

SINA COM  
Form 10-Q  
May 15, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number 000-30698

**SINA.com**

(Exact Name of Registrant as Specified in Its Charter)

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Cayman Islands  
(State or other jurisdiction of  
incorporation or organization)

52-2236363  
(I.R.S. Employer  
Identification Number)

Vicwood Plaza  
Rooms 1801-4  
18th Floor  
199 Des Voeux Road  
Central, Hong Kong  
(852) 2155-8800

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Charles Chao  
2988 Campus Dr., Suite 100  
San Mateo, CA 94403  
(650) 638-9228

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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The number of shares outstanding of the registrant's ordinary shares as of April 30, 2002 was 45,896,770.

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## PART I UNAUDITED FINANCIAL INFORMATION

**Item 1. Condensed Consolidated Financial Statements****SINA.COM**

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(in U.S. dollars)**  
**(unaudited, in thousands)**

|  | <u>March 31,</u><br><u>2002</u> | <u>June 30,</u><br><u>2001</u> |
|--|---------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                                 |                                |
| Current assets:                            |                                 |                                |
| Cash and cash equivalents                  | \$ 26,620                       | \$ 52,505                      |
| Short-term investments                     | 66,939                          | 57,284                         |
| Accounts receivable, net                   | 4,644                           | 4,262                          |
| Prepaid expenses and other current assets  | 1,798                           | 1,350                          |
|  | <u>100,001</u>                  | <u>115,401</u>                 |
| Property and equipment, net                | 8,704                           | 11,911                         |
| Intangible assets, net                     |                                 | 5,063                          |
| Long-term investment                       | 17,609                          |                                |
| Other assets                               | 306                             | 747                            |
|  | <u>126,620</u>                  | <u>133,122</u>                 |
| Total assets                               | \$ 126,620                      | \$ 133,122                     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b> |                                 |                                |
| Current liabilities:                       |                                 |                                |
| Accounts payable                           | \$ 1,181                        | \$ 1,613                       |
| Accrued liabilities                        | 8,406                           | 11,542                         |
|  | <u>9,587</u>                    | <u>13,155</u>                  |
| Total current liabilities                  | 9,587                           | 13,155                         |
| Loan from a shareholder                    | 4,000                           |                                |
|  | <u>13,587</u>                   | <u>13,155</u>                  |
| Total liabilities                          | 13,587                          | 13,155                         |
| Commitments and contingencies (Note 6)     |                                 |                                |
| Shareholders' equity:                      |                                 |                                |
| Ordinary shares                            | 6,106                           | 5,504                          |
| Additional paid-in capital                 | 223,311                         | 220,671                        |
| Notes receivable from shareholders         | (1,050)                         | (1,479)                        |
| Deferred stock compensation                | (1,808)                         | (5,423)                        |
| Accumulated deficit                        | (113,499)                       | (99,301)                       |
| Accumulated other comprehensive loss:      |                                 |                                |
| Cumulative translation adjustments         | (27)                            | (5)                            |
|  | <u>113,033</u>                  | <u>119,967</u>                 |
| Total shareholders' equity                 | 113,033                         | 119,967                        |
| Total liabilities and shareholders' equity | \$ 126,620                      | \$ 133,122                     |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Table of Contents****SINA.COM****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(in U.S. dollars)****(unaudited, in thousands, except per share amounts)**

|   | Three Months Ended |                   | Nine Months Ended  |                    |
|---|--------------------|-------------------|--------------------|--------------------|
|   | March 31,<br>2002  | March 31, 2001    | March 31, 2002     | March 31, 2001     |
| <b>Net revenues:</b>  |                    |                   |                    |                    |
| Advertising   | \$ 5,001           | \$ 5,429          | \$ 15,272          | \$ 18,385          |
| Software products   | 171                | 425               | 776                | 1,815              |
| E-commerce and other  | 1,943              | 275               | 3,897              | 704                |
|   | <u>7,115</u>       | <u>6,129</u>      | <u>19,945</u>      | <u>20,904</u>      |
| <b>Cost of revenues:</b>                                      |                    |                   |                    |                    |
| Advertising   | 2,753              | 3,377             | 8,847              | 10,704             |
| Software products   | 1                  | 69                | 35                 | 624                |
| E-commerce and other  | 633                | 115               | 1,073              | 384                |
| Stock-based compensation                                      | 31                 | 96                | 104                | 334                |
|   | <u>3,418</u>       | <u>3,657</u>      | <u>10,059</u>      | <u>12,046</u>      |
| Gross profit  | <u>3,697</u>       | <u>2,472</u>      | <u>9,886</u>       | <u>8,858</u>       |
| <b>Operating expenses:</b>                                    |                    |                   |                    |                    |
| Sales and marketing   | 3,072              | 5,634             | 9,578              | 17,657             |
| Product development   | 1,574              | 2,364             | 5,079              | 7,372              |
| General and administrative                                    | 2,183              | 2,063             | 6,004              | 6,074              |
| Stock-based compensation*                                     | 520                | 1,583             | 1,735              | 5,767              |
| Amortization of intangible assets                             | 1,687              | 1,688             | 5,063              | 5,077              |
| Total operating expenses                                      | <u>9,036</u>       | <u>13,332</u>     | <u>27,459</u>      | <u>41,947</u>      |
| Loss from operations  | (5,339)            | (10,860)          | (17,573)           | (33,089)           |
| Interest income, net  | 1,068              | 1,850             | 3,495              | 5,850              |
| Loss before gain/loss on equity investments                   | (4,271)            | (9,010)           | (14,078)           | (27,239)           |
| Gain/(loss) on equity investments                             | 300                |                   | (120)              | (894)              |
| Net loss  | <u>\$ (3,971)</u>  | <u>\$ (9,010)</u> | <u>\$ (14,198)</u> | <u>\$ (28,133)</u> |
| Basic and diluted net loss per share                          | <u>\$ (0.09)</u>   | <u>\$ (0.22)</u>  | <u>\$ (0.32)</u>   | <u>\$ (0.70)</u>   |
| Shares used in computing basic and diluted net loss per share | <u>45,488</u>      | <u>40,300</u>     | <u>43,894</u>      | <u>39,996</u>      |

\* Stock-based compensation was allocated among the associated expense categories as follows:



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|                            |                   |                   |                   |                   |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| Sales and marketing        | \$ 16             | \$ 49             | \$ 52             | \$ 178            |
| Product development        | 167               | 512               | 556               | 1,865             |
| General and administrative | 337               | 1,022             | 1,127             | 3,724             |
|                            | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|                            | \$ 520            | \$ 1,583          | \$ 1,735          | \$ 5,767          |
|                            | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(in U.S. dollars)**  
**(unaudited, in thousands)**

|   | <u>Nine Months Ended</u>        |                                 |
|---|---------------------------------|---------------------------------|
|   | <u>March 31,</u><br><u>2002</u> | <u>March 31,</u><br><u>2001</u> |
| <b>Cash flows from operating activities:</b>                                |                                 |                                 |
| Net loss  | \$(14,198)                      | \$(28,133)                      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                 |                                 |
| Loss on equity investments  | 120                             | 894                             |
| Loss on disposal of fixed assets  | 244                             |                                 |
| Depreciation and amortization   | 3,903                           | 2,469                           |
| Stock-based compensation  | 1,839                           | 6,101                           |
| Amortization of intangible assets   | 5,063                           | 5,077                           |
| Changes in assets and liabilities   |                                 |                                 |
| Accounts receivable, net  | (382)                           | (728)                           |
| Prepaid expenses and other current assets                                   | (448)                           | (150)                           |
| Other assets  | 441                             | (426)                           |
| Accounts payable  | (432)                           | 687                             |
| Accrued liabilities   | (2,941)                         | 3,453                           |
|   | <u>(6,791)</u>                  | <u>(10,756)</u>                 |
| <b>Cash flows from investing activities:</b>                                |                                 |                                 |
| Acquisition of property and equipment                                       | (1,193)                         | (5,024)                         |
| Acquisition of long-term investment   | (8,595)                         |                                 |
| Purchase of short-term investments  | (9,655)                         | (29,488)                        |
|   | <u>(19,443)</u>                 | <u>(34,512)</u>                 |
| <b>Cash flows from financing activities:</b>                                |                                 |                                 |
| Proceeds from issuance of ordinary shares                                   | 27                              | 1,461                           |
| Repurchase of ordinary shares   | (107)                           |                                 |
| Proceeds from notes receivable from shareholders                            | 429                             | 450                             |
|   | <u>349</u>                      | <u>1,911</u>                    |
| Net decrease in cash and cash equivalents                                   | (25,885)                        | (43,357)                        |
| Cash and cash equivalents at beginning of period                            | 52,505                          | 99,149                          |
|   | <u>\$ 26,620</u>                | <u>\$ 55,792</u>                |
| <b>Supplemental disclosure of noncash investment activities:</b>            |                                 |                                 |
| Ordinary shares issued for acquisition of long-term investment              | \$ 5,098                        | \$                              |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*



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**SINA.COM**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(in U.S. dollars, unaudited)**

**1. The Company and Basis of Presentation**

SINA.com ( SINA or the Company ) is a leading Internet media and services company for Chinese communities worldwide offering a full array of Chinese-language news, entertainment, e-commerce platforms, financial information, and lifestyle tips. With separate Web sites in China, Hong Kong, Taiwan and North America, SINA provides global content and services that speak directly to the audience of each region, enriching the online experience of its users.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reporting period. Actual results will differ from those estimates, and such differences may be material to the financial statements.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary to a fair statement of the results for the interim periods presented. Results for the three and nine months ended March 31, 2002 are not necessarily indicative of results for the entire fiscal year ending June 30, 2002 or future periods. These financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

**2. Recent Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to stop amortizing goodwill and indefinite lived intangible assets created by business combinations accounted for using the purchase method of accounting. Instead, goodwill and indefinite lived intangible assets will be subject to an annual review for impairment and will be written down and charged to results of operations only in the periods in which the recorded value of goodwill and indefinite lived intangible assets exceed their fair values. The adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , which is required to be applied starting with years beginning after December 15, 2001. SFAS No. 144 requires, amongst other things, the application model for long-lived assets that are impaired or to be disposed of by sale. The adoption of SFAS No. 144 is not expected to have a significant impact on the Company's financial statements.

**3. Net Loss Per Share**

Net loss per share is computed using the weighted average number of the ordinary shares outstanding during the period. Since the Company has a net loss for all periods presented, net loss per share on a diluted basis is equivalent to basic net loss per share because the effect of converting stock options would be anti-dilutive. Ordinary shares that are subject to the Company's right to repurchase are excluded from the basic and diluted net loss per share calculations.

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The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

| (in thousands, except for per share amounts)   | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |             |
|--|---------------------------------|------------|--------------------------------|-------------|
|  | 2002                            | 2001       | 2002                           | 2001        |
| Net loss   | \$ (3,971)                      | \$ (9,010) | \$ (14,198)                    | \$ (28,133) |
| Basic and diluted:   |                                 |            |                                |             |
| Weighted average shares used in computing basic and diluted net loss per ordinary shares   | 45,488                          | 40,300     | 43,894                         | 39,996      |
| Basic and diluted net loss per share attributable to ordinary shareholders   | \$ (0.09)                       | \$ (0.22)  | \$ (0.32)                      | \$ (0.70)   |
| Weighted average antidilutive securities including options and restricted ordinary shares not included in net loss per share calculation | 3,992                           | 6,195      | 3,992                          | 6,195       |

**4. Long-Term Investment**

On September 28, 2001, the Company completed the acquisition of an approximately 27.6% equity interest in Sun Television Cybernetworks Holdings Limited ( Sun TV ), a Hong Kong Stock Exchange listed company, from Ms. Yang, the chairperson and a major shareholder of Sun TV for a consideration of \$7.9 million in cash and approximately 4.6 million in newly issued ordinary shares and transaction costs of \$731,000 for a total purchase price of \$13.7 million. In addition, the Company agreed to issue 3.3 million ordinary shares if Sun TV meets certain performance targets over the next 18 months. This contingent consideration of 3.3 million ordinary shares, however, was waived in April 2002 via an amendment to the original Share Purchase Agreement with Ms. Yang. The investment is accounted for using the equity method of accounting.

As of March 31, 2002, the investment in Sun TV had a market value of \$28.6 million.

The purchase price was allocated as follows (in thousands):

|                                |           |
|--------------------------------|-----------|
| Net assets                     | \$ 8,935  |
| Identifiable intangible assets | 3,794     |
| Goodwill                       | 1,000     |
| Purchase price                 | \$ 13,729 |

On September 28, 2001, the Company entered into a loan agreement with Sun TV in which the Company agreed to provide a loan facility of \$4.0 million to Sun TV for general working capital purpose. On the same date, the Company entered into another loan agreement with Ms. Yang, in which Ms. Yang agreed to loan \$4.0 million to the Company to finance the above \$4.0 million loan facility granted to Sun TV. Under this loan agreement, the Company shall be obliged to repay the loan to Ms. Yang only if Sun TV has first complied with all its payment obligations and the Company has received all monies due under the loan agreement between the Company and Sun TV.

These two loan agreements have identical terms that both loan facilities are unsecured, bear interest at LIBOR plus a margin of 1% per annum and are repayable on September 28, 2004. The Company's \$4.0 million loan facility to Sun TV was included in the long-term investment and the \$4.0 million loan from Ms. Yang was recorded as a long-term liability as of March 31, 2002.

In April 2002, both loan facilities were terminated through mutual agreements and all the accrued interests on the loans were waived. As a result, Sun TV repaid \$4.0 million directly to Ms. Yang.

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Through March 31, 2002, the Company recorded a loss of \$120,000 on its investment in Sun TV, representing (i) the Company's share of Sun TV's reported loss; (ii) amortization of intangible assets; and (iii) gain related to the issuance of new shares by Sun TV to other investors at a price higher than the Company's investment cost. This new issuance of shares by Sun TV resulted in a further dilution of the Company's interest in Sun TV to 21.8% as of March 31, 2002.

