



chinadotcom  
corporation

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## chinadotcom Q3 2001 Results Improve Net Loss Falls 58%

### chinadotcom's Q3 2001 Results Highlights:

- Q3 2001 net loss improved 58% to US\$24.8 million
- Pro forma\* cash operating loss reduced by 31% to US\$10.3 million, a third consecutive quarter of reduced loss
- Revenues of US\$17.3 million, down only 1% compared to Q2 2001's pro forma results
- Net cash of US\$401 million, up 2% versus Q2 2001's US\$393 million
- Mainland China revenues account for 24% of total revenues, up from 10% in Q3 2000
- Launched MEZZO Marketing, Asia's first precision marketing specialist
- New revenue streams through the rollout of fee-based email and SMS services across the portal network

**[Hong Kong, November 09, 2001]** chinadotcom corporation (NASDAQ: CHINA; Website: [www.corp.china.com](http://www.corp.china.com)), a leading integrated Internet company in Asia, today announced its financial results for the third quarter ending September 30, 2001. Pro forma\* cash operating loss was US\$10.3 million, a 31% reduction compared to US\$14.9 million in Q2 2001. Total cash operating loss, including one time restructuring expenses, was US\$15.9 million, a 32% improvement over that of Q2 2001.

Gross margin was 34%, compared to Q2 2001's 30%, resulting in a 12% increase in gross profit to US\$5.9 million in Q3 2001 on a pro forma basis. Pro forma SG&A costs were US\$16.3 million, a drop of 19% compared to the previous quarter, reflecting the benefits and effectiveness of a series of cost-reduction initiatives enacted since May this year.

chinadotcom's third quarter revenue was US\$17.3 million, down 1% over Q2 2001's pro forma results. China revenues, which account for 24% of total revenues, continued to be a strong contributor this quarter, demonstrating chinadotcom's focus on Mainland China's attractive business opportunities as its WTO entry nears. The continued strength of our China business reflects not only the strength of the Chinese economy but also the success of chinadotcom in supporting the use of the Internet by local and global companies in China to automate and improve their enterprises.

"We've made steady progress in our operating results as a consequence of the aggressive cost restructuring efforts across our entire organization this year," said Daniel Widdicombe, CFO of



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chinadotcom corporation. "However, in light of the continuing harsh economic environment, we must continue to drive toward our cash flow breakeven target by prudently managing our costs while intensifying our efforts to drive revenue growth through cultivating synergies and introducing new services."

In the third quarter, chinadotcom recorded US\$13.3 million in write-downs for impairment of goodwill and diminution in value of minority investments. Taking into account the one-time charges, chinadotcom posted an actual net loss of US\$24.8 million, a 58% improvement over Q2 2001. At the end of Q3 2001, the company had US\$401 million in net cash and marketable debt securities, 2% higher than Q2 2001's US\$393 million.

The continuing global economic downturn, exacerbated by the September 11 terrorist attacks in the United States, has affected and will continue to affect the company. Although chinadotcom is based in Asia, it is exposed to key industries such as travel, finance and advertising. While the effects were not fully manifested in the Q3 2001 results, chinadotcom's future results could be affected by the attacks as well as by continued uncertainty and macro-instability. However, chinadotcom will continue to build its business attempting to adjust for any adverse events that may reverberate throughout the global economy.

"Our rapid execution of recent management decisions on expense control has reduced our SG&A annual cost base by over US\$50 million, while our focus on our core business has helped stabilize revenues and strengthened our market position," said Dr. Raymond Ch'ien, Executive Chairman of chinadotcom corporation. "As a result, we are now in better shape than we have been in a long time. Our aim, throughout these difficult times, is to continue to improve and remain at the forefront of the Asian market through delivering valuable and cost effective services to our blue chip client base."

The information presented in the results highlights herein should be read in conjunction with the more detailed financial statements included at the end of this press release.

## **Business Units**

### **chinadotcom e-solutions**

Ion Global, Asia's leading e-business integrator, reported that the decline in revenue had been stemmed in Q3 2001. Its SG&A was down 25% compared to that of the last quarter on a pro forma basis. Headcount reduced 19% during the quarter, leading to a 16% reduction in total personnel costs on a pro forma basis. Consequently, revenue per employee rose by 17%.

China continues to be a key market for the company. The strong growth trends for Ion Global in China are expected to continue post-WTO, due to likely growth of foreign investments in the region. In September, Ion Global was appointed by five multi-national companies in Mainland China; Beijing Telecom, Nike China, Siemens Mobile, Ingram Micro and Panasonic, as their integrated e-solutions provider, for services ranging from strategy development to project implementation.

e2e Business Solutions Ltd. is a significant part of the company's success story in the Greater China region. e2e's market success has been recognized by the industry through accolades such



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as the “Best Applications Partner” by Oracle Corporation, distinguishing it as Oracle’s most successful integrator in China, and one of “500 Noteworthy Services Companies in Asia/Pacific” for its “good understanding of the China and Hong Kong markets” by IDC.

