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**hongkong.com**

**hongkong.com Corporation**

[incorporated in the Cayman Islands with limited liability]

hongkong.com

T H I R D  
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**

I am pleased to announce the financial results of hongkong.com Corporation (Stock Code: 8006) for the quarter ended September 30, 2003.

Financial highlights of the third quarter 2003 include:

- Net profit increased by 53% to about HK\$31 million compared with HK\$20 million in Q2 2003
- Turnover increased by 16% to HK\$57 million versus HK\$49 million in Q2 2003 mainly due to growth in mobile value added services revenue
- Maintained a high gross margin at 74% compared with 75% in Q2 2003
- EPS reached 0.74 cent, representing a 54% increase over Q2 2003
- Selling and marketing expenses increased by 29% compared to Q2 2003, in line with increase in revenue
- Has a strong position in net cash and investments in interest-bearing securities of \$1.3 billion

We are pleased to see our mobile arm in China, Newpalm (China) Information Technology Co., Ltd. continued to make significant progress in various aspects of its operations. As at the end of September 2003, subscription base of Newpalm increased to an aggregate of 5.1 million, a 16% increase compared to last quarter. Moreover, we are glad to see that real synergies have started to develop between Newpalm and our China Portal, [www.china.com](http://www.china.com). By leveraging the content channels of the china.com portal and the wireless technology platform of Newpalm, innovative SMS (short message service) products have been jointly developed for both of our Internet and SMS users.

In addition, in October this year, Newpalm has signed up yet another direct connectivity agreement with China Unicom in Guangdong province. This service agreement gives Newpalm an opportunity to better serve Guangdong Unicom's subscriber base of over 11 million users, the largest within the China Unicom group. Newpalm currently has service agreements signed with mobile network operators in 26 provinces across China.

Inline with our strategic direction, the Group added the [www.china.com](http://www.china.com) portal to our portal network during the quarter. With this new platform the Group now has direct access to the large and rapidly growing internet market in the Mainland. I am also excited that our China Portal has been recently appointed as the exclusive online media partner for the first ever Miss China Pageant 2003. Operating the [www.china.com](http://www.china.com) portal under the Group also creates a more conducive setting for further exploration of synergies between Newpalm and our portal platforms.

With the continual revenue growth of our overall business, coupled with solid cost management practices and positive effect from a favorable tax ruling this quarter, the Group reported a record net profit of HK\$31 million in Q3 2003.

To further expand our mobile services going forward we have entered into an operation agreement with e-Lux (Asia) Ltd. (“e-Lux”) in October this year. Under this agreement [www.china.com](http://www.china.com) will provide SMS news services products including news of the day, sports and entertainment to e-Lux for distribution to e-Lux’s subscriber base in Greater China and in return, we will promote and sell e-Lux mobile products including ringtone and logo downloads and Java-based mobile games which complement to our existing SMS product offerings on our China portal.

During the quarter the management team actively searched for potential acquisition targets in the mobile value added services and online game sectors. I hope to be able to report further success in this area in the near future.

Finally, I am proud of the progress made during the quarter and our capability to continue to deliver profit to our shareholders. I would like to take this opportunity to thank the board, the management and the staff in making this a successful quarter through their hard work and continuous support and dedication.

## 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 nine months (the "Nine-Month Period") ended 30th September, 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