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### **5. Segment Information**

Based on the criteria established by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company currently operates in three principal business segments globally. The Company does not allocate any operating costs or assets to its advertising, software and e-commerce and other segments as management does not use this information to measure the performance of these operating segments. Management does not believe that allocating these expenses or assets is material in evaluating these segments' performance.

### **6. Commitments and Contingencies**

There are uncertainties regarding the legal basis of the Company's ability to operate an Internet business and to advertise in China. Although the country has implemented a wide range of market-oriented economic reforms, the telecommunication, information and media industries remain highly regulated. Not only are restrictions currently in place, but also regulations are unclear regarding in what specific segments of these industries companies with foreign investors, including the Company, may operate. Therefore, the Company might be required to limit the scope of its operations in China, and this could have a material adverse effect on the Company's financial position, results of operations and cash flows.

We are involved in certain lawsuits in the normal course of our business operations in China and we do not expect that the outcome of these lawsuits will have material impact on our financial positions or results of operations.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect", "anticipate", "intend", "believe", or similar language. All forward-looking statements included in this documents are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth below under the caption "Certain Business Risks" set forth herein. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

### **Overview**

We are a leading Internet media and services company for Chinese communities worldwide. We offer a portal network of four localized Web sites targeting China, Taiwan, Hong Kong and overseas Chinese in North America. Our users enjoy a full array of Chinese-language media, communications, business, enterprise and commerce service offerings. In addition, we offer proprietary software products that simplify access to Chinese Internet content.

We derive our revenues from several sources, including online Internet advertising, software sales, and e-commerce and other fee-based services. Advertising revenues are derived principally from advertising arrangements under which we receive revenues on a cost-per-thousand impression basis, fixed payment sponsorship from advertisers, and design of advertising campaigns to be placed on our network. We derive our software revenues from sales of our software products primarily in China and Hong Kong through our network of OEM partners, value-added resellers, distributors, retail merchants, and our direct sales force. Our e-commerce and other revenues are mainly derived from transaction and slotting fees paid by merchants for selective positioning and promoting their goods or services within our online mall, SinaMall, and from fee-based premium services including short message, subscription service and paid email services.

We have incurred significant net losses and negative cash flows from operations since our inception. As of March 31, 2002, we had an accumulated deficit of \$113.5 million. These losses have been funded primarily through the issuance of our equity securities in the private and public market. We anticipate net losses and negative cash flows from operations in the foreseeable future.

We recorded cumulative deferred stock compensation of approximately \$33.4 million, net through March 31, 2002, which represents the difference between the exercise price of options granted through March 31, 2002 and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was \$7.5 million and \$19.1 million in

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fiscal 2001 and 2000, respectively. We expect the amortization of deferred compensation to be approximately \$2.3 million for fiscal 2002, \$1.0 million for fiscal 2003 and \$0.1 million for fiscal 2004.

On September 28, 2001, we completed the acquisition of an approximately 27.6% equity interest in Sun Television Cybernetworks Holdings Limited ( Sun TV ), a Hong Kong Stock Exchange listed company, from Ms. Yang, the chairperson and a major shareholder of Sun TV for a total consideration of \$7.9 million in cash and approximately 4.6 million in newly issued ordinary shares. In addition, we agreed to issue 3.3 million ordinary shares if Sun TV meets certain performance targets over the next 18 months. This contingent consideration of 3.3 million ordinary shares, however, was waived in April 2002 via an amendment to the original Share Purchase Agreement with Ms. Yang. The investment is accounted for using the equity method of accounting.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, bad debts, investments, intangible assets, income taxes, financing operations, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

We derive our revenues from sale of banner and sponsorship advertising services, proprietary software products and revenues from licenses and on-line commerce and other fee-based services. In accordance with general accepted accounting principles in the United States of America, the recognition of these revenues is partly based on our assessment of the probability of collection of the resulting accounts receivable balance. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection of accounts receivable had been made at the time the transactions were recorded in revenue.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

We hold equity interest in a publicly traded company listed overseas. We record an investment impairment charge when we believe an investment has experienced a decline in value that is considered to be other than temporary. We monitor our investments for impairment by considering current factors including economic environment, market conditions and the operational performances and other specific factors relating to the business underlying the investment. Future adverse changes in these factors could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.



**Table of Contents****Results of Operations*****Three and Nine months ended March 31, 2002 and 2001******Net Revenues***

*Advertising.* Our advertising revenues were \$5.0 million and \$15.3 million for the three and nine months ended March 31, 2002, respectively, as compared to \$5.4 million and \$18.4 million for the same periods in fiscal 2001. The decrease was mainly in response to softness in the Internet advertising market in the U.S., Taiwan and Hong Kong. Approximately 350 and 693 customers advertised on our web sites during the three and nine months ended March 31, 2002, respectively, as compared to approximately 406 and 803 customers during the three and nine months ended March 31, 2001, respectively. For the three and nine months ended March 31, 2002, advertising revenues accounted for 70.3% and 76.6% of our total revenues, respectively. For the three and nine months ended March 31, 2001, advertising revenues accounted for 88.6% and 87.9% of our total revenues, respectively.

*Software.* Our software revenues were \$0.2 million and \$0.8 million for the three and nine months ended March 31, 2002, respectively, as compared to \$0.4 million and \$1.8 million for the same periods in fiscal 2001. The decrease was mainly due to the decline in demand for our software products and also due to the fact that, as part of our strategy to draw increased traffic to our portal networks, we provided more free downloads of some of our software products on our Web sites.

*E-commerce and other.* Our e-commerce and other revenues were \$1.9 million and \$3.9 million for the three and nine months ended March 31, 2002, respectively, as compared to \$0.3 million and \$0.7 million for the same periods in fiscal 2001. The increase was primarily due to the increased revenues from fee-based premium services including short message, subscription service and paid email service. For the three and nine months ended March 31, 2002, e-commerce and other revenues accounted for 27.3% and 19.5% of our total revenues, respectively. For the three and nine months ended March 31, 2001, e-commerce and other revenues accounted for 4.5% and 3.4% of our total revenues, respectively.

***Cost of Revenues***

*Advertising.* Our cost of advertising revenues decreased from \$3.4 million or 62.2% of net advertising revenue and \$10.7 million or 58.2% of net advertising revenue for the three and nine months ended March 31, 2001, respectively, to \$2.8 million or 55.0% of net advertising revenue and \$8.8 million or 57.9% of net advertising revenue for the three and nine months ended March 31, 2002, respectively. Our cost of advertising revenues consists of costs associated with the production of our Web site, which includes fees paid to third parties for Internet connection, content and services, and personnel related costs and equipment depreciation expense associated with our Web site production. Compared to the same periods in the prior year, the decrease in cost of advertising revenue in absolute dollars was primarily due to a decrease in Internet connection costs. We also lowered the personnel related costs by improving productivity and reducing headcount.

*Software.* Our cost of software revenues decreased from \$69,000 and \$624,000 for the three and nine months ended March 31, 2001, respectively, to \$1,000 and \$35,000 for the three and nine months ended March 31, 2002, respectively. The decreases were primarily due to the decrease in software revenues and to a higher percentage of the software revenues being derived from licensing arrangements, which involve minimal costs.

*E-commerce and other.* Our cost of e-commerce and other revenues increased from \$0.1 million and \$0.4 million for the three and nine months ended March 31, 2001, respectively, to \$0.6 million and \$1.1 million for the three and nine months ended March 31, 2002, respectively. Our cost of e-commerce and other revenues consists mainly of personnel costs, related overhead expenses and fees paid to third parties for service fees collection and for royalties. The increase in cost of e-commerce and other revenues was primarily due to the increase in fees paid to third parties for service fees collection and for royalties.

***Sales and Marketing Expenses***

Our sales and marketing expenses as a percentage of net revenues decreased from 91.9% and 84.5% for the three and nine months ended March 31, 2001, respectively, to 43.2% and 48.0% for the three and nine months ended March 31, 2002, respectively. In absolute dollars, our sales and marketing expenses decreased from \$5.6 million and \$17.7 million for the three and nine months ended March 31, 2001, respectively, to \$3.1 million and \$9.6 million for the three and nine months ended March 31, 2002, respectively. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion

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expenditures and travel expenses. The decreases were mainly attributable to the curtailment in spending for marketing and promotion of our Web sites and cost savings from workforce reductions.

### ***Product Development Expenses***

Our product development expenses as a percentage of net revenues decreased from 38.6% and 35.3% for the three and nine months ended March 31, 2001, respectively, to 22.1% and 25.5% for the three and nine months ended March 31, 2002, respectively. In absolute dollars, our product development expenses decreased from \$2.4 million and \$7.4 million for the three and nine months ended March 31, 2001, respectively, to \$1.6 million and \$5.1 million for the three and nine months ended March 31, 2002, respectively. Product development expenses consist primarily of personnel related expenses incurred for enhancement to and maintenance of our Web sites as well as engineering costs related to developing our software products and web products. The decrease was primarily attributable to our strategy of focusing new research and development efforts in China which has lower labor costs and reducing our engineering workforce in other locations.

### ***General and Administrative Expenses***

Our general and administrative expenses in absolute dollars and as a percentage of net sales were \$2.2 million and 30.7%, and \$6.0 million and 30.1% for the three and nine months ended March 31, 2002, respectively. There is no significant fluctuation as compared to the same periods in the prior year. Our general and administrative expenses in absolute dollars and as a percentage of net sales were \$2.1 million and 33.7%, and \$6.1 million and 29.1% for the three and nine months ended March 31, 2001, respectively.

### ***Stock-Based Compensation Expense***

In connection with the grant of certain stock options, we recorded unearned compensation of approximately \$33.4 million through March 31, 2002, which is being amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. Of the total unearned compensation, approximately \$0.6 million and \$1.8 million was amortized in the three and nine months ended March 31, 2002, respectively, as compared to \$1.7 million and \$6.1 million in the three and nine months ended March 31, 2001, respectively.

### ***Amortization of Intangible Assets***

As a result of the acquisition of Sinanet.com in March 1999, we recorded goodwill and other intangible assets of approximately \$20.3 million, which are being amortized over three years. The amortization expense was \$1.7 million for the three months ended March 31, 2002 and 2001, respectively, and was \$5.1 million for the nine months ended March 31, 2002 and 2001, respectively.

### ***Interest Income, Net***

Interest income, net, decreased from \$1.9 million and \$5.9 million for the three and nine months ended March 31, 2001, respectively, to \$1.1 million and \$3.5 million for the three and nine months ended March 31, 2002, respectively. The decrease in interest income was primarily due to the lower averaged cash and short-term investment balances for the three and nine months ended March 31, 2002 as compared to the same periods in fiscal 2001. To a less extent, the decrease was caused by a decline in interest rates.

### ***Gain/loss on Equity Investments***

In September 2001, we acquired an approximately 27.6% equity interest in Sun TV and account for the investment using the equity method of accounting. Our investment in Sun TV was diluted to 21.8% as of March 31, 2002 as a result of Sun TV's issuance of new shares. We recorded a \$300,000 gain and a \$120,000 loss from the investment during the three and nine months ended March 31, 2002, respectively.

In December 1999, we contributed \$1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd. We account for our investment in the joint venture using the equity method of accounting. We recorded a \$0.9 million loss from our investment in the joint venture during the nine months ended March 31, 2001. The investment was fully written off in fiscal 2001 upon the cessation of operations of this joint venture company.

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### **Liquidity and Capital Resources**

We have financed our operations principally through private sales of our preference shares and the initial public offering. From inception through March 31, 2002, we have raised net proceeds of \$97.5 million through the sale of preference shares and \$68.8 million from the sale of ordinary shares in the initial public offering. As of March 31, 2002, we had \$93.6 million in cash and cash equivalents and short-term investments.

Net cash used in operating activities was \$6.8 million for the nine months ended March 31, 2002 and was primarily attributable to our net loss of \$14.2 million, a decrease in accounts payable of \$0.4 million, a decrease in accrued liabilities of \$2.9 million and an increase in accounts receivable of \$0.4 million, largely offset by the non-cash stock-based compensation expense of \$1.8 million, depreciation expense of \$3.9 million and amortization expense of \$5.1 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com. Net cash used in operating activities was \$10.8 million for the nine months ended March 31, 2001 and was primarily attributable to our net loss of \$28.1 million and an increase in accounts receivable of \$0.7 million, largely offset by the non-cash stock-based compensation expense of \$6.1 million, an increase in accrued liability of \$3.5 million, depreciation expense of \$2.5 million and amortization expense of \$5.1 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com.

Net cash used in investing activities was \$19.4 million for the nine months ended March 31, 2002, primarily due to the purchase of short-term investments of \$9.6 million, acquisition of Sun TV of \$8.6 million and the purchase of capital equipment of \$1.2 million. Net cash used in investing activities was \$34.5 million for the nine months ended March 31, 2001, primarily due to the purchase of short-term investments of \$29.5 million and the purchase of capital equipment of \$5.0 million.

Net cash provided by financing activities was \$0.3 million for the nine months ended March 31, 2002, primarily related to the proceeds from the repayment of promissory notes of \$0.4 million offset by the repurchase of ordinary shares of \$0.1 million. Net cash provided by financing activities was \$1.9 million for the nine months ended March 31, 2001, primarily related to the proceeds from the exercise of stock options of \$0.8 million, the issuance of Ordinary Shares of \$0.7 million pursuant to Employee Stock Purchase Plan and the proceeds from the repayment of promissory notes of \$0.4 million.

We currently have no material commitments other than those operating leases for our facilities. As of March 31, 2002, the Company had future minimum rental lease payments of \$830,000, \$1,008,000, \$372,000 and \$46,000 due less than one year, one to three years, four to five years and after five years, respectively, under non-cancelable operating leases.

We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months. However, we may sell additional equities or obtain credit facilities to enhance our liquidity position. The sale of additional equity will result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

### **Risk Factors**

***Because our operating history is limited and the revenue and income potential of our business and markets are unproven, we cannot predict whether we will meet internal or external expectations of future performance.***

We believe that our future success depends on our ability to significantly increase revenue from our Internet advertising and electronic commerce operations, for which we have a limited operating history. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in an early stage of development. These risks include our ability to: attract advertisers; attract a larger audience to our network; respond effectively to competitive pressures and address the effects of strategic relationships or corporate combinations among our competitors; maintain our current, and develop new, strategic relationships; increase awareness of the SINA.com brand and continue to build user loyalty; attract and retain qualified management and employees; upgrade our technology to support increased traffic and expanded services; and expand the content and services on our network.

***We have a history of losses and we anticipate future losses.***

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We have never been profitable. As of March 31, 2002, we had an accumulated deficit of approximately \$113.5 million. We anticipate that we will continue to incur operating losses for the foreseeable future due to the uncertainty of our ability to grow revenue. As a result, we cannot be certain when or if we will achieve profitability. If we do not achieve or sustain profitability, the market price of our ordinary shares may decline.

***We are relying on advertising sales as a significant part of our future revenue, but the Internet has not been proven as a source of significant advertising revenue in Greater China.***

Our revenue growth is dependent on increased revenue from the sale of advertising space on our network and the acceptance and use of electronic commerce. Online advertising in Greater China is an unproven business and many of our current and potential advertisers have limited experience with the Internet as an advertising medium, have not traditionally devoted a significant portion of their advertising expenditures or other available funds to Web-based advertising, and may not find the Internet to be effective for promoting their products and services relative to traditional print and broadcast media. Our ability to generate and maintain significant advertising revenue will depend on a number of factors, many of which are beyond our control, including: the development of a large base of users possessing demographic characteristics attractive to advertisers; downward pressure on online advertising prices; the development of independent and reliable means of verifying levels of online advertising and traffic; and the effectiveness of our advertising delivery, tracking and reporting systems.

If the Internet does not become more widely accepted as a medium for advertising, our ability to generate increased revenue will be negatively affected.

***We are relying on electronic commerce as a significant part of our future revenue, but the Internet has not yet been proven as an effective commerce medium in Greater China.***

Our revenue growth also depends on the increasing acceptance and use of electronic commerce in Greater China. The Internet may not become a viable commercial marketplace in Asia for various reasons, many of which are beyond our control, including: inexperience with the Internet as a sales and distribution channel; inadequate development of the necessary infrastructure to facilitate electronic commerce; concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet; and inexperience with credit card usage or with other means of electronic payment in China.

If the Internet does not become more widely accepted as a medium for electronic commerce, our ability to generate increased revenue will be negatively affected.

***Underdeveloped telecommunications infrastructure has limited and may continue to limit the growth of the Internet market in China which, in turn, could limit our ability to grow our business.***

The telecommunications infrastructure in China is not well developed. Although private sector ISPs exist in China, almost all access to the Internet is accomplished through ChinaNet, China's primary commercial network, which is owned and operated by China Telecom, a state-owned enterprise directly controlled by Chinese MII. The underdeveloped Internet infrastructure in China has limited the growth of Internet usage in China. If the necessary Internet infrastructure is not developed, or is not developed on a timely basis, future growth of the Internet in China will be limited and our business could be harmed.

***We must rely on the Chinese government to develop China's Internet infrastructure and if it does not develop this infrastructure our ability to grow our business will be hindered.***

The Chinese government's interconnecting, national networks connect to the Internet through government-owned international gateways, which are the only channels through which a domestic Chinese user can connect to the international Internet network. We rely on this backbone and China Telecom to provide data communications capacity primarily through local telecommunications lines. Although the Chinese government has announced plans to develop aggressively the national information infrastructure, we cannot assure you that this infrastructure will be developed. In addition, we have no guarantee that we will have access to alternative networks and services in the event of any disruption or failure. If the necessary infrastructure standards or protocols or complementary products, services or facilities are not developed by the Chinese government, the growth of our business will be hindered.

***You should not rely on our quarterly operating results as an indication of our future performance because our results of operations are subject to significant fluctuations.***

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We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are outside our control. Factors that may cause our quarterly operating results to fluctuate include: our ability to retain existing users, attract new users at a steady rate and maintain user satisfaction; the announcement or introduction of new or enhanced services, content and products by us or our competitors; dependence on a limited number of advertisers, many of which have agreements with us that are cancelable upon a specified notice period, and the loss of any major advertiser; significant news events that increase traffic to our Web sites; technical difficulties, system downtime or Internet failures; demand for advertising space from advertisers; the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; governmental regulation; seasonal trends in Internet use; a shortfall in our revenues relative to our forecasts and a decline in our operating results due to our inability to adjust our spending quickly; and general economic conditions and economic conditions specific to the Internet, electronic commerce and the Greater China market.

As a result of these and other factors, you should not rely on quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the price of our ordinary shares could decline and you could lose part or all of your investment.

### ***Political and economic conditions in Greater China are unpredictable and may disrupt our operations if these conditions become unfavorable to our business.***

We expect to derive a substantial percentage of our revenues from the Greater China market. Changes in political or economic conditions in the region are difficult to predict and could adversely affect our operations or cause the Greater China market to become less attractive to advertisers, which could reduce our revenues. We maintain a strong local identity and presence in each of the regions in the Greater China market and we cannot be sure that we would be able to maintain effectively this local identity if political conditions were to change. Furthermore, many countries in Asia have experienced significant economic downturns since the middle of 1997, resulting in slower real gross domestic product growth for the entire region as a result of higher interest rates and currency fluctuations. If declining economic growth rates persist, expenditures for Internet access, infrastructure improvements and advertising could decrease, which would negatively affect our business and our profitability over time. In addition, the economic downturn in Asia could also lead to a devaluation of the currency of China, Taiwan or Hong Kong, which would decrease our revenues for the Greater China region in U.S. dollar terms.

In addition, economic reforms in the region could affect our business in ways that are difficult to predict. For example, since the late 1970s, the Chinese government has been reforming the Chinese economic system to emphasize enterprise autonomy and the utilization of market mechanisms. Although we believe that these reform measures have had a positive effect on the economic development in China, we cannot be sure that they will be effective or that they will benefit our business.

### ***We may be adversely affected by Chinese government regulation of Internet companies.***

The Chinese government heavily regulates its Internet sector including the legality of foreign investment in the Chinese Internet sector, the existence and enforcement of content restrictions on the Internet and the licensing and permit requirements for companies in the Internet industry. Because these laws, regulations and legal requirements with regard to the Internet are relatively new and untested, their interpretation and enforcement may involve significant uncertainty. In addition, the Chinese legal system is a civil law system in which decided legal cases have limited binding force as legal precedents. As a result, in many cases it is difficult to determine what actions or omissions may result in liability.

Issues, risks and uncertainties relating to China government regulation of the Chinese Internet sector include the following:

SINA only has contractual control over its Web site in China, it does not own it due to the prohibition of foreign investment in businesses providing value-added telecommunication services, including computer information services or electronic mail box services.

