	<hr/>	<hr/>
Total external sales	67,490	24,783
	<hr/> <hr/>	<hr/> <hr/>

* Other Asian countries include Hong Kong, Singapore and Taiwan.

4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Six months ended 30th June,	
	2003	2002
	HK\$'000	HK\$'000
Depreciation	4,365	7,296
Amortization of goodwill	2,214	1,208
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

5. Taxation

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 (for the six months ended 30th June, 2002: 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 approximately HK\$19,974,000 and HK\$28,015,000 respectively (three months and six months ended 30th June, 2002: HK\$382,000 and HK\$3,502,000 respectively) and weighted average number of 4,131,558,942 and 4,132,011,082 (three months and six months ended 30th June, 2002: 4,131,558,942) 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 approximately HK\$19,974,000 and HK\$28,015,000 respectively (three months and six months ended 30th June, 2002: HK\$382,000 and HK\$3,502,000 respectively) and weighted average number of 4,148,113,338 and 4,138,588,059 (three months and six months ended 30th June, 2002: 4,133,605,221 and 4,136,597,224 respectively) ordinary shares respectively, after adjusting for the effects of all dilutive potential shares during the Quarterly Period and Half-Yearly Period.

7. Accounts receivable

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000 (Audited)
The aged analysis of accounts receivable is as follows:		
Within 90 days	31,158	8,611
91 – 120 days	589	33
121 – 180 days	2,417	59
Over 180 days	435	29
	<u>34,599</u>	<u>8,732</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 minimize credit risk. Overdue balances are regularly reviewed by management.

8. Accounts payable

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000 (Audited)
The aged analysis of accounts payable is as follows:		
Within 90 days	7,855	4,534
91 – 120 days	1,377	996
121 – 180 days	6	182
Over 180 days	16,236	951
	<u>25,474</u>	<u>6,663</u>

9. Issued capital

	Six months ended 30th June, 2003		Twelve months ended 31st December, 2002	
	No. of shares	HK\$'000	No. of shares (Audited)	HK\$'000 (Audited)
Authorized:				
Ordinary shares of HK\$0.10 each	<u>10,000,000,000</u>	<u>1,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Beginning of period/year	4,131,558,942	413,156	4,096,000,000	409,600
Issue of shares	-	-	35,558,942	3,556
Exercise of share options	<u>3,127,696</u>	<u>313</u>	<u>-</u>	<u>-</u>
End of period/year	<u>4,134,686,638</u>	<u>413,469</u>	<u>4,131,558,942</u>	<u>413,156</u>

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit

A turnover of HK\$49,247,000 was recorded for the Quarterly Period, representing a 276% increase from HK\$13,107,000 in the same quarter of last year. Such prominent increment in turnover was largely attributable to the subscription revenue from the newly acquired business during the Quarterly Period.

The gross profit of the Group for the Half-Yearly Period jumped to HK\$43,461,000, approximately four-fold over the corresponding period in 2002 (HK\$11,640,000). As a result of the high profit margin of subscription revenue, the profit margin increased from 37% recorded in first quarter to 75% in this Quarterly Period.

Other revenue

Other revenue increased to HK\$29,448,000 for the Half-Yearly Period (for the six months period ended 30th June, 2002: HK\$28,080,000), mainly attributed to the significant decrease in loss on disposal of debt securities by HK\$17,018,000 and increase in bank interest income by HK\$832,000 offset by the significant decrease in interest income from interest-bearing debt securities by HK\$16,683,000.

Selling and distribution expenses

On year-to-year basis, selling and distribution expenses increased by HK\$2,276,000 to HK\$2,840,000 for the Half-Yearly Period. Such increase was wholly reflected from the consolidation of the newly acquired businesses.

Administrative expenses

Administrative expenses decreased to HK\$29,884,000 for the Half-Yearly Period, about 6% decrease comparing to the corresponding period in 2002 (HK\$31,703,000). Taking out the effect of the incorporation of the newly acquired businesses, a total reduction in administrative expenses of HK\$12,879,000 was recorded for the Half-Yearly Period, mainly because of the reduction in personnel expenses of HK\$5,709,000, barter cost of HK\$1,687,000, corporate charges of HK\$1,585,000 and depreciation of HK\$3,541,000.

Other operating expenses

Same as administrative expenses, an increase in other operating expenses by HK\$2,467,000 upon comparing with the six months period in 2002 was also due to the incorporation of other operating expenses from the newly acquired businesses by HK\$1,005,000 in the Quarterly Period. However, even excluding such effect, an increase of HK\$1,462,000 in other operating expenses was recorded mainly as a result of an impairment of fixed assets of HK\$1,069,000 and a loss of disposal of subsidiaries of HK\$467,000.

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders was HK\$28,015,000 for the six months ended 30th June, 2003, about eight-fold over the corresponding period in 2002.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position after the acquisition of new businesses, with HK\$1,365,398,000 shareholders' funds as at 30th June, 2003 (as at 31st December, 2002: HK\$1,333,102,000), of which HK\$1,257,901,000 was net cash and investments in interest-bearing securities (as at 31st December, 2002: HK\$1,309,064,000).

Capital structure

The Group's bank borrowing was decreased by HK\$592,800,000 to HK\$187,493,000 as at 30th June, 2003 since last year end as a result of a repayment of loan of HK\$202,800,000 and HK\$390,000,000 in the first and second quarter respectively of this year. The change of issued share capital was due to the issue of a number of 3,127,696 ordinary shares upon the exercise of share options in the Quarterly Period.

As at 30th June, 2003, the Group's bank borrowing of HK\$156,001,000 was repayable within one year, and the remaining of HK\$31,492,000 was repayable within three years. All the bank borrowings are denominated in United States Dollars.

Charges on Group assets

As at 30th June, 2003, an amount of HK\$229,897,000 (as at 31st December, 2002: HK\$944,206,000) of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK\$187,493,000 (as at 31st December, 2002: HK\$780,293,000).

Gearing ratio

As at 30th June, 2003, the Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was about 14% (as at 31st December, 2002: about 59%).

Exposure to fluctuation 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, and therefore, no hedging against foreign currency exposure is considered necessary.

Material acquisitions, significant investments and their performance and future prospects

During the Quarterly Period, the Group had completed the acquisition of a mobile value added services company, namely, Newpalm (China) Information Technology Co., Limited (“Newpalm”). Details of which please refer to the section headed “Business review” below. Other than that, the Group did not have any other significant investments and capital commitments.

Contingent liabilities

Other than those disclosed in a sub-section headed “Charges on group assets”, the Group had no other material contingent liabilities as at 30th June, 2003.

Segmental information

The business segments were reclassified into four segments, namely, Advertising, Subscription, Technology, and E-commerce, in 2003 in order to have a better understanding of the Group’s whole business after the acquisition of new businesses. Advertising segment includes revenue from all portal and non-portal advertising, marketing activities, publishing and event organization fees. Subscription segment is composed of revenue from mobile value added services and other subscription-based activities. Technology segment comprises revenue from the production and sale of hardware and software. Other revenue from Internet and content service provision falls within the E-commerce segment.

A prominent increment in turnover of HK\$42,707,000 was recorded for the Half-Yearly Period, approximately double the total turnover in the same period in 2002. Two factors can explain the favorable change. One was the revenue from holding Asean Tourism Forum 2003 (“ATF 2003”) on behalf of Ministry of Tourism, Cambodia in Phnom Penh. Another was the consolidation of the newly acquired business from Newpalm.

Employee information

As at 30th June, 2003, the Group has 238 full-time employees, of which 34 are based in Hong Kong and the rest are in China 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.

BUSINESS REVIEW

Mobile Value Added Services

With the completion of the Group's acquisition of Newpalm in April, it has successfully entered the fast growing Mobile Value Added Services (MVAS) sector in China.

Newpalm operates MVAS in China and has service agreements with both China Mobile and China Unicom. In addition to having such service agreements at the head office level, Newpalm also signed provincial service agreements with these mobile operators directly in 26 provinces with newly added provinces including Hebei, Yunnan, Gansu and Xinjiang during the Quarterly Period. The direct connectivity with provincial network mobile operators facilitates Newpalm's marketing and promotion activities at the provincial level, resulting in better quality of services and a higher sign-up rate for subscribers and new services.

Amongst the various services offered by Newpalm to mobile subscribers of China Mobile and China Unicom, the company's community service ("X-City"), fortune-telling service ("i-Fate") and jokes are most popular with subscribers. The company also offers services such as the downloading of ring-tones, logos, and java games.

In conjunction with the our portal network, the company launched such new subscription services as "China News SMS" and "Business Elite". Plans were also underway to launch other new services including "Military SMS" and "X-City 2" soon. Such new services leverage on the SMS platform of Newpalm and the Internet and content resources of our portal network. The Group intends to monetize such synergies amongst the various different assets within the Group to create additional enterprise value.

During the Quarterly Period, the company has also successfully launched a customized weather news service whereby users can select the weather news presented by a particular China Central Television weather news presenter and have it delivered to the users at a specific time during the day.

The addition of Newpalm brought significant value to the Group, both strategically and financially. During the Quarterly Period, profits attributed to Newpalm amounted to roughly HK\$17 million. Had it not been for the consolidation of the financial results of Newpalm, the Group would have reported a profit of only approximately HK\$3 million.

Portal

During the Quarterly Period, the online advertising market was impacted due to the outbreak of atypical pneumonia (SARS), further causing many advertisers to delay or cancel marketing activities and expenditures which were already under review from the worsening economic conditions.

Despite the unfavorable operating environment as a result of SARS, the portal continued to make progress in terms of joint partnerships and strategic developments. During the Quarterly Period, hongkong.com partnered with iCare to drive the registered user base for both iCare as well as the Mymail channel of hongkong.com, by bundling our paid email accounts with iCare's ISP services. In addition, hongkong.com also launched a joint campaign in conjunction with the "We Love Hong Kong" initiatives, to drive both online and offline transactions.

hongkong.com continued to work closely with reputable charities and for the community, through goodwill initiatives and timely information to the Hong Kong community. During the outbreak of SARS in Hong Kong, we launched a SARS feature site to provide updates on the latest developments and precautionary education programs for SARS, to better inform and educate the citizenships of Hong Kong. Furthermore, hongkong.com provided a free marketing and advertising platform for well-known non-profit organizations to promote their activities. Non-profit organizations included HK Red Cross Blood Transfusion, Christian Action Organization, Oxfam, World Wide Fund, World Vision and Orbis.

Since the acquisition of Newpalm in China, synergies have been developed between our portal network and Newpalm. Leveraging the online capabilities of our portal network and the mobile and SMS technology of Newpalm, new value added services were launched to both Internet and mobile users. Jointly launched services in the recent months include "China News SMS" and "Business Elite". Preparation was also underway during this quarter, with other services such as "Military SMS" and "X-City 2" which are expected to be launched in the third quarter of this year.

Media and Travel

As expected, the travel related business was affected by the SARS outbreak during the Quarterly Period. In response to the SARS impact, the TTG group has implemented a series of cost-cutting initiatives as well as revenue generating programs. For instance, some issues of the travel publications such as BTN Asia Pacific, BTN China, TWS have been cancelled. For events, DM Asia was postponed from July to August 2003 and CTW Asia Pacific postponed from September to December of this year. During the quarter, TTG launched TTG India in May and introduced TTG Asia Booster Kits as special supplement to TTG Asia at the end of May, to generate additional revenues. TTG successfully managed to secure the support countries leaders from Singapore and Hong Kong, with key messages each from senior minister Mr. Lee Kuan Yew and Chief Executive from Hong Kong, Mr. Tung Chi Hwa, resulting in increased interest and bringing additional revenues through this supplement.

Despite the difficult conditions, especially within the travel industry, TTG had concluded several successful events as scheduled during the quarter. TTG successfully produced 3 issues of the official daily during the PATA Annual Conference which was held in Bali in April amidst SARS and the US-Iraqi War. Apart from producing the dailies, TTG also organized an Internet messaging center and hosting of a late night function for all PATA Conference delegates with over 1,000 delegates worldwide from the travel trade industry attending this event.

TTG India, a bi-monthly publication within TTG Asia was launched in May in New Delhi and Mumbai. There was a small but distinguished attendance for these two events in both cities. For New Delhi, the company had the honor of hosting two VIPs, the New Delhi State Tourism Minister and the Joint Secretary of India Tourism attending the event, while in Mumbai, the entire committee members of the India Association of Tour Operators were present at the launch reception. Generally, TTG received very good feedback on the first TTG India issue and everyone is supportive that TTG Asia will continue to commit resources to publish a quality edition and to promote both inbound and outbound travel to India.

Booster Kit was a special SARS supplement appearing in the 30th May issue of TTG Asia. This supplement was created with the objective of stimulating advertisers to advertise their tactical campaign and special deals during the outbreak of SARS. As mentioned previously, the inclusion of key messages from two leaders in Singapore and Hong Kong provided a further boost to the brand awareness of TTG Asia.

For 6 consecutive years, TTG was appointed the official tourism publisher of the Great Singapore Sale by the Singapore Retailers Association. TTG produced 80,000 copies of the official guide under This Week Singapore's branding. The guide was distributed in June 2003 to tourists as well as local consumers. As official tourism publisher, TTG's logo was featured in the Great Singapore Sale advertisements in the various media.

Times Software

Times Software was also impacted by the SARS' outbreak. With business slowing, Times Software continued to focus its resources to explore the possibilities of the new business opportunities induced by ongoing developments in its core systems.

Online Games

The Group concluded the close-beta testing of a massively multi-player online role playing game (MMPORPG) "ThesaOnline" during the Quarterly Period.

Online games in China have been experiencing exponential growth over the past year with the exception of the temporary slowdown attributed to SARS. According to a recent research published in January 2003 by IDC, there were 8 million online gamers in China in December 2002, and this number is expected to increase to 45 million by the end of 2006.

The Group considers the launch of the testing of ThesaOnline as a first step in the Group's participation in this fast growing market. The Group expects to gain operating experience with ThesaOnline that will further solidify the Group's development plans in this sector.

The Group continues to be vigilant in scrutinizing the business and the impacts of SARS towards the Group and will continue to monitor the situation and respond accordingly.

OUTLOOK

Despite the impact by SARS, the Group has reported profits for the 13 consecutive quarters up to Q2 2003. This is the first quarter that Newpalm's financial results have been consolidated into the Group's earnings for Q2 2003 since the acquisition. Synergies have been developed between Newpalm and our portal network by leveraging the online capabilities of our portal network and the mobile technology of Newpalm, which allows the company to broaden the product portfolio and provide more value added services to both Internet and mobile users.

With the Group now operating Newpalm, the Group believes that such acquisition will give more flexibilities for the Group to focus on developing its online businesses and mobile initiatives, as well as strengthening its foothold in the Greater China region.

The Group's financial position remains strong with about HK\$1.3 billion net cash and investments in interest-bearing securities after this Newpalm acquisition. It will continue to look for investment opportunities that provide strategic fit to the Group's existing business portfolio and also increase the profit level of the Group.

The Group also plans to review on a regular basis the various assets and businesses within the Group and assess their value to the Group. It will consider disposing of assets that are either unprofitable or otherwise not contributing to the development of the Group's strategic plan.

Looking forward, the Group will grow organically as well as through acquisitions. Given its strong financial position and its sound business model, the Group is positioned well to stay ahead in the industry and is committed to creating long-term shareholder value.

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of 30th June, 2003, the interest of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of Dealings by the Directors under the GEM Listing Rules were as follows:

The Company

Long positions in ordinary shares and the underlying shares of equity derivatives

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	3,274,000	17,000,000	Personal/beneficiary	0.49%
Chan Kai Yu, Rudy	3,416,000	94,000,000	Personal/beneficiary	2.36%
Chan Wing Tak, Douglas	3,716,000	1,300,000	Personal/beneficiary	0.12%
Chou Kei Fong, Silas	–	2,600,000	Personal/beneficiary	0.06%
Wang Cheung Yue, Fred	–	2,000,000	Personal/beneficiary	0.05%
Wong Sin Just	–	4,100,000	Personal/beneficiary	0.10%
Yip Hak Yung, Peter	3,416,000	–	Corporate (note 1)	0.09%
Yip Hak Yung, Peter	–	12,400,000	Personal/beneficiary	0.29%
Zhou Shun Ao	5,000,000	8,400,000	Personal/beneficiary	0.32%
Kwok Yee Leen, Elaine	–	1,500,000	Personal/beneficiary	0.04%

Note:

- (1) 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 and, accordingly Mr. Yip has an interest in such shares under the SFO.

Options to subscribe for ordinary shares in the Company

Name of Directors	Date of grant	Exercise price HK\$	Number of share options outstanding as at 30th June, 2003
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000
	10th April, 2001	0.286	*3,000,000
	5th June, 2003	0.626	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
	5th June, 2003	0.626	4,000,000
Chan Wing Tak, Douglas	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	**300,000
Chou Kei Fong, Silas	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
	5th June, 2003	0.626	1,000,000
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
	5th June, 2003	0.626	2,500,000

Name of Directors	Date of grant	Exercise price HK\$	Number of share options outstanding as at 30th June, 2003
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000
	10th April, 2001	0.286	2,400,000
	5th June, 2003	0.626	4,000,000
Zhou Shun Ao	9th March, 2000	1.880	6,000,000
	10th April, 2001	0.286	2,400,000
Kwok Yee Leen, Elaine	5th June, 2003	0.626	1,500,000
Hung Shuk Tak, Vicky (resigned on 30th January, 2003)	9th March, 2000	1.880	5,000,000 (Lapsed on 30th April, 2003)
Lin, Jack (resigned on 30th January, 2003)	9th March, 2000	1.880	530,000 (Lapsed on 30th April, 2003)

* Out of the 4,000,000 share options granted on 10th April, 2001, Dr. Ch'ien Kuo Fung, Raymond exercised his right to subscribe for 1,000,000 shares at a subscription price of HK\$0.286 per share on 13th June, 2003 and registered such shares under the name of HKSCC Nominees Limited.

** Out of the 600,000 share options granted on 10th April, 2001, Mr. Chan Wing Tak, Douglas exercised his right to subscribe for 300,000 shares at a subscription price of HK\$0.286 per share on 19th June, 2003 and registered such shares under the name of Tai Fook Securities Company Limited. Mr. Chan has resigned as a Director of the Company on 17th July, 2003.

Notes:

- All the above outstanding share 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 share options. The consideration for the grant was HK\$1.00. These share options vest over a period of four years commencing on the first anniversary at the date of grant.
- Save as disclosed above, none of the share options were exercised or lapsed during the Half-Yearly Period.

Associated Corporation

Long positions in Class A common shares in chinadotcom corporation and the underlying shares of equity of derivatives

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	921,773	996,667	Personal/ beneficiary	1.92%
Chan Kai Yu, Rudy	–	125,265	Personal/ beneficiary	0.13%
Chan Wing Tak, Douglas	–	4,170	Personal/ beneficiary	0.00%
Yip Hak Yung, Peter	16,577,905	2,381,442	Interest of children or spouse (note 1)	18.95%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.09%
Zhou Shun Ao	17,794	108,000	Personal/ beneficiary	0.13%
Zhou Shun Ao	–	120,000	Corporate (note 2)	0.12%
Kwok Yee Leen, Elaine	–	36,500	Personal/ beneficiary	0.04%

Notes:

- (1) These shares and share options are held under the name of Asia Pacific Online Limited ("APOL"), 1 share in APOL representing 50% of its issued share capital, is owned by the spouse of Mr. Yip Hak Yung, Peter. The remaining 50% of APOL is owned by a trust established for the benefit of Mr. Yip's spouse and his children under the age of 18.
- (2) These share options were granted to Golden Tripod Technology Limited in which Mr. Zhou Shun Ao is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings and, accordingly Mr. Zhou has an interest in such shares options under the SFO.

Options to subscribe for Class A common shares in chinadotcom corporation

Name of Directors	Date of grant	Option Exercise period	Exercise price US\$	Number of share options outstanding as at 30th June, 2003
Ch'ien Kuo Fung, Raymond	22nd June, 1999	Note (1)	3.3750	66,667
	17th October, 2000	Note (3)	6.8125	100,000
	9th January, 2001	Note (2)	4.2813	30,000
	27th April, 2001	Note (3)	2.7400	400,000
	13th July, 2001	Note (3)	2.9700	400,000
Chan Kai Yu, Rudy	15th November, 1999	Note (4)	14.5000	38,000
	15th April, 2000	25th February, 2001 to 14th April, 2005	14.2375	4,500
	29th July, 2000	Note (5)	15.7500	4,500
	17th October, 2000	25th November, 2000 to 14th November, 2009	6.8125	8,265
	11th July, 2001	Note (3)	2.3810	70,000 Note (8)
Chan Wing Tak, Douglas	22nd June, 1999	Note (1)	3.3750	– Note (9)
	9th January, 2001	Note (2)	4.2813	– Note (9)
	12th July, 2001	Note (2)	2.5800	4,170 Note (9)
Yip Hak Yung, Peter	22nd June, 1999	Note (1)	3.3750	60,000
	12th July, 1999	Note (1)	5.0000	*1,881,442
	9th January, 2001	Note (2)	4.2813	30,000
	6th June, 2002	Note (2)	2.8200	*200,000
	3rd June, 2003	30th June, 2003 to 2nd June, 2013	4.9500	*200,000
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	*100,000

Name of Directors	Date of grant	Option Exercise period	Exercise price US\$	Number of share options outstanding as at 30th June, 2003
Zhou Shun Ao	22nd June, 1999	(Note 1)	3.3750	**120,000
	15th April, 2000	15th January, 2001 to 14th April, 2005	14.2375	9,000
	29th July, 2000	Note (7)	15.7500	9,000
	20th October, 2000	Note (3)	8.1250	60,000
	9th January, 2001	Note (2)	4.2813	30,000
Kwok Yee Leen, Elaine	11th September, 2002	Note (1)	2.0600	12,500
	11th October, 2002	Note (3)	1.9500	10,000
	16th June, 2003	Note (1)	5.1600	9,000
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	5,000

* These share options are held under the name of Asia Pacific Online Limited ("APOL"). 1 share in APOL representing 50% of its issued share capital, is owned by the spouse of Mr. Yip Hak Yung, Peter. The remaining 50% of APOL is owned by a trust established for the benefit of Mr. Yip's spouse and his children under the age of 18.

** These share options were granted to Golden Tripod Technology Limited in which Mr. Zhou Shun Ao is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings and, accordingly Mr. Zhou has an interest in such options under the SFO.

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.
- (8) Mr. Chan Kai Yu, Rudy exercised his right to subscribe for 10,000 Class A common shares during the year 2002 and the balance is now 70,000.
- (9) On 24th June, 2003, Mr. Chan Wing Tak, Douglas exercised his right to subscribe for 40,000, 30,000 and 45,830 Class A Common Shares in respect of share options granted on 22nd June, 1999, 9th January, 2001 and 12th July, 2001 at a subscription price of US\$3.375, US\$4.2813 and US\$2.580 respectively. The said shares were also sold on 24th June, 2003.

Save as disclosed above, as at 30th June, 2003, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 30th June, 2003, the interests and short positions of the substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in ordinary shares

Name	Number of shares	Nature of interests	Appropriate percentage of interests (%)
chinadotcom corporation	3,361,828,000	Beneficial Owner	81.31%

Save as disclosed above, as at 30th June, 2003, the Company had not been notified of any substantial shareholders' interests or short positions representing 5% or more of the Company's issued share capital.

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, 2003, options comprising an aggregate of 96,818,160 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 section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" 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:

Type of grantees	As at 1st January, 2003	Lapsed during the Half-Yearly Period	As at 30th June, 2003
Directors	90,530,000	5,530,000 (i)	85,000,000
Employees	1,178,620	958,220 (ii)	220,400
Other participants	11,881,080	283,320 (iii)	11,597,760
	<u>103,589,700</u>	<u>6,771,540</u>	<u>96,818,160</u>

Notes:

- (i) These options granted to two Directors were lapsed when they resigned as Directors of the Company.
- (ii) These options granted to four employees were lapsed when they ceased to be employed by the Company.
- (iii) These options granted to five employees of chinadotcom group were lapsed when they ceased to be employees of chinadotcom group.
- (iv) The underlying shares of the outstanding pre-IPO share options as at 30th June, 2003 represent 2.34% 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 was 9th March, 2001 and ending 10 years after the date of grant of the options which is 9th March, 2010 in accordance with the following schedule (each anniversary below refers to the anniversary of the date of grant of the options):

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

(b) Post-IPO Scheme

As at 30th June, 2003, options granted under the Post-IPO Scheme comprising an aggregate of 47,376,816 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.286 to HK\$1.977 for each share were outstanding. Details of grants of post-IPO share options to the Directors are set out in the previous section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" 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, 2003	Granted during the Half-Yearly Yearly Period	Lapsed during the Half-Yearly Period	Exercised during the Half-Yearly Period	As at 30th June, 2003
Directors	44,600,000	-	4,000,000 (i)	1,300,000 (ii)	39,300,000
Employees	11,703,322	-	1,798,810 (iii)	1,827,696 (iv)	8,076,816
	<u>56,303,322</u>	<u>-</u>	<u>5,798,810</u>	<u>3,127,696</u>	<u>47,376,816</u>

Notes:

- (i) 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.
- (ii) These options were exercised by two directors on 13th June, 2003 and 19th June, 2003 respectively all at an exercise price of HK\$0.286 per share.
- (iii) These options granted to eleven employees were lapsed when they ceased employment with the Company.
- (iv) These options were exercised by thirty-nine employees at a range of exercise price between HK\$0.286 to HK\$0.518 per share.
- (v) The underlying shares of the outstanding post-IPO share options as at 30th June, 2003 represent 1.15% 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.

As at 30th June, 2003, options granted under the 2002 Share Option Scheme comprising an aggregate of 39,677,988 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.171 to HK\$0.716 for each share were outstanding. Details of grants under the 2002 Share Option Scheme to the Directors are set out in the previous section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in this report.

Details of the outstanding share options under the 2002 Share Option Scheme during the Half-Yearly Period are as follows:

Type of grantees	As at 1st January, 2003	Granted during the Half-Yearly Period	Lapsed during the Half-Yearly Period	As at 30th June, 2003
Directors	–	19,000,000 (i)	–	19,000,000
Employees	1,369,268	6,572,040 (ii)	413,320 (iv)	7,527,988
Other participants	–	13,150,000 (iii)	–	13,150,000
	<u>1,369,268</u>	<u>38,722,040</u>	<u>413,320</u>	<u>39,677,988</u>

Notes:

- (i) These options were granted to seven directors at an exercise price of HK\$0.626 per share.
- (ii) 374,560 options were granted to six employees of the Company at an exercise price of HK\$0.171 per share. 697,480 options were granted to ten employees of the Company at an exercise price of HK\$0.716. 5,500,000 options were granted to two employees of the Company at an exercise price of HK\$0.626 per share.
- (iii) These options were granted to twenty-three employees of chinadotcom group at an exercise price of HK\$0.626 per share.
- (iv) These options granted to six employees were lapsed when they ceased employment with the Company.
- (v) The underlying shares of the outstanding options under the 2002 Share Option Scheme as at 30th June, 2003 represent 0.96% of the issued share capital of the Company.

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 2.409% to 3.07%, representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options (the "Measurement Date"). The expected life of the options used is 5 years. The expected volatility of the expected share prices of the Company ranging from 75.1% to 82.5% 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 38,722,040 share options granted under the 2002 Share Option Scheme during the Half-Yearly Period, the options would have an aggregate value of approximately HK\$15,362,498, representing a value of HK\$0.397 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 year.

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, 4th August, 2003