	Notes	Three months ended 30th September		Nine months ended 30th September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>57,170</b>	12,747	<b>124,659</b>	37,530
Cost of sales		<b>(14,832)</b>	(8,205)	<b>(38,860)</b>	(21,348)
Gross profit		<b>42,338</b>	4,542	<b>85,799</b>	16,182
Other revenue	2	<b>11,736</b>	15,488	<b>41,184</b>	43,568
Selling and distribution expenses		<b>(3,103)</b>	(150)	<b>(5,943)</b>	(714)
Administrative expenses		<b>(22,852)</b>	(13,393)	<b>(52,737)</b>	(45,096)
Other operating (expenses)/gains		<b>(1,480)</b>	2,831	<b>(5,291)</b>	1,486
Profit from operating activities		<b>26,639</b>	9,318	<b>63,012</b>	15,426
Finance cost		<b>(661)</b>	(83)	<b>(5,672)</b>	(3,537)
Share of profits/(losses) of associates		<b>659</b>	(197)	<b>748</b>	–
Profit before tax		<b>26,637</b>	9,038	<b>58,088</b>	11,889
Tax	3	<b>3,798</b>	(61)	<b>120</b>	804
Profit before minority interests		<b>30,435</b>	8,977	<b>58,208</b>	12,693
Minority interests		<b>66</b>	272	<b>308</b>	58
Net profit from ordinary activities attributable to shareholders		<b>30,501</b>	9,249	<b>58,516</b>	12,751
Earnings per share	4				
Basic		<b>0.74 cent</b>	0.22 cent	<b>1.42 cent</b>	0.31 cent
Diluted		<b>0.73 cent</b>	0.22 cent	<b>1.41 cent</b>	0.31 cent

Notes:

**1. Basis of presentation**

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.

**2. Turnover**

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

Please also refer to the Financial Review section on Turnover for more details about the Group's revenue recognition policy.

**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 Nine-Month Period and the corresponding periods in 2002.

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.

Please also refer to the Financial Review section on taxation for special tax concessions received during the Quarterly Period.

**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 and Nine-Month Period of approximately HK\$30,501,000 and HK\$58,516,000 respectively (three months and nine months ended 30th September, 2002: HK\$9,249,000 and HK\$12,751,000 respectively) and weighted average number of 4,135,022,809 and 4,133,026,023 (three months and nine months ended 30th September, 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 Nine-Month Period of approximately HK\$30,501,000 and HK\$58,516,000 respectively (three months and nine months ended 30th September, 2002: HK\$9,249,000 and HK\$12,751,000 respectively) and weighted average number of 4,169,988,001 and 4,147,802,513 (three months and nine months ended 30th September, 2002: 4,131,622,325 and 4,131,985,686 respectively) ordinary shares respectively, after adjusting for the effects of all dilutive potential shares during the Quarterly Period and Nine-Month Period.

## 5. Movement of reserves

	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment Revaluation reserve HK\$'000	Exchange Fluctuation reserve HK\$'000	Retained Earnings HK\$'000	Total HK\$'000
At 1st January, 2002	913,204	(31,215)	(13,794)	(1,055)	10,494	877,634
Investment revaluation reserve released on disposals	-	-	12,358	-	-	12,358
Movement in fair value	-	-	(451)	-	-	(451)
Exchange realignment	-	-	-	764	-	764
Profit for the period	-	-	-	-	12,751	12,751
At 30th September, 2002	<u>913,204</u>	<u>(31,215)</u>	<u>(1,887)</u>	<u>(291)</u>	<u>23,245</u>	<u>903,056</u>
At 1st January, 2003	913,204	(31,215)	595	(271)	37,633	919,946
Exercise of share options	924	-	-	-	-	924
Goodwill reserve released on disposals	-	21	-	-	(21)	-
Investment revaluation reserve released on disposals	-	-	652	-	-	652
Movement in fair value	-	-	1,266	-	-	1,266
Exchange realignment	-	-	-	(39)	-	(39)
Profit for the period	-	-	-	-	58,516	58,516
At 30th September, 2003	<u>914,128</u>	<u>(31,194)</u>	<u>2,513</u>	<u>(310)</u>	<u>96,128</u>	<u>981,265</u>

## INTERIM DIVIDEND

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

## FINANCIAL REVIEW

### Turnover and gross profit

The Group's turnover for the Quarterly Period and Nine-Month Period were HK\$57,170,000 and HK\$124,659,000 respectively. Compared to the turnover of HK\$12,747,000 and HK\$37,530,000 over the same period in 2002, this significant increment was largely attributable to the subscription revenue from mobile value added services and other subscription-based activities from Newpalm, a business that was acquired in April this year. Because Newpalm relies on mobile operators in different provinces to collect revenue, it estimates portions of its revenue using estimated collection rates based on prior months' actual collection rates. When revenue is physically collected in subsequent periods and confirmed by mobile operators, revenue is adjusted to reflect such actual collections.