Under the agreement reached in November 1999 between the PRC and the United States, foreign ownership in PRC value-added telecommunication services, including internet services, will be allowed for up to 30% in the first year after China's entry into the World Trade Organization, or WTO, and up to 49% in the second year and up to 50% thereafter. Although, China was officially admitted to WTO in November 2001, it is still not clear how this agreement will be implemented.

The numerous and often vague restrictions on acceptable content in China subjects us to potential civil and criminal liability, temporary blockage of our Web site or complete cessation of our Web site. For example, the State Secrecy Bureau, which is

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directly responsible for the protection of state secrets of all Chinese government and Chinese Communist Party organizations, is authorized to block any Web site it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information.

The interpretation and application of existing Chinese laws and regulations, the stated positions of the MII and possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Chinese Internet businesses, including our business.

***We have attempted to comply with the strict licensing and registration requirements of the PRC government by entering into agreements with two Chinese entities majority owned by our employees; if the PRC government finds that these agreements do not comply with the licensing requirements, our business in the PRC will be adversely affected.***

Because the Chinese government restricts foreign investment in Internet-related businesses, we have restructured our China Internet operations by forming two Chinese entities to acquire appropriate government licenses to conduct our business there. The legal uncertainties associated with the Chinese government regulation may be summarized as follows: whether the Chinese government may view our restructuring as being in compliance with their regulations; whether the Chinese government may revoke such business licenses; whether the Chinese government may impose additional regulatory requirements with which we may not be in compliance; whether the Chinese government will permit the Chinese entities to acquire future licenses necessary in order to conduct operations in China; and whether the Chinese government will restrict or prohibit the distribution of content over the Internet.

The Chinese government regulates Internet access and the distribution of news and other information through strict business licensing and registration requirements and other governmental regulation. With respect to licensing, our subsidiary Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS, is currently licensed to operate as a software company. BSRS has entered into agreements with two Chinese entities: Beijing SINA Interactive Advertising Co., Ltd., a Chinese advertising company that is 75% owned by Yan Wang, our president, and 25% owned by BSRS, and which we refer to as the Ad Company, and Beijing SINA Internet Information Services Co., Ltd., a Chinese Internet content provider which we refer to as the ICP Company. The ICP Company was 30% owned by Daniel Mao, our chief executive officer, 30% owned by Yan Wang and 40% owned by four other employees who each owns 10% of the ICP Company.

Pursuant to these agreements, the ICP Company is responsible for operating www.sina.com.cn in connection with its Internet content company license and sells advertising space on www.sina.com.cn to the Ad Company. The Ad Company, in turn, sells advertisements in this space to third parties under its advertising license. In addition, BSRS has licensed intellectual property and transferred equipment to the ICP Company, and acts as the ICP Company's provider of technical services, all in exchange for fees or other payments. BSRS will also be a consultant and service provider to the Ad Company for its domestic Chinese customers.

We cannot be sure that these and other corporate activities carried out by us will be viewed by Chinese regulatory authorities as in compliance with applicable licensing requirements. Our business in China will be adversely affected if our business license is revoked as a result of non-compliance. In addition, we cannot be sure that we will be able to obtain all of the licenses we may need in the future or that future changes in Chinese government policies affecting the provision of information services, including the provision of online services and Internet access, will not impose additional regulatory requirements on us or our service providers or otherwise harm our business.

***We depend upon contractual arrangements with the Ad Company and the ICP Company for the success of our operations in China and these arrangements may not be as effective in providing operational control as direct ownership of these businesses.***

Because we are restricted by the Chinese government from providing Internet and advertising services directly in China, we are dependent on the Ad Company, of which we own 25%, and the ICP Company, of which we have no ownership interest, to provide such services through contractual agreements between the parties. This arrangement may not be as effective in providing control over advertising and Internet content operations in China as direct ownership of these businesses. For example, the Ad Company or ICP Company could fail to take actions required for our business, such as entering into advertising contracts with potential customers or failing to maintain our China Web site. The ICP Company will also be able to transact business with third parties not affiliated with BSRS. If the Ad Company or ICP fails to perform its obligations under these agreements, we would potentially have to rely on legal remedies under Chinese law, which we cannot be sure would be effective.

***We may not be in compliance with Chinese government regulations relating to foreign investment prohibitions and, if so determined, the Chinese government could cause us to discontinue our operations in China.***

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Chinese government policy prohibits foreign investment in the telecommunications services industry, which it has defined to include Internet-related businesses. While we believe that we are in compliance with current Chinese government policies, we cannot be sure that the government will view our business as in compliance with these policies or any policies that may be made in the future. If we are not viewed as complying with these policies or any regulations that may be created relating to foreign ownership of Internet-related businesses, the Chinese government could require us to discontinue our operations in China or take other actions that could harm our business.

***Even if we are in compliance with Chinese governmental regulations relating to licensing and foreign investment prohibitions, the Chinese government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.***

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet that it believes to violate Chinese law, including content that it believes is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion. Even if we comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government were to take any action to limit or prohibit the distribution of information through our network or to limit or regulate any current or future content or services available to users on our network, our business would be harmed.

We are also subject to potential liability for content on our Web sites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems under regulations promulgated by the Chinese MII. Furthermore, we are required to delete content that clearly violates the laws of China and report content that we suspect may violate Chinese law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our Web sites.

***We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations will be disrupted as we develop or license replacement software.***

Pursuant to the Regulations for the Administration of Commercial Encryption promulgated at the end of 1999, foreign and domestic Chinese companies operating in China are required to register and disclose to Chinese regulatory authorities the commercial encryption products they use. Because these regulations have just recently been adopted and because they do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant Chinese regulatory authorities for, our current or future encryption software. If Chinese regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations.

***The markets in which we operate are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors, many of which have greater financial resources than we do or currently enjoy a superior market position than we do.***

The Asian market for Internet content and services is competitive and rapidly changing. Barriers to entry are minimal, and current and new competitors can launch new Web sites at a relatively low cost. Many companies offer Chinese language content and services, including informational and community features, and email and electronic commerce services in the Greater China market that may be competitive with our future offerings. We also face competition from providers of software and other Internet products and services that incorporate search and retrieval features into their offerings. In addition, entities that sponsor or maintain high-traffic Web sites or that provide an initial point of entry for Internet users, such as ISPs, including large, well-capitalized entities such as Microsoft (MSN), Yahoo!, PCCW-HKT (Netvigator) and AOL, currently offer and could further develop or acquire content and services that compete with those that we offer. We expect that as Internet usage in Greater China increases and the Greater China market becomes more attractive to advertisers and for conducting electronic commerce, large global competitors may increasingly focus their resources on the Greater China market. We also compete for advertisers with traditional media companies, such as newspapers, television networks and radio stations, that have a longer history of use and greater acceptance among advertisers. In addition, providers of Chinese language Internet tools and services may be acquired by, receive investments from or enter into other commercial relationships with large, well-established and well-financed Internet, media or other companies.

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A number of our current and potential future competitors have greater financial and other resources than we have, and may be able to more quickly react to changing consumer requirements and demands, deliver competitive services at lower prices and more effectively respond to new Internet technologies or technical standards.

Increased competition could result in reduced page views, loss of market share and lower profit margins from reduced pricing for Internet-based services.

***If we fail to develop successfully and introduce new products and services, our competitive position and ability to generate revenues will be harmed.***

We are developing new products and services. The planned timing or introduction of new products and services is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Moreover, we cannot be sure that any of our new products and services will achieve widespread market acceptance or generate incremental revenue.

***We have contracted with third parties to provide content and services for our portal network and to distribute our software, and we may lose users and revenue if these arrangements are terminated.***

We have arrangements with a number of third parties to provide content and services to our Web sites and to distribute our software. In the area of content, we have relied and will continue to rely almost exclusively on third parties for content that we publish under the SINA brand. Although no single third party content provider is critical to our operations, if these parties fail to develop and maintain high-quality and successful media properties, or if a large number of our existing relationships are terminated, we could lose users and advertisers and our brand could be harmed. We have recently experienced fee increase from some of our content providers. If this trend continues, our gross profit from online advertising may be adversely affected.

In the area of Web-based services, we have contracted with OpenFind for integrated Web search technology to complement our directory and navigational guide, and with Critical Path for our email services and third-party providers for our principal Internet connections. If we experience significant interruptions or delays in service, or if these agreements terminate or expire, we may incur additional costs to develop or secure replacement services and our relationship with our users could be harmed.

Substantial part of our e-commerce and other revenues is generated through short messaging services where we depend on mobile network operators for message delivery and payment collection. If we were unable to continue this arrangement, our short messaging services would be severely disrupted.

We depend on a third party's proprietary and licensed advertising serving technology to deliver advertisements to our network. If the third party fails to continue to support its technology or if its services fail to meet the advertising needs of our customers and we cannot find an alternative solution on a timely basis, our advertising revenue would decline.

In order to create traffic for our online properties and make them more attractive to advertisers and consumers, we have entered into distribution agreements and informal relationships with ISPs and personal computer manufacturers for the distribution of our software. These distribution arrangements typically are non-exclusive, and may be terminated upon little or no notice. If our software distributors were to terminate or modify their distribution arrangements, our ability to promote our network and generate revenue could be harmed.

***Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.***

We depend upon the continued contributions of our senior management and other key personnel, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could harm our business. We have experienced recent changes to our executive management team. In January 2001, Charles Chao was appointed as chief financial officer, replacing Victor Lee, and in June 2001, Daniel Mao was appointed as chief executive officer and Yan Wang was appointed as president, replacing Zhidong Wang. Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, marketing and customer service personnel, especially qualified personnel for our international operations in Greater China. In particular, we have experienced difficulty in hiring and retaining qualified personnel for our Hong Kong office and may experience similar problems in our other regional offices. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.



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### ***We may not be able to manage our expanding operations effectively, which could harm our business.***

We anticipate significant expansion of our business as we address growth in our customer base and market opportunities. In addition, the geographic dispersion of our operations requires significant management resources that our locally-based competitors do not need to devote to their operations. In order to manage the expected growth of our operations and personnel, we will be required to improve existing and implement new operational and financial systems, procedures and controls, and to expand, train and manage our growing employee base. Further, our management will be required to maintain and expand our relationships with various other Web sites, Internet and other online service providers and other third parties necessary to our business. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations.

### ***Our strategy of acquiring complementary assets, technologies and business may fail and may result in equity or earnings dilution.***

As part of our business strategy, we have acquired and intend to identify and acquire assets, technologies and business that are complementary to our existing business. Acquisition could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to potential unknown liabilities of acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition, we may have to obtain approval from the relevant PRC governmental authorities for the acquisitions and have to comply with any applicable PRC rules and regulations.

### ***Concerns about the security of electronic commerce transactions and confidentiality of information on the Internet may reduce use of our network and impede our growth.***

A significant barrier to electronic commerce and communications over the Internet in general has been a public concern over security and privacy, especially the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our destination sites and impede our growth.

### ***Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenues in U.S. dollar terms.***

We generate revenues and incur expenses and liabilities in Chinese renminbi, Taiwan dollars, Hong Kong dollars, and U.S. dollars. As a result, we are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable and the renminbi has appreciated slightly against the U.S. dollar. However, given recent economic instability and currency fluctuations, we can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. Our results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which our earnings and obligations are denominated. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of renminbi into foreign currency for current account items, conversion of renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of the renminbi in the future. Because a significant amount of our future revenues may be in the form of renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to utilize revenue generated in renminbi to fund our business activities outside China.

### ***Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or unauthorized tamperings with our systems.***

The continual accessibility of our Web sites and the performance and reliability of our network infrastructure are critical to our reputation and our ability to attract and retain users, advertisers and merchants. Any system failure or performance inadequacy that

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causes interruptions in the availability of our services or increases the response time of our services could reduce our appeal to advertisers and consumers. Factors that could significantly disrupt our operations include: system failures and outages caused by fire, floods, earthquakes, power loss, telecommunications failures and similar events; software errors; computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems; and security breaches related to the storage and transmission of proprietary information, such as credit card numbers or other personal information.

We have limited backup systems and redundancy. Recently, we experienced an unauthorized tampering of the mail server of our China Web site which briefly disrupted our operations. Future disruptions or any of the foregoing factors could damage our reputation, require us to expend significant capital and other resources and expose us to a risk of loss or litigation and possible liability. We do not carry sufficient business interruption insurance to compensate for losses that may occur as a result of any of these events. Accordingly, our revenues and results of operations may be adversely affected if any of the above disruptions should occur.

### ***The law of the Internet remains largely unsettled, which subjects our business to legal uncertainties that could harm our business.***

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business.

Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. For example, tax authorities in a number of states in the U.S. are currently reviewing the appropriate tax treatment of companies engaged in electronic commerce, and new state tax regulations may subject us to additional state sales and income taxes. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations.

### ***We may be subject to claims based on the content we provide over our network and the products and services sold on our network, which, if successful, could cause us to pay significant damage awards.***

As a publisher and distributor of content and a provider of services over the Internet, we face potential liability for: defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute; the selection of listings that are accessible through our branded products and media properties, or through content and materials that may be posted by users in our classifieds, message board and chat room services; losses incurred in reliance on any erroneous information published by us, such as stock quotes, analyst estimates or other trading information; unsolicited email, lost or misdirected messages, illegal or fraudulent use of email or interruptions or delays in email service; and product liability, warranty and similar claims to be asserted against us by end users who purchase goods and services through our SinaMall and any future electronic commerce services we may offer.

We may incur significant costs in investigating and defending any potential claims, even if they do not result in liability. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate enough to indemnify us against all potential liabilities.

### ***Privacy concerns may prevent us from selling demographically targeted advertising in the future and make us less attractive to advertisers.***

We collect personal data from our user base in order to understand better our users and their needs and to help our advertisers target specific demographic groups. If privacy concerns or regulatory restrictions prevent us from selling demographically targeted advertising, we may become less attractive to advertisers. For example, as part of our future advertisement delivery system, we may integrate user information such as advertisement response rate, name, address, age or email address, with third-party databases to generate comprehensive demographic profiles for individual users. In Hong Kong, however, we would be in violation of the Hong Kong Personal Data Ordinance unless individual users expressly consented to this integration of their personal information. The Ordinance provides that an Internet company may not collect information on its users, analyze the information for a profile of the

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user's interests and sell or transmit the profiles to third parties for direct marketing purposes without the user's consent. If we are unable to construct demographic profiles for Internet users because they refuse to give consent, we will be less attractive to advertisers and our business will suffer.

***We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.***

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our products is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriations of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

***We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.***

Third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

***We may be classified as a Passive Foreign Investment Company or as a Foreign Personal Holding Company, which could result in adverse U.S. tax consequences to you.***

Based upon the nature of our income and assets, we may be classified as a passive foreign investment company, or PFIC, or as a foreign personal holding company, or FPHC, by the United States Internal Revenue Service for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to you. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to more burdensome reporting requirements. We believe that we were not a PFIC or an FPHC for fiscal 2001 or previous years, and we do not expect to be either in the future. However, the determination of whether or not we are a PFIC or an FPHC is made on an annual basis, and those determinations depend on the composition of our income and assets, in the case of the PFIC rules, and income and shareholders, in the case of the FPHC rules, from time to time. Although in the past we have operated our business, and in the future we intend to operate our business so as to minimize the risk of PFIC or FPHC treatment, you should be aware that certain factors that could affect our classification as PFIC or FPHC are out of our control. For example, the calculation of assets for purposes of the PFIC rules depends in large part upon the amount of our goodwill, which in turn is based, in part, on the then market value of our shares, which is subject to change. Similarly, the composition of our income and assets is affected by the extent to which we spend the cash we have raised on acquisitions and capital expenditures. Therefore, we cannot be sure that we will not be a PFIC or an FPHC for the current or any future taxable year.

***Our stock price has been volatile historically, which may make it more difficult for you to resell shares when you want at prices you find attractive.***

The trading price of our common stock has been and may continue to be subject to wide fluctuations. From April 1, 2001 to March 31, 2002, the closing sale prices of our ordinary shares on the Nasdaq Stock Market ranged from \$1.06 to \$2.35 and the sale price of our ordinary shares closed at \$1.63 on April 30, 2002. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

***Recent terrorist activities and resulting military and other actions could adversely affect our business.***

The terrorist acts in New York, Washington, D.C. and Pennsylvania on September 11, 2001 have created an uncertain economic environment and we are unable to predict the impact these events, or the responses thereto, will have on the Company's business. The continued threat of terrorism within the United States and abroad and military action and heightened security measures in response to

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such threat may cause significant economic disruptions throughout the world. Our business, results of operations and financial condition could be materially and adversely affected to the extent such disruptions result in our inability to effectively market and sell our services and software.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

#### **Interest Rate Risk**

The Company's investment policy requires the Company to invest its excess cash in government or quasi-government securities and in high-quality corporate securities and limits the amount of credit exposure to any one issuer. The Company protects and preserves its invested funds by limiting default, market and reinvestment risk. Due to the fact that majority of our investments are in short-term instruments, we have concluded that there is no material market risk exposure in this area.

#### **Foreign Currency Exchange Rate Risk**

The majority of the Company's revenues derived and expenses and liabilities incurred were in Chinese renminbi, Taiwan dollars and Hong Kong dollars. Thus, our revenues and operating results may be impacted by exchange rate fluctuations in the currencies of China, Taiwan and Hong Kong. See Risk Factors Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenue in U.S. dollar terms. We have not tried to reduce our exposure to exchange rate fluctuations by using hedging transactions. However, we may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations.

We performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign exchange rates to the foreign subsidiaries and the underlying exposures described above. As of June 30, 2001 and 2000, the analysis indicated that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

#### **Investment Risk**

On September 28, 2001, we acquired an approximately 27.6% interest in the equity of Sun TV, a satellite TV broadcaster and a cable TV program syndicator listed on the Hong Kong Stock Exchange. As of March 31, 2002, our interest was diluted to 21.8% after the issuances of new shares by Sun TV. We have invested in this company for business and strategic purposes and have classified this investment as a long-term investment, which is accounted for using the equity method. Accordingly, the operations of Sun TV may have a material non-cash impact on our operating results in future periods.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of copyrights and other intellectual property rights in connection with the content published on our web sites.

The Company is not currently aware of any legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. However, the Company may incur substantial expenses in defending against third party claims. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these could have a material adverse effect on the Company's financial position, results of operations, or cash flows.

### **Item 2. Changes in Securities and Use of Proceeds**

On September 28, 2001, we completed the acquisition of an approximately 27.6% equity interest in Sun TV, a Hong Kong Stock Exchange listed company, from Ms. Yang, a major shareholder of Sun TV, for a total consideration of 4,592,944 newly issued SINA ordinary shares and \$7.9 million in cash. The ordinary shares issued to Ms. Yang or her designated entity were issued in a private placement without registration

under the Securities Act of 1933, as amended.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

In February 2002, Beijing Sina Internet Technology Service Co. Ltd. was formed in Beijing, China to engage in Internet and information technology-based services business. Beijing Sina Internet Technology Service Co. Ltd. is 100% owned by Rich Sight Investment Limited, a wholly owned subsidiary of the Company.

Subsequent Events:

On April 19, 2002, we entered into an Amendment Agreement with Ms. Yang and Mr. Wu to amend certain clauses of the Share Purchase Agreement dated September 12, 2001, as amended on September 28, 2001, among the parties. Pursuant to the Amendment Agreement, SINA is no longer required to issue any additional ordinary shares of the Company to Ms. Yang. According to the original terms, SINA was required to issue an additional 3,280,674 ordinary shares of the Company to Ms. Yang if Sun TV meets certain performance targets over the next 18 months beginning from October 2001.

On April 20, 2002, Mr. Wu resigned as a director of the Company.

On May 8, 2002, Mr. Yi-Chen Zhang was appointed as a director of the Company to fill a vacancy created by the resignation of Mr. Wu from the SINA board of directors.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 10.56: Sublease dated January 11, 2002 between E.PIPHANY, Inc. and SINA.
- 10.57: Lease Agreement of Modern City dated January 2002 among Hao Zhangang, Hao Jianing, Meng Caixia, Beijing Blue Sky Yunda Technology Development Co., Ltd. and Beijing Stone Rich Sight Information Technology Co., Ltd. for office located at 16th Floor, Block C, SOHO Modern City, 88 Jianguo Road, Chaoyang District, Beijing, China.
- 10.58: Supplemental Agreement to the Lease Agreement of Modern City dated January 2002 among Hao Zhangang, Hao Jianing, Meng Caixia, Beijing Blue Sky Yunda Technology Development Co., Ltd., Beijing Stone Rich Sight Information Technology Co., Ltd. and Scite International Property Management Co., Ltd. Beijing Scite Modern Branch for office located at 16th Floor, Block C, SOHO Modern City, 88 Jianguo Road, Chaoyang District, Beijing, China.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by SINA.com during the quarter ended March 31, 2002.

**SIGNATURE**

## Edgar Filing: SINA COM - Form 10-Q

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINA.com

Dated: May 14, 2002

By: /s/ Charles Chao

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Charles Chao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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