Newer markets for Ion Global are also broadening chinadotcom’s revenue streams. Ion Global was selected recently by the United Kingdom Government’s Department of Trade and Industry to implement its e-commerce initiatives aimed at making the UK the “best place in the world for e-commerce.” The appointment came after Ion Global won a strongly contested competitive bid, leveraging on its UK led strategy, user experience and marketing skills together with its Shanghai office’s robust technical capabilities and competitive cost structure.

### **chinadotcom e-marketing**

In September of this year, chinadotcom successfully launched MEZZO Marketing as a pioneer in Precision Marketing in Asia, providing intelligent marketing solutions that help marketers to identify, solicit, reach and convert their target customers. MEZZO Marketing aims to capture multiple and recurring revenue streams with product offerings that include on/offline Integrated Media Solutions, *expresso* technology solutions and Intelligent DataMart. It encompasses the online advertising business of chinadotcom.

In Q3 2001, e-marketing’s cash operating losses improved by 18%, and its pro forma SG&A was reduced by 16% quarter-on-quarter. Headcount was reduced by 10% while revenue per employee increased by 11% in Q3 from the last quarter.

Existing advertisers include multi-national corporations such as Ericsson, Samsung, AMD, Reader’s Digest, Coca-Cola and Bupa, as well as Shanghai Telecom, Levis and ANZ.

During the third quarter *expresso* continued to build momentum by securing several new advertiser clients, including Corona Beer, Philips, HP, Samsung, and Siemens. It also secured technology clients including ANZ, Great Eastern Life, and Pepsi, who utilized the doublebyte content management and delivery capability, as well as advanced tracking and reporting engines. Open rates remain within a range of 20-60%. *expresso* was further refined in version 1.2, to include dynamic integration and viral marketing. To date, customer feedback has been encouraging.

Prior to the commencement of Q3 2001, the company terminated its licensing agreements with 24/7 Media, Inc. (now known as 24/7 RealMedia) and the use of the technologies they provided. The e-marketing business has launched its own *expresso* email marketing technology and began promoting its own brand MEZZO Marketing.

### **chinadotcom media assets**

chinadotcom rolled out its fee-based services such as paid e-mail and SMS services in its portal network and have gained a positive response since their launch. The paid e-mail service in China has recorded a strong registered user base in the first six weeks since its launch. These early customers should form a strong base for the ongoing initiatives for subscription based products and services in the coming months.



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hongkong.com investments made over the past several quarters showed good progress during Q3. Operating performance from TTG Asia, the leading travel publisher and exhibition organizer in Asia, improved partly as a result of the launch of its online initiatives, thereby generating heightened interest from customers. Additionally, hongkong.com's online travel business has been gaining increasing interest from the industry, including the recent signing of agreements with over 10 major hotels in Taiwan to conduct e-commerce using hongkong.com's solutions. This is the first step in the company's Greater China travel strategy to address a market with significant growth potential.

### Recent Developments

In new business developments, chinadotcom's e-solutions arm, e2e Business Solutions Ltd., has reached an agreement with Sun Microsystems to become a member of the "Sun Developer Connection Program." e2e is also establishing a Software Development Center (SDC) in China, whose products will be designed to be compliant with Sun ONE architecture. The first product from this SDC will be an Internet-based technology platform automating Customer Relationship Management (CRM) processes especially tailored for the Chinese language environment. The company has also partnered with Oracle to provide end-to-end solutions including Supply Chain Management (SCM), Enterprise Resources Planning (ERP) and CRM to large enterprises in China. e2e's competitive advantage comes from its focus on building solutions with a full Chinese language interface aimed at key China industries such as high technology manufacturing, consumer goods and automotive.

Peter Yip, CEO of chinadotcom, said, "Last quarter we successfully launched our proprietary technology, *expresso*. Our recent commitment to work with Sun Microsystems to create a CRM platform is a continuation of our drive to improve our business mix by building our own proprietary technology for the Asia and China markets that should produce high margin recurrent revenues."

Mr. Yip added, "We have been patient and deliberate with our investment and acquisition program and that patience has paid off for us now that there are much better acquisition opportunities at tremendously lower valuations than before. Any acquisitions we make will align with our core competencies, with the aim of improving our business fundamentals to reach EBIDTA breakeven and create long term shareholder value."

In September 2001, chinadotcom established a US\$240 million collateralized credit facility with a leading European bank, providing flexibility for short-term liquidity, treasury management and acquisition activity, as appropriate. chinadotcom had drawn down US\$55 million as of the end of Q3 2001 and US\$65 million to date, primarily to take advantage of lower borrowing costs to enhance the company's treasury yield and provide liquidity and flexibility for short term working capital requirements.

In recognition of the fact that many of chinadotcom's employees held options that had strike prices far above the then current strike price, the company believed that it was important to implement an employee share option replacement program in August 2001. This program allowed certain qualified employees the voluntary right to tender their existing share options for cancellation by the company in exchange for new share options to be granted more than six months after cancellation, with a strike price at the fair market value of the shares on the day of the new grant. Approximately 1.4 million share options were tendered for cancellation and approximately 1.1 million new options



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are to be issued in late February 2002. See Form CB filed with the SEC on August 22, 2001 for further information of this program.

Subsequent to the end of Q3 2001, an affiliate of the company has reached agreement with chinadotcom's former parent to purchase the three website domain names, or Uniform Resource Locators (URLs), [www.china.com](http://www.china.com), [www.hongkong.com](http://www.hongkong.com), and [www.taiwan.com](http://www.taiwan.com), which chinadotcom had previously licensed. This transaction is intended to close next year contingent upon various closing conditions. The purchase includes all of the intellectual property rights to the URLs and secures the integral brand identity associated with the URLs, which chinadotcom has established over the past several years. The company believes that by purchasing the URLs it has reduced the risks associated with its previous licensing arrangements for these URLs as highlighted in chinadotcom's year 2000 20-F filing.

Based upon chinadotcom's analysis as of the end of Q3, the company projects that for 2001 it will be a "passive foreign investment company" for U.S. Federal income tax purposes which will subject applicable U.S. holders to special tax rules. Please refer to the company's year 2000 20-F filing for further details and U.S. holders are advised to consult their tax advisors.

Also, in September 2001, chinadotcom announced a US\$20 million stock repurchase program. This long-term program reflects the company's confidence in its future and business growth prospects in the Asia Pacific region.

In recognition of the September 11 tragedy, the company initiated a matching fund raising campaign among its employees for the benefit of The September 11<sup>th</sup> Fund, a joint effort of United Way of New York City and The New York Community Trust which provides assistance to the victims, families and communities affected by the terrorist attacks.

### **Conference Call**

chinadotcom will hold a conference call to discuss its third quarter results and its business outlook for 2001 at 9:00 am EST on November 9, 2001. Investors can listen to the conference call on the Internet at [webcast.talkpoint.com/starthere.asp?pres=16275](http://webcast.talkpoint.com/starthere.asp?pres=16275). For those unable to listen to the live broadcast, a replay will be available after the call at [www.corp.china.com/shares.htm](http://www.corp.china.com/shares.htm)

\*All references to "pro forma" in this press release shall refer to the referenced financial numbers excluding costs associated with providing support services to the AOL-Hong Kong operation and the non-recurring expenses set forth in the financial statements included in this document. Q2 2001 cash operating loss has been restated to exclude revenues from Korean operation, Clic. Cash operating loss is defined as gross profit minus selling, general & administrative (SG&A) expenses. Actual reported loss of US\$24.8 million includes depreciation and amortization, interest income, taxes and one-time goodwill impairment.

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### **About chinadotcom corporation**

chinadotcom corporation (NASDAQ: CHINA; Website: [www.corp.china.com](http://www.corp.china.com)) is a leading integrated Internet company offering e-business solutions, portal and e-marketing services.



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Through its three-dimensional business model, chinadotcom provides a full range of Internet services around the world that: 1) build e-business strategies and solutions (chinadotcom **e-solutions**), 2) distribute content via its portal network (chinadotcom **media assets**), and 3) sell services through online marketing (chinadotcom **e-marketing**).

The company and its subsidiaries have offices in 10 markets - Japan, Korea, Australia, Mainland China, Hong Kong, Taiwan, Singapore, Malaysia, the UK and the US. For more information about chinadotcom corporation, please visit [www.corp.china.com](http://www.corp.china.com)

### **Safe Harbor Statement**

This press release includes certain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements are based on chinadotcom management's current expectations and are subject to risks and uncertainties and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein. All forward-looking statements included in this press release are based upon information available to chinadotcom as of the date of the press release, and it assumes no obligation to update or alter its forward looking statements whether as a result of new information, future events or otherwise. Further information on risks or other factors that could affect chinadotcom's results of operations is detailed in its filings with the United States Securities and Exchange Commission, including the Annual Report for the year ended December 31, 2000 on Form 20-F filed on May 10, 2001.

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