The gross profit of the Group for the Nine-Month Period jumped to HK\$85,799,000 (69%) from HK\$16,182,000 (43%) in the corresponding period in 2002, representing a 430% increase year on year. This is mainly due to the high profit margin of subscription revenue. Since the acquisition of Newpalm, the group's gross profit margin increased from 37% in the first quarter to 75% in the second quarter and 74% in the current quarter this year.

### **Other revenue**

Other revenue in the Quarterly Period and Nine-Month Period were HK\$11,736,000 and HK\$41,184,000 respectively, compared to HK\$15,488,000 and HK\$43,568,000 respectively in the same periods in 2002.

The net decrease in other revenue in the Nine-Month Period is mainly attributable to the continued decrease in interest income from interest-bearing debt securities by HK\$17,280,000 which is partly offset by the net decrease in loss on disposal of debt securities by HK\$14,757,000.

### **Selling and distribution expenses**

Selling and distribution expenses increased in both Quarterly Period and Nine-Month Period which were HK\$3,103,000 (2002: HK\$150,000) and HK\$5,943,000 (2002: 714,000) respectively. Such increases were substantially attributable to the newly acquired businesses of Newpalm in China this April as well as the additional promotional and marketing expenses for the online game launched in China in the Quarterly Period.

### **Administrative expenses**

Administrative expenses increased to HK\$52,737,000 for the Nine-Month Period, from HK\$45,096,000 in the corresponding period in 2002. Taking out the effects of Newpalm, there was a reduction in administrative expenses during the Nine-Month Period, mainly due to the reduction in personnel expenses of HK\$2,994,000, barter cost of HK\$1,927,000, corporate charges of HK\$2,377,000 and depreciation of HK\$5,808,000.

### **Other operating expenses**

The increase in other operating expenses by HK\$6,777,000 when compared with the nine months period in 2002 because the reversal of bad debt previously provided in 2003 is only HK\$723,000 (compared with HK\$3,800,000 in the same period in 2002), additional loss on disposal and impairment of fixed assets of HK\$768,000 and a loss of disposal of subsidiaries of HK\$467,000, as well as additional amortisation of intangible assets and goodwill for the newly acquired business by HK\$637,000 and HK\$1,826,000 respectively.

### **Share of profit of associates**

The increase is mainly due to share of profit of an associate company which is owned by Newpalm.

### **Taxation**

During the Quarterly Period, there is a reversal of income tax of HK\$3,678,000 by Newpalm. Newpalm received a confirmation from the relevant tax authorities that it is granted an exemption from paying federal and local income tax on its 2003 Income. This is a one time reversal of 2003 income tax only and Newpalm may be subjected to paying income tax in the future.



## **BUSINESS REVIEW**

### **Mobile Value Added Services**

During the Quarterly Period the Group's mobile applications unit, Newpalm (China) Information Technology Co., Ltd. ("Newpalm"), a leading short message service (SMS) and mobile software and application developer in China, established yet another direct local connectivity agreement with China Unicom in Guangdong province. The service agreement gives Newpalm an opportunity to better serve Guangdong Unicom's subscriber base of over 11 million users, the largest within the China Unicom group, within one of the richest provinces in China with a population of nearly 75 million. Newpalm currently has service agreements signed with mobile network operators in 26 provinces across China. Direct connectivity with provincial network mobile operators facilitates Newpalm's marketing and promotion activities at the provincial level, resulting in a better quality of service, a higher sign-up rate for subscribers and new services, and a higher level of completion of SMS messages sent.

Performance of Newpalm continued to be strong. By the end of the Quarterly Period we believe the unit ranked within the top 5 services providers for China Unicom and within the top ten for China Mobile. 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 services. The company also offers services such as the downloading of ring-tones, logos, and java games.

Amongst other new products launched during the Quarterly Period Newpalm also launched X-City 2, an innovative community-based service including dating and chatting, ringtone and logo downloads, leveraging off the original X-city service's millions of existing subscribers and incorporating new online capabilities that allows subscribers to use pictures and video clippings while using the service. X-City 2 is an example of the synergistic products being developed through www.china.com's portal platform and Newpalm's SMS applications. The Group will continue to monetize such synergies amongst the various different assets within the Group to create incremental enterprise value.

In addition to SMS, Newpalm continued its research and development efforts in other new wireless platforms including MMS, WAP, and kjava.

### **Portals**

From the beginning of the quarter, the Group began operating, under a license agreement with chinadotcom Corporation, the www.china.com portal (China Portal) in addition to the www.hongkong.com portal (Hong Kong Portal). The China Portal offers similar types of information and services as the Hong Kong Portal but is designed for users in the People's Republic of China (PRC).

During the Quarterly Period, the online advertising market in the PRC continued to grow as a result of the increasing number of advertisers interested in utilizing the Internet as a medium of marketing and promotion. According to the CNNIC the total number of internet users in China reached 68 million by the end of June 2003. The addition of the China Portal opened the door for the Group to participate in the large advertising market in PRC and also increased the overall competitive positioning of our portal network. The Group expects to explore new business opportunities that could be created via cross selling between the China Portal and the Hong Kong Portal.

The China Portal launched several new channels during the Quarterly Period including: Translation, eBooks, Education, Logistic, Medicine, Recruitment, Real Estate. Some of these new channels were launched in association with content/marketing partners for which the Group received ongoing fees for the duration of the contracts.

In addition to the new channels mentioned above, the Group also re-launched the Automobile and News channels. A weekly email Newsletter that summarizes news of the week was also launched during the Quarterly Period.

The Group launched X City 2 during the Quarterly Period utilizing the respective unique strength of Newpalm and the China Portal.

During the Quarterly Period, the online advertising market in Hong Kong remained slow and advertisers continued to maintain a very conservative approach to expenditures in the wake of the SARS epidemic and the uncertainly state of recovery in the economy.

Despite the slowdown, our Hong Kong Portal continued to focus inwards to leverage existing expertise and further progress the integration of the portal network outlined in the previous quarter. The integration provides a platform for better use of resources through the leveraging of the respective expertise within the Group. Since the integration, synergies have been developed within the portal network. Having already launched a news channel by leveraging the news content provided by www.china.com portal, an entertainment channel was also launched during the quarter with further integrations in sales and marketing and management of the portal network. Further synergies will be reported in the near future.

### **Media and Travel**

Although promotional activities by the travel and tourism sector picked up immediately after SARS, many advertisers held back their spending on travel trade print advertising. Those who spent on trade advertising with TTG Asia Media Pte Ltd. ("TTG") during the Quarterly Period were the bigger players in the industry. While the rest focus more on below the line promotions such as direct sales, email promotions and other online marketing activities.

DM Asia 2003, an event hosted by the Direct Marketing Association of Singapore in cooperation with TTG, concluded successfully in August 2003. Another event, Corporate Travel World (CTW), which was originally scheduled to take place in September 2003 has been re-scheduled to December 2003.

During the Quarterly Period TTG was appointed as the official media/publication for the following events: i) Tourism Indonesia Mart & Expo 2003 (TIME), ii) PATA Annual Conference 2004, and iii) ASEANTA Awards 2004.

## **Online Games**

After the successful conclusion of the closed-beta test early in the quarter, the Group began the open testing of a massive multi-player online role playing game (MMORPG) '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 continues to gain operating experience with ThesaOnline that will further strengthen 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**

The operations of the Group have seen continual improvements since our acquisition of Newpalm. During the Quarterly Period, the mobile value added services market in China has experienced certain changes, most noticeably China Mobile's crack down on the practice of "third party collection". As the Group never participated in the business of collecting for third party websites, we have not been impacted by this change. Mobile operators have also started to demand a higher level of quality from service providers including better customer services and higher registered capital requirements. Such development bodes well for already established companies in this sector such as Newpalm as it becomes much more difficult for smaller or new players to compete.

The addition of the [www.china.com](http://www.china.com) portal to our operations has opened up the potentially lucrative China portal market to the Group. This market is significantly larger than the Hong Kong portal market and extends another growth opportunity to the Group. We have already seen synergies being developed between our mobile unit and the China portal and we are hopeful that more such synergies will develop now that these operations are under the same organization structure.

We value the experiences gained from the closed and open tests of our first online game ThesaOnline. The online games market continues to develop healthily and the Group is in discussion with various games operators for operational cooperation as well as acquisition possibilities.

The Group continues to pursue growth via organic development as well as through acquisitions. The Group has a strong financial position with HK\$1.3 billion in net cash and investments in interest-bearing securities. We have also seen an increasing number of acquisition opportunities, particularly in the China market. Given our financial strength and the opportunities available, the Group is well positioned to continue to access new growth prospects and continue with our goal to build long-term value for our shareholders.

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

As of 30th September, 2003, the interests 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

<b>Name of Directors</b>	<b>Number of shares</b>	<b>Number of underlying shares</b>	<b>Nature of Interests/Holding Capacity</b>	<b>Appropriate percentage of interests (%)</b>
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 (resigned on 17th July, 2003)	3,716,000	1,000,000	Personal/beneficiary	0.11%
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)	0.08%
Yip Hak Yung, Peter	–	12,400,000	Personal/beneficiary	0.30%
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

<b>Name of Directors</b>	<b>Date of grant</b>	<b>Exercise price HK\$</b>	<b>Number of share options outstanding as at 30th September, 2003</b>
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 (resigned on 17th July, 2003)	9th March, 2000	1.880	1,000,000
	10th April 2001	0.286	300,000 (lapsed on 17th July, 2003)
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
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

*Note:*

- 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.

### *Associated Corporation*

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

<b>Name of Directors</b>	<b>Number of shares</b>	<b>Number of underlying shares</b>	<b>Nature of interests/ Holding Capacity</b>	<b>Appropriate percentage of interests (%)</b>
Ch'ien Kuo Fung, Raymond	871,773	996,667	Personal/ beneficiary	1.84 %
Chan Kai Yu, Rudy	–	95,265	Personal/ beneficiary	0.09%
Yip Hak Yung, Peter	16,478,586	2,381,442	Interest of children or spouse (note 1)	18.62%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.09%
Zhou Shun Ao	17,794	108,000	Personal/ beneficiary	0.12%
Zhou Shun Ao	–	60,000	Corporate (note 2)	0.06%
Kwok Yee Leen, Elaine	–	36,500	Personal/ beneficiary	0.04%

#### *Notes:*

- (1) These shares and share options were 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 September, 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	40,000
				Note (8)
Chan Wing Tak, Douglas (resigned on 17th July, 2003)	12th July, 2001	Note (2)	2.5800	– 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	Note (3)	5.1600	*100,000
Zhou Shun Ao	22nd June, 1999	Note (1)	3.3750	**60,000 note (10)
	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	Note (3)	5.1600	5,000

\* These share options were granted to APOL.

\*\* 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 and 20,000 Class A common shares on 1st July, 2003 and 19th September, 2003 respectively at a subscription price of US\$2.3810 each. The said shares were sold on 1st July, 2003 and 19th September, 2003 respectively.
- (9) Mr. Chan Wing Tak, Douglas exercised his right to subscribe for 4,170 Class A common shares on 14th July, 2003 at a subscription price of US\$2.5800 each. The said shares were sold on 14th July, 2003.
- (10) Golden Tripod Technology Limited exercised its right to subscribe for 60,000 Class A common shares on 17th July, 2003 at a subscription price of US\$3.3750 each. The said shares were sold on 17th July, 2003.

Save as disclosed above, as at 30th September, 2003, no person other than a Director, 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 September, 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

<b>Name</b>	<b>Number of shares</b>	<b>Nature of interests</b>	<b>Appropriate percentage of interests (%)</b>
chinadotcom corporation	3,361,828,000	Beneficial owner	81.30%

Save as disclosed above, as at 30th September, 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.

## **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 Nine-Month Period.

## **AUDIT COMMITTEE**

The Company established an audit committee on 25 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, 24 October, 2003