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SINA COM  
Form 10-Q  
November 14, 2001

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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 SEPTEMBER 30, 2001

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)  
-----

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)

-----  
CHARLES CHAO  
1313 GENEVA DRIVE  
SUNNYVALE, CA 94089  
(408) 548-0000  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,  
INCLUDING AREA CODE, OF AGENT FOR SERVICE)  
-----

Indicate by check mark whether the registrant (1) has filed all reports required

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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 [X] No [ ]

The number of shares outstanding of the registrant's ordinary shares as of October 31, 2001 was 45,875,794.

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## PART I UNAUDITED FINANCIAL INFORMATION

### Item 1. Financial Statements

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CONDENSED CONSOLIDATED BALANCE SHEET  
(IN U.S. DOLLARS)  
(UNAUDITED, IN THOUSANDS)

	SEPTEMBER 30, 2001	JUNE 30, 2001
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 31,603	\$ 52,505
Short-term investments .....	65,500	57,284
Accounts receivable, net .....	4,437	4,262
Prepaid expenses and other current assets .....	1,059	1,350
	-----	-----
Total current assets .....	102,599	115,401
Property and equipment, net .....	11,220	11,911
Intangible assets, net .....	3,375	5,063
Long-term investment (Note 4) .....	17,729	--
Other assets .....	1,157	747
	-----	-----
Total assets .....	\$ 136,080	\$ 133,122
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 1,565	\$ 1,613
Accrued liabilities .....	9,690	11,542
	-----	-----
Total current liabilities .....	11,255	13,155
	-----	-----
Loan from a shareholder (Note 4) .....	4,000	--
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Ordinary shares .....	6,104	5,504
Additional paid-in capital .....	223,340	220,671
Notes receivables from shareholders .....	(1,050)	(1,479)
Deferred stock compensation .....	(2,962)	(5,423)
Accumulated deficit .....	(104,595)	(99,301)
Accumulated other comprehensive loss:		
Cumulative translation adjustments .....	(12)	(5)
	-----	-----
Total shareholders' equity .....	120,825	119,967
	-----	-----
Total liabilities and shareholders' equity ...	\$ 136,080	\$ 133,122
	=====	=====

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

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### CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (IN U.S. DOLLARS) (UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED	
	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
Net revenues:		
Advertising .....	\$ 5,144	\$ 6,265
Software products .....	309	709
E-commerce and other .....	608	179
	6,061	7,153
Cost of revenues:		
Advertising .....	3,026	3,612
Software products .....	25	276
E-commerce and other .....	52	128
Stock-based compensation .....	41	128
	3,144	4,144
Gross profit .....	2,917	3,009
Operating expenses:		
Sales and marketing .....	3,328	6,226
Product development .....	1,922	2,469
General and administrative .....	1,895	1,949
Stock-based compensation* .....	682	2,462
Amortization of intangible assets .....	1,688	1,702
Total operating expenses .....	9,515	14,808
Loss from operations .....	(6,598)	(11,799)
Interest income, net .....	1,304	2,000
Loss before loss on equity investment .....	(5,294)	(9,799)
Loss on equity investment .....	--	(450)
Net loss .....	\$ (5,294)	\$ (10,249)

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Basic and diluted net loss per share .....	\$ (0.13)	\$ (0.26)
	=====	=====
Shares used in computing basic and diluted net loss per share .....	40,798	39,565
	=====	=====
-----		
* Stock-based compensation was allocated among the associated expense categories as follows:		
Sales and marketing .....	\$ 20	\$ 76
Product development .....	218	796
General and administrative .....	444	1,590
	-----	-----
	\$ 682	\$ 2,462
	=====	=====

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)

	THREE MONTHS ENDED	
	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
	-----	-----
Cash flows from operating activities:		
Net loss .....	\$ (5,294)	\$ (10,249)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on equity investment .....	--	450
Depreciation and amortization .....	1,290	775
Stock-based compensation .....	723	2,590
Amortization of intangible assets .....	1,688	1,702
Changes in assets and liabilities,		
Accounts receivable, net .....	(175)	(1,155)
Prepaid expenses and other current assets .....	288	27
Other assets .....	(407)	217
Accounts payable .....	(48)	812
Accrued liabilities .....	(2,590)	2,238
	-----	-----
Net cash used in operating activities .....	(4,525)	(2,593)
	-----	-----
Cash flows from investing activities:		
Acquisition of property and equipment .....	(599)	(2,453)

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Acquisition of long-term investment .....	(7,900)	--
Purchase of short-term investments .....	(8,216)	(23,589)
	-----	-----
Net cash used in investing activities .....	(16,715)	(26,042)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares .....	16	1,276
Repurchase of ordinary shares .....	(107)	--
Proceeds from notes receivable from shareholders .....	429	19
	-----	-----
Net cash provided by financing activities .....	338	1,295
	-----	-----
Net decrease in cash and cash equivalents .....	(20,902)	(27,340)
Cash and cash equivalents at beginning of period .....	52,505	99,149
	=====	=====
Cash and cash equivalents at end of period .....	\$ 31,603	\$ 71,809
	=====	=====
Supplemental disclosure of noncash investing activities:		
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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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 Chinese media and Internet services company for Chinese communities worldwide, offering a full array of Chinese-language media, communications, business, enterprise and commerce services. With separate Web sites in China, Hong Kong, Taiwan and North America, SINA.com 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 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 months ended September 30, 2001 are not necessarily indicative of results

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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 June 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, warrants and mandatorily redeemable convertible preference shares 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:

	THREE MONTHS ENDED SEPTEMBER 30,	
(in thousands, except for per share data)	2001	2000
Net loss attributable to ordinary shareholders .....	\$ (5,294)	\$ (10,249)
	=====	=====
Basic and diluted:		
Weighted average shares used in computing basic and diluted net loss per ordinary share .....	40,798	39,565
	=====	=====

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Basic and diluted net loss per share attributable to ordinary shareholders .....	\$ (0.13)	\$ (0.26)
	=====	=====
Weighted average antidilutive securities including options, warrants, preference shares and restricted ordinary shares not included in net loss per share calculation .....	4,347	5,578
	=====	=====

#### 4. LONG-TERM INVESTMENT

On September 28, 2001, the Company completed the acquisition of an approximately 29% equity interest in Sun Television Cybernetworks Holdings Limited ("Sun TV"), a Hong Kong Stock Exchange listed company, from its major shareholder for a total consideration of \$7.9 million in cash and approximately 4.6 million in newly issued ordinary shares. In addition, the Company agreed to issue 3.3 million ordinary shares if Sun TV meets certain performance targets over the next 18 months. The investment will be accounted for using the equity method of accounting.

In addition, on September 12, 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 purposes. On the same date, the Company entered into another loan agreement with a shareholder, Ms. Lan Yang, the Chairperson and a shareholder of Sun TV, 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 is included in the long-term investment and the \$4.0 million loan from Ms. Yang is recorded as a long-term liability as of September 30, 2001.

#### 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 operates in two principal business segments globally. The Internet segment develops, designs and markets content and services through a network of SINA.com Web sites hosted in the U.S., China, Hong Kong and Taiwan. The Software segment develops, produces and markets software products and related services in China. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income or loss from operations before stock compensation, amortization of intangible assets, interest, nonrecurring gains and losses, foreign exchange gains and losses, and income taxes. Facilities costs are allocated to the segment's cost of revenues based on usage. Long-lived assets comprise property and equipment.

The following is a summary of operations by segment for the three months



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ended September 30, 2001 and 2000:

(IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30,			
	2001		2000	
	INTERNET	SOFTWARE	INTERNET	SOFTWARE
Revenues .....	\$ 5,752	\$ 309	\$ 6,444	\$ 709
Segment operating income (loss) ..	(4,351)	(64)	(7,592)	85

The following is a summary of total assets by segment as of September 30, 2001 and June 30, 2001:

(IN THOUSANDS)	THREE MONTHS ENDED SEPTEMBER 30,			
	2001		2000	
	INTERNET	SOFTWARE	INTERNET	SOFTWARE
Total assets .....	\$ 36,505	\$ 1,382	\$ 20,983	\$1,911

Reconciliation of segment information to financial statements:

	THREE MONTHS ENDED SEPTEMBER	
	2001	2000
LOSS FROM OPERATIONS:		
Total loss for reportable segments .....	\$ (4,187)	\$ (7,507)
Unallocated amounts:		
Stock-based compensation .....	(723)	(2,590)
Amortization of intangible assets .....	(1,688)	(1,702)
Loss from operations before interest, income taxes and minority interest .....	\$ (6,598)	\$ (11,799)
	=====	=====
	SEPTEMBER 30,	JUNE 30,
	2001	2001
ASSETS:		
Total assets for reportable segments .....	\$ 37,887	\$ 27,584
Cash and short-term investments not allocated to reportable segments .....	90,818	100,475
Intangible assets .....	3,375	5,063
	-----	-----

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\$ 132,080	\$ 133,122
=====	=====

### 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.

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### 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 "Risk Factors" 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.

One of our subsidiaries, Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS, a Sino-Foreign joint venture company based in Beijing, China, began operations in December 1993 as a computer software company focused on providing solutions to computer users wishing to communicate in Chinese. In May 1996, we launched our online network, then called SRSnet.com, offering Chinese-language news, information and community features such as bulletin boards and chat services targeted at online users in China. In March 1999, we expanded our online network by acquiring Sinanet.com, a leading Chinese-language Internet content company with offices in California and Taiwan and two distinct Web sites targeting Chinese users in North America and Taiwan. In July 1999, we continued our network expansion by launching our Hong Kong destination Web site targeting Chinese users in Hong Kong. Today, we operate separate Web sites in China, Hong Kong, Taiwan, and North America to provide global content and

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services that speak directly to the audience of each region, enriching the online experience of their users.

We derive our revenues from several sources, including online Internet advertising, software sales, and e-commerce. 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 and paid email services.

We have incurred significant net losses and negative cash flows from operations since our inception. As of September 30, 2001, we had an accumulated deficit of \$104.6 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 \$33.5 million, net through September 30, 2001, which represents the difference between the exercise price of options granted through September 30, 2001 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 fiscal 2001 and 2000, respectively. We expect the amortization of deferred compensation to be approximately \$3.5 million for fiscal 2002, \$1.6 million for fiscal 2003 and \$0.2 million for fiscal 2004.

On March 29, 1999, we acquired Sinanet.com. The fair value of the total consideration paid in the acquisition, including assumed liabilities of approximately \$4.3 million and acquisition costs of \$0.1 million, was \$21.7 million. The \$4.3 million in liabilities that we assumed included \$3.5 million of notes payable which were subsequently converted into our preference shares. We accounted for the acquisition as a purchase. We recorded goodwill and other intangible assets of approximately \$20.3 million as a result of this transaction, which are being amortized over a three-year period.

On September 28, 2001, we completed the acquisition of an approximately 29% equity interest in Sun Television Cybernetworks Holdings Limited ("Sun TV"), a Hong Kong Stock Exchange listed company, from its major shareholder 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. The investment will be accounted for using the equity method of accounting.

RESULTS OF OPERATIONS

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THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

### NET REVENUES

Advertising. Our advertising revenues were \$5.1 million and \$6.3 million for the three months ended September 30, 2001 and 2000, respectively. The decrease in advertising revenues for the three months ended September 30, 2001 compared to the same period in fiscal 2000 was primarily due to a decrease in number of advertisers and amount of advertising contracts. The decrease was mainly in response to softness in the Internet advertising market in the U.S., Taiwan and Hong Kong. Approximately 400 customers advertised on our web sites during the three months ended September 30, 2001 as compared to approximately 430 during the three months ended September 30, 2000. For the three months ended September 30, 2001 and 2000, advertising revenues accounted for 84.9% and 87.6% of our total revenues, respectively.

Software. Our software revenues were \$309,000 and \$709,000 for the three months ended September 30, 2001 and 2000, respectively. 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 \$608,000 and \$179,000 for the three months ended September 30, 2001 and 2000, respectively. The increase was primarily due to the increased e-commerce activities in SinaMall on our China site and new revenue sources from fee-based premium services including short message and paid email services.

### COST OF REVENUES

Advertising. Our cost of advertising revenues decreased from \$3.6 million or 57.7% of net advertising revenues for the three months ended September 30, 2000 to \$3.0 million or 58.8% of net advertising revenues for the three months ended September 30, 2001. 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 period in the prior year, the decrease in cost of 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 \$276,000 for the three months ended September 30, 2000 to \$25,000 for the three months ended September 30, 2001. The decrease was primarily due to the decrease in software revenues and to a higher percentage of software revenues being derived from licensing arrangements, which involve minimal costs.

E-commerce and Other. Our cost of e-commerce and other revenues decreased from \$128,000 for the three months ended September 30, 2000 to \$52,000 for the three months ended September 30, 2001. The decrease was primarily due to a decrease in personnel related costs and the lower costs of maintaining e-commerce activities. The costs associated with short message and paid email services were minimal.

### SALES AND MARKETING

Our sales and marketing expenses decreased from \$6.2 million or 87.0% of net revenues for the three months ended September 30, 2000 to \$3.3 million or 54.9%

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of net revenues for the three months ended September 30, 2001. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion expenditures and travel expenses. The decrease from quarter to quarter was mainly attributable to the curtailment in spending for marketing and promotion of our Web sites and cost savings realized from workforce reductions.

### PRODUCT DEVELOPMENT

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Our product development expenses decreased from \$2.5 million or 34.5% of net revenues for the three months ended September 30, 2000 to \$1.9 million or 31.7% of net revenues for the three months ended September 30, 2001. 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. The decrease from quarter to quarter was primarily attributable to our strategy of focusing new research and development efforts in China and reducing our engineering workforce in other locations.

### GENERAL AND ADMINISTRATIVE

Our general and administrative expenses were \$1.9 million or 31.3% of net revenues and \$1.9 million or 27.2% of net revenues for the three months ended September 30, 2001 and 2000, respectively. General and administrative expenses consist primarily of compensation for personnel, fees for professional services and provisions for doubtful accounts. The slight decrease in general and administrative expenses was a result of our cost reduction measures.

### STOCK-BASED COMPENSATION

In connection with the grant of certain stock options, we recorded net unearned compensation of approximately \$33.5 million, net through September 30, 2001, which is being amortized on an accelerated basis over the vesting period of the applicable options, which is generally four year. Of the total unearned compensation, approximately \$723,000 and \$2.6 million was amortized in the three months ended September 30, 2001 and 2000, 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 both quarters ended September 30, 2001 and 2000.

### INTEREST INCOME, NET

Interest income, net, decreased from \$2.0 million for the three months ended September 30, 2000 to \$1.3 million for the three months ended September 30, 2001. The decrease in interest income was primarily due to the lower averaged cash and short-term investment balances for the three months ended September 30, 2001 as compared to the same period in fiscal 2001.

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### LOSS ON EQUITY INVESTMENT

In December 2000, 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 \$450,000 loss from our investment in the joint venture during the three months ended September 30, 2000. The investment was fully written off in fiscal 2001 upon the cessation of operations of this joint venture company.

### 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 September 30, 2001, 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 September 30, 2001, we had \$97.1 million in cash and cash equivalents and short-term investments.

Net cash used in operating activities was \$4.5 million for the three months ended September 30, 2001 and was primarily attributable to our net loss of \$5.3 million and a decrease in accrued liability of \$2.6 million, largely offset by amortization expense of \$1.7 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com, depreciation expense of \$1.3 million and the non-cash stock-based compensation expense of \$723,000. Net cash used in operating activities was \$2.6 million for the three months ended September 30, 2000 and was primarily attributable to our net loss of \$10.2 million and an increase in accounts receivable of \$1.2 million, largely offset by the non-cash stock-based compensation expense of \$2.6 million, an increase in accrued liability of \$2.2 million and amortization expense of \$1.7 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com.

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Net cash used in investing activities was \$16.7 million for the three months ended September 30, 2001, primarily due to the \$7.9 million used to purchase an interest in Sun TV and the purchase of short-term investments of \$8.2 million. Net cash used in investing activities was \$26.0 million for the three months ended September 30, 2000, primarily due to the purchases of short-term investments of \$23.6 million and capital equipment of \$2.4 million.

Net cash provided by financing activities was \$0.3 million for the three months ended September 30, 2001, 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 \$1.3 million for the three months ended September 30, 2000, primarily related to the proceeds from the exercise of stock options of \$0.8 million and issuance of ordinary shares of \$0.5 million pursuant to the Employee Stock Purchase Plan.

We currently have no material commitments other than those operating leases for our facilities. 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

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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.

We have never been profitable. As of September 30, 2001, we had an accumulated deficit of approximately \$104.6 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.

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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.

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



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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

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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

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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.
- 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 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.

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.

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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.

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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,

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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. For example, America Online Inc. and Xinhua News Agency, one of our content suppliers, are major shareholders of Chinadotcom and News Corp Ltd. is a major shareholder of Netease.com.

A number of our current and potential future competitors have greater name recognition, larger customer bases and 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.

In the area of Web-based services, we have contracted with OpenFind for

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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.

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.

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.

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

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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

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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 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,

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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 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

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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.

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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 October 1, 2000 to September 30, 2001, the closing sale prices of our ordinary shares on the Nasdaq Stock Market ranged from \$1.08 to \$14.125 and the sale price of our ordinary shares closed at \$1.38 on October 31, 2001. 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 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.

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### 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 29% interest in the equity of Sun TV, a satellite TV broadcaster and a cable TV program syndicator listed on the Hong Kong Stock Exchange. 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.

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### PART II---OTHER INFORMATION

#### Item 1. Legal Proceedings

There are no material legal proceedings pending or, to our knowledge, threatened against us.

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

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On April 13, 2000, in connection with the Company's initial public offering, a Registration Statement on Form F-1 (No. 333-11718) was declared effective by the Securities and Exchange Commission, pursuant to which 4.6 million shares of the Company's ordinary shares were offered and sold for the account of the Company at a price of \$17.00 per share, generating gross offering proceeds of \$78.2 million. The managing underwriters were Morgan Stanley Dean Witter, China International Capital Corporation, Chase H&Q and Robertson Stephens.

The Company incurred the following expenses in connection with the offering:

Underwriting discounts and commissions ..	\$5,474,000
Other expenses .....	3,907,000
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Total Expenses .....	\$9,381,000

All of such expenses were direct or indirect payments to others.

The net offering proceeds to the Company after deducting the total expenses above was approximately \$68.8 million. Approximately \$27.5 million of the proceeds was invested in short-term corporate notes and bonds and the remaining proceeds are being used as working capital or are included within cash and cash equivalents.

On September 28, 2001, we completed the acquisition of an approximately 29% equity interest in Sun TV, a Hong Kong Stock Exchange listed company, from Ms. Lan 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. In addition, we agreed to issue an additional 3,280,674 newly issued SINA ordinary shares to Ms. Yang if Sun TV meets certain performance targets over the next 18 months. 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.

### Item 3. Defaults Upon Senior Securities

None.

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

None.

### Item 5. Other Information

On September 28, 2001, Bruno Wu was appointed as a Co-Chairman of SINA.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits.

- 10.49\*: Separation and General Release Agreement dated July 30, 2001 between SINA.com and Zhidong Wang.
- 10.50\*: An agreement dated August 16, 2001 among Beijing Stone Rich Sight Information Technology Co., Ltd., Daniel Mao, Yan Wang and Four Other Employees of BSRS.
- 10.51: Share Purchase Agreement dated September 12, 2001, as amended on September 28, 2001, among SINA.com, Lan Yang and Bruno Wu.

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- 10.52: Consultancy Agreement dated September 28, 2001 between SINA.com and Bruno Wu.
- 10.53: Loan Agreement dated September 12, 2001, as amended on September 28, 2001, between Lan Yang and SINA.com.
- 10.54: Loan Agreement dated September 12, 2001 between SINA.com and Sun TV.

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\* Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended June 30, 2001.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by SINA.com during the quarter ended September 30, 2001.

### SIGNATURES

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: November 14, 2001

By: /s/ Charles Chao

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

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### EXHIBIT INDEX

Exhibits

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