

SINA COM  
Form 10-K  
September 30, 2002

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**Form 10-K**

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

**For the fiscal year ended June 30, 2002**

**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**

**2988 Campus Drive, Suite 100  
San Mateo, CA 94403  
(650) 638-9228**

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

**Securities registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Ordinary Share, \$0.133 par value**

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 þ No o

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

Indicated by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.      o

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$73,684,000 as of August 31, 2002, based upon the closing sale price on computed by reference to the closing price for the Ordinary Shares as quoted by the Nasdaq National Stock Market reported for such date. Shares of Ordinary Shares held by each officer and director and by each person who owns 5% or more of the outstanding Ordinary Shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of August 31, 2002, there were 45,924,771 shares of the Registrant's Ordinary Shares, \$0.133 par value.

### DOCUMENTS INCORPORATED BY REFERENCE

Items 10-13 incorporate information by reference from the definitive proxy statement for the Annual Meeting of Shareholders to be held on or about December 16, 2002.

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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.*

*Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.*

*Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations and under the caption Business Risk Factors included herein.*

**PART I**

**Item 1. Business**

**Overview**

SINA.com ( SINA , We or the Company ) is a leading online media company and value-added information service provider for China and the global Chinese communities. With a branded network of localized websites, targeting greater China and overseas Chinese, we provide an array of services to our users including region-focused online portals, search and directory, interest-based and community-building channels, free and premium email, wireless short messaging, online games, virtual ISP, classified listings, e-commerce, e-learning and enterprise e-solutions. In turn, we generate revenue through advertising, fee-based services, e-commerce and enterprise services. With 53.3 million registered users worldwide and over 3 million active paid users for a variety of our fee-based services at June 30, 2002, we believe SINA is the most recognized online brand in China and among Chinese communities world-wide.

Our primary operation focus is in China where we generated 80% of our total revenues for the year ended June 30, 2002. According to the July 2002 survey conducted by the China Internet Network Information Center ( CNNIC ), China currently has 45.8 million active Internet users, the second largest in the World. With the current growth rate, China is going to surpass the United States and become the country with the largest Internet user base by 2005. As a leading online media company in China, SINA is expected to benefit directly from this tremendous growth rate as China's economy continues to leap forward.

During the year ended June 30, 2002, we have successfully transformed SINA from a pure Internet portal relying almost exclusively on online advertising to a company with multiple and sustainable revenue streams.

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The following table presents an overview of our financial reporting structure as well as our vertical properties and services:

**Properties and Services**

***SINA Portal Network***

Our portal network consists of four destination web sites dedicated to users in greater China including mainland China (www.sina.com.cn), Taiwan (www.sina.com.tw) and Hong Kong (www.sina.com.hk), and overseas Chinese in North America (www.sina.com). Each of our destination sites consists of Chinese-language content organized into interest-specific channels, extensive community and communication services and sophisticated web navigation capability through SINA Search and Directory services. As of June 2002, SINA has over 53.3 million registered users, or SINA Netizens who view approximately 150 million web pages per day.

***Interest-Based Channels***

On all of our portals, SINA offers a variety of interest-based channels that provide region-focused format and content. Everyday, millions of users visit these channels which include News, Sports, Finance, Entertainment, Education, e-Ladies, Games, Healthcare, and Technology.

***SINA News***

SINA News aggregates feeds from hundreds of news providers, bringing together content from media companies such as Central News Agency, China Central Television, People's Daily, China Economic Times and Xinhua News Agency. Through SINA News, our users have access to breaking news coverage, from multiple sources and points of view.

***SINA Sports***

SINA Sports provides access to up-to-the-minute news, real-time statistics and scores, text broadcast programming, localized and global coverage, and integrated shopping. SINA Sports has content or marketing partnerships with the Chinese Football Association, the Chinese Basketball Association and ESPN. In June 2002, SINA signed an exclusive partnership agreement with the Chinese Football Association to create the official website of China's National Soccer Team during Korea-Japan World Cup.

***SINA Finance***

SINA Finance provides a comprehensive set of financial resources, from business news to personal finance columns. SINA Finance also offers stock quotes from the Shanghai and Shenzhen stock exchanges, breaking news from leading editorial companies and market analysis.

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*SINA Entertainment*

SINA Entertainment contains extensive coverage of the local and international entertainment arenas that are of interest to our users, including dining, movies, television programs, plays, operas as well as popular and classic music.

*SINA Education*

SINA Education is designed to assist students, parents and educators in the education process. The site helps educators extend traditional classrooms and communication with students onto the Internet, offers an extensive reference area through leading education material providers, and enables students to research and prepare to apply for colleges, universities and graduate schools, both domestic and abroad.

*SINA e-Ladies*

In April 2002, L'Oréal, a world-wide leader in cosmetics, selected SINA as the host and partner for a web site targeting women in China. Women of China, the largest women's press group in China, provides content and editorial management for the channel. The SINA e-Ladies channel is dedicated to all women who speak Chinese and are of Chinese heritage. The site provides a wide range of information, and specific services for virtual communities that meet the day-to-day personal and professional needs of Chinese women. Lastly, users will receive up-to-date details about product launches by clicking on the links to the local Internet sites of L'Oréal group's brands.

*SINA Games*

SINA Games is a leading online destination for players of interactive entertainment in China. The gamers visit SINA Games for up to date game-related news, forums, reviews, surveys and software downloads. SINA Games has formed alliances with domestic online game publishers to develop and host web sites that provide information and update downloads for online games.

*SINA Health*

SINA Health, provides information on diseases, conditions, and medications, as well as access to various health information centers and online community tools.

*SINA Technology*

SINA Technology is a wide-ranging web site for people who are looking for technology news, product reviews and software downloads.

***Community-Building Channels***

SINA offers an array of community-building services designed to encourage users to become active and loyal registered members, or SINA Netizens. Our integrated SinaMail, SinaPager, SinaChat, Club Yuan, E-Card and SinaForum products and services enable SINA Netizens to communicate with each other or with groups of others in the SINA community.

*SinaMail*

SinaMail is our free email service. With 22.2 million active users as of August 2002, it is ranked fourth in the world behind Hotmail, Yahoo and AOL.

*SinaPager*

SinaPager is our instant-messaging service powered by our proprietary technology. The SinaPager service is currently offered in China and enables mainland Chinese SINA Netizens to determine if their friends are online and to send messages to them instantly.

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### *SinaChat and SinaForum*

Through SinaChat and SinaForum, members with similar interests can meet and share their thoughts and opinions on a variety of topics. We have also integrated the SinaForum with News service, as users can comment on the particular news they are reading with one click on the links to the related forum topic on SinaForum.

### *Club Yuan*

For members seeking friends and personal relationships, our Club Yuan interactive dating service provides them with a community within a community.

### *Advertising Services*

We employ a multi-pronged sales strategy that targets both short-term revenue opportunities such as banner advertising campaigns, as well as longer-term, higher-value contracts such as integrated marketing and communications packages. Our advertising product offerings consist of banner advertisements that appear on pages within the SINA network, promotional sponsorships that are typically focused on a particular event, such as the Olympics, and advertising campaigns design and management services. We are also working with research firms in the United States and China to offer market survey services. By collecting and aggregating feedback from our users, we expect to be able to provide our advertisers with prompt and valuable feedback on the public's engagement with their brands and products, thereby enabling advertisers to more easily gauge the effectiveness of their ongoing advertising campaigns.

Our primary target client base for advertisers and sponsors consists of global corporations and Asia-focused regional companies, to which we sell from both our corporate and regional headquarters. Global corporations are typically Fortune 500 and 1000 companies with significant operations worldwide that employ a global approach to their branding, marketing and communications programs. Regional companies consist of medium to large companies that are focused on specific geographic as well as demographic markets, such as Asian-Americans or Taiwanese, and smaller companies whose markets are within a local territory, such as Beijing or Hong Kong. During the year ended June 30, 2002, 980 clients advertised on our web sties. A partial list of our advertising clients includes: 999 Group, AT&T, China Mobile, China Unicom, CNA Life, Charles Schwab, Dell, E\*Trade, IBM, Legend, Motorola, Nokia, Samsung, Scottstrade Securities, and TCL. In order to leverage our global resources, we have established advertising sales centers in Hong Kong, New York and California. Sales people in each of this sales center may sell a global promotions campaign to customers for delivery on any of our web sites.

We have built a global sales and marketing organization of approximately 117 professionals as of June 2002.

### *Short Messaging Service*

In 2001, we initiated a number of fee-based premium services that we believe will offer incremental benefits to our users who wish to fully leverage our network. SINA was among the first group of companies to enter short messaging service (SMS) market in China. As many mobile phones are able to display and send text in Chinese, SINA developed a suite of SMS that includes user-customized information subscription, personal greetings, customized mobile phone screen decoration, personalized ring tones and many other features. SINA provides an easy to use online platform through sms.sina.com.cn and, as of August 2002, has approximately 3 million paid users for our SMS.

### *Premium Email*

We introduced our paid email service in China in August 2001 and have accumulated over 200,000 paid users for the service as of August 2002. Our paid email service provides features such as anti-virus software, junk mail filter, and unlimited attachment size for a small monthly fee.

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### ***Online Games***

Our SINA Game channel has become one of the most popular websites in China and has provided us with an entry into the growing interactive gaming market. Through our strategic alliance with local online game publishers, we are working to become a leading partner for online game operators. Our alliances usually include arrangements for SINA to host servers and develop websites organized under the SINA Games platform that provide services such as software downloads, player reviews and forums.

### ***Access and Distribution***

In April 2002, SINA formed SINA Online ( SOL ) through a strategic alliance with Net263 Group, a domestic independent Internet service provider ( ISP ). SOL, a one-stop virtual ISP service that combines content and access for end users, is expected to cover major Internet markets in China including Beijing, Shanghai and other large cities.

### ***SinaMall***

Online commerce is a natural extension of our portal network. We currently offer SinaMall, an online shopping experience, on our China and North America web sites. Our technology platform enables both multinational and local merchants to transact business online. We generate revenue from monthly hosting fees and through receiving a percentage of online sales from our merchant partners. We work with merchants to design customized marketing campaigns that involve both advertising and sales of their products over our network. We have also been a leader in creating mechanisms for secure transactions on the Internet in China. We have set up online payment systems and online banking services. We have also launched a co-branded debit card with China Merchants Bank enabling users of our China web site to make online purchases from our SinaMall in China.

### ***Listings***

Our listing properties include a search engine, a directory and classified information. Our search engine and directory provide a intuitive and user-friendly online guide to web navigation and a gateway to the vertical offerings on the SINA network. Users can either browse the directory listings by subject matter, or use SINA Search, a rapid keyword search function that scans the contents of the entire directory. In addition to any relevant listings from our directory, we provide users with web-wide search results from search engines provided by our partners. For browse-driven inquiries, our directory results include Sponsored Sites, a SINA created fee-based program that allows commercial sites to receive enhanced placement in the directory. For keyword-search-driven inquiries, our search results also include SINA Sponsor matches, site listings with enhanced placement in search results that are bought by businesses or organizations.

### ***Enterprise e-Solutions***

In February 2002, SINA formed a technology service company, SINA.net to provide enterprise solutions on an integrated platform to government agencies and small to medium-sized enterprises ( SME ) in China. As part of the enterprise solution service, we provide our clients with corporate email, system integrating, online publishing software and classified listings (in conjunction with our main Listings business).

### ***Software Products***

We have designed an array of proprietary software products that allow users to view Chinese-language content and switch between Chinese and English languages without regard to the underlying operating system. RichWin, first launched in April 1994, is an operating system overlay that allows users to move between a Chinese and an English operating environment. We sell the latest version of our RichWin software product to businesses and consumers as well as to original equipment manufacturers. SinaPlus, our new-generation language translation engine, bundles tools and services such as SinaMail and SinaPager to provide our users with a more integrated online experience. SinaPlus is available for free download from our portal network. We also plan to offer new corporate services software that will help businesses establish and maintain their intranet

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and extranet web sites by integrating their proprietary corporate content and applications with SINA's email, publishing and content services.

### **Strategic Relationships**

We have developed strategic relationships with a range of content, service, application and distribution partners in order to serve users more effectively and to extend our brand and services to a broader audience.

#### ***Content Partnerships***

The goal of our content partnerships is to provide our users with the broadest offering of Chinese-language content available. We contract with over 600 content partners to display their content on one or more of our web sites free of charge or in exchange for a share of revenue, a licensing fee, access to our content or a combination of these arrangements. Some of our leading content providers include Xinhua News Agency, China Central TV, People's Daily, Central News Agency, FTV News, China Press, Apple Daily, Singtao Daily, AFP, CBS Marketwatch, Reuters and Shanghai Securities News. These content partnerships are usually of one to two years' duration with one-year automatic renewal.

#### ***Application and Service Partnerships***

The goal of our application and service partnerships is to ensure that our users have access to user-friendly, reliable and scalable communication and search tools. Because many of our prospective partners have traditionally focused on non-Chinese speaking markets, our internal engineering and development teams often work closely with them to adapt their solutions to the Chinese-language market.

We have an agreement with OpenFind to provide Chinese search functionality to some of our web sites, and an agreement with Doubleclick to provide advertising serving and tracking services for some of our web sites.

### **Technology Infrastructure**

Our operating infrastructure is designed to serve and deliver hundreds of millions of page views per day to our users. This scalable infrastructure allows our users to access our products and services quickly and efficiently, regardless of their geographical location. Our infrastructure is also designed to provide high-speed access by forwarding queries to our web hosting sites with greater resources or lower loads. Our web pages are generated, served and cached by servers hosted at various co-location web hosting sites in China, U.S., Taiwan and Hong Kong.

Our servers run on RedHat Linux, FreeBSD, and Solaris platforms using Apache and Netscape servers. These servers are maintained at Qwest in Sunnyvale, California, China Telecom Corporation in China, Seednet and Hinet in Taipei, Taiwan, and iAdvantage and NewT&T in Hong Kong. We believe that these hosting partners provide significant operating advantages, including an enhanced ability to protect our systems from power loss, break-ins and other potential external causes of service interruption. They provide continuous customer service, multiple connections to the Internet and a continuous power supply to our systems. In addition, we conduct online monitoring of all our systems for accessibility, load, system resources, network-server intrusion and timeliness of content.

### **Competition**

The market for web sites offering online content and services targeting the global Chinese community is competitive and we expect competition to increase in the future. Many of the companies attempting to address this market by offering portal, content and e-commerce services to distinct local markets within greater China. In turn, these companies compete with SINA for user traffic, advertising revenue, e-commerce transactions, short messaging service and other fee-based services, and potential partners. The Internet market is still developing and the competition is expected to be intense. Our primary competitors in greater China include China.com, Netease, Sohu.com, Tom.com and Yahoo! China.

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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.

Our ability to compete successfully depends on many factors, including the quality of our content, the breadth, depth and ease of use of our services, our sales and marketing efforts and the performance of our technology. See also **Risk Factors**. 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.

## **Government Regulation and Legal Uncertainties**

The Chinese government has enacted an extensive regulatory scheme governing the operation of our business. Various Chinese governmental authorities, such as the Ministry of Information Industry, or MII, the State Administration of Industry and Commerce, or SAIC, and the Ministry of Public Security regulate the Chinese Internet industry.

### ***Applicable Regulations***

On September 25, 2000, the Measures for the Administration of Internet Information Services, or the ICP Measures, went into effect. Under the ICP Measures, any entity that provides information to online users of the Internet is obliged to obtain an operating license from the MII or its local branch at the provincial level in accordance with the Telecom Regulations described below. The ICP Measures also reiterated Internet content restrictions that had been promulgated by other ministries over the past few years. Moreover, the ICP Measures stipulate that ICPs must obtain the prior consent of the MII prior to establishing an equity or cooperative joint venture with a foreign partner. On January 4, 2001, the MII issued an ICP license to Beijing SINA Internet Information Services Co., Ltd., an entity that the Company has a contractual arrangement with to operate its website in China. See also **Business** **Corporate Structure**. On July 25, 2001, this entity also obtained a permit to operate its bulletin board systems pursuant to additional ICP Measure regulations issued on April 23, 2001 requiring all companies that operate bulletin board systems, or BBS, to obtain official permits.

On October 1, 2000, the Telecommunications Regulations of the People's Republic of China, or the Telecom Regulations, went into effect. The Telecom Regulations reiterated the long-standing principle that telecommunications service providers need to procure an operating license as a mandatory precondition for the commencement of operations. Under current Chinese regulations, therefore, foreign companies such as SINA cannot own or operate value-added telecommunications business in China. Consequently, we conduct our business in China through two separate Chinese business entities. For a description of the contractual arrangements we have with these entities, please see **Risk Factors**. 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. In the opinion of our Chinese counsel, the ownership of Beijing SINA Information Technology CO. Ltd., or BSIT, (formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS) and its businesses comply with existing Chinese laws and regulations. Nevertheless, 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

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Chinese government could require us to discontinue our operations in China or take other actions that could harm our business.

In October 2000, the Provisional Regulations for the Administration of Web Site Operation of News Publication Services were jointly promulgated by the State Council Information Office and MII. These regulations stipulate that general web sites established by non-news organizations may publish news released by certain official news agencies, if they satisfy the requirements set forth in Article 9, but may not publish news items produced by themselves or news sources from elsewhere. The aforementioned requirements include the following:

they must have a purpose and guidelines with respect to online news services that comply with laws and regulations,

they must have the necessary news editorial departments, funds, equipment and premises,

they must have professional staff in charge of editing who are experienced in journalism and are qualified at a medium or higher level to hold technical positions in journalism, and an appropriate number of editorial staff who are qualified at a medium or higher level to hold technical positions in journalism; and

they shall have news sources such as State news agencies, news bureau of departments under the State Council or news agencies directly under the provinces, autonomous regions or directly-administered municipalities.

The above regulations also require the general web sites of non-news organizations to apply to the State Council Information Office for approval after securing the consent of the State Council Information Office at the provincial level, before they commence operating news dissemination services. Besides, the general web sites intending to publish the news released by the aforementioned news agencies or bureaus must enter into agreements with them and submit copies of those agreements to the relevant administration department. On December 27, 2000, the State Council Information Office approved Beijing SINA Internet Information Services Co., Ltd. to develop online news dissemination services.

On December 11, 2001, the day China formally joined the WTO, the PRC State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the FI Telecom Regulations, which became effective on January 1, 2002. The FI Telecom Regulations stipulate that the foreign party to a foreign-invested telecommunications enterprise can hold equity share in such foreign-invested telecommunications enterprise that provides basic telecom services or value-added telecom services ultimately not to exceed 49% or 50% respectively. The Administrative Measures for Telecommunications Business Operating License, were promulgated by MII on January 4, 2002 to supplement the FI Telecom Regulations. The Measures confirm that the MII is the competent approval authority for foreign-invested telecom enterprises. However, there are still some uncertainties regarding the interpretation and application of the FI Telecom Regulations.

The scope and enforcement of these regulations is uncertain given their recent enactment. Moreover, we cannot predict the effect of further developments in the Chinese legal system, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws. For a description of how the unsettled nature of Chinese regulations may affect our business, please see **Risk Factors**. 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 and **Risk Factors**. 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.

## **Intellectual Property and Proprietary Rights**

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

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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.

In addition, 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. See **Risk Factors**. We may not be able to adequately protect our intellectual property, which could cause us to be less competitive and We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.

## **Corporate Structure**

SINA.com is a holding company owning a 100% interest in six subsidiaries:

Rich Sight Investment Limited, or RSIL, a Hong Kong company,

SINA.com (Hong Kong) Limited, a Hong Kong company,

SINA.com Online, a California corporation,

SINA.com (B.V.I.) Ltd., a British Virgin Islands company,

Beijing SINA Internet Technology Services Co., Ltd., a China Company, and

Shanghai SINA Online Information Technology Co., Ltd., a China Company.

RSIL was formed in March 1993 to hold an interest in Beijing SINA Information Technology Co. Ltd., or BSIT, (formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS). BSIT was formed as a Sino-Foreign joint venture company based in Beijing, China between RSIL and a third party, Beijing Stone Electronic Technology Co., Ltd., a China company. BSIT 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, BSIT 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 July 1997, SRS International Limited, a Cayman Island company, was formed to become the holding company for RSIL.

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 connection with the acquisition, we changed the name of Sinanet.com to SINA.com Online and the name of the holding company from SRS International Limited to SINA.com. In July 1999, we continued our network expansion by launching our Hong Kong destination web site targeting Chinese users in Hong Kong.

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The diagram below illustrates our current operating structure:

To comply with Chinese regulations, BSIT entered into agreements with two limited liability companies incorporated in China: Beijing SINA Interactive Advertising Co., Ltd. (the Ad Company) and Beijing SINA Internet Information Services Co., Ltd. (the ICP Company). The Ad Company is a Chinese advertising company that is 75% owned by Yan Wang, our president and 25% owned by BSIT. The ICP Company is a Chinese Internet content provider that is 30% owned by Daniel Mao, our chief executive officer, 30% owned by Yan Wang and 40% by four other employees of the Company. All individual shareholders of the Ad Company and the ICP Company are required under their agreements with BSIT to transfer their interest in the Ad Company or the ICP Company to BSIT or to any person specified by BSIT at any time at BSIT's request, provided that such transfer will not be in violation of Chinese laws and regulations. Through ten-year proxies, BSIT has complete voting control over the Ad Company and the ICP Company. In the opinion of SINA's Chinese counsel, the ownership of BSIT and its businesses comply with existing Chinese laws and regulations.

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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 the China web site to the Ad Company. The Ad Company, in turn, places advertisements in this space for third parties under its advertising license. In addition, BSIT 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. BSIT also serves as a consultant and service provider to the Ad Company for its domestic Chinese customers. Substantially all of the income received from advertising sales by the Ad Company and ICP Company is paid to BSIT.

## **Employees**

As of June 30, 2002, we had 451 full-time employees, of whom 412 were employed outside the United States. From time to time we employ independent contractors to support our production, engineering, marketing, and sales departments. Our Chinese employees are members of a labor association that represents employees with respect to labor disputes and other employee matters. We have never experienced a work stoppage or a labor dispute that has interfered with our operations.

## **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 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; derive revenue from our users from fee-based Internet services; 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 June 30, 2002, we had an accumulated deficit of approximately \$115.4 million. We anticipate that we will continue to incur operating losses for the foreseeable future due to the uncertainty of our ability to increase 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.

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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.

***We rely on fee-based services for a significant portion of our revenues.***

Substantially all our revenue growth for the year ended June 30, 2002 was from the development of our fee-based Internet services consisting primarily of short messaging service, paid email service and subscription service. For the years ended June 30, 2002 and 2001, our revenues from short messaging services accounted for 45% and 2%, respectively, of our total non-advertising revenues and we are deriving an increasing portion of our revenues from these services. If users do not adopt our fee-based Internet services at a sufficient rate, our revenues will be negatively affected.

Our short messaging services depend mainly on the cooperation of China Mobile Communication Corporation ( CMCC ) and its subsidiaries and to a lesser extent China Unicom Co., Ltd. We rely on CMCC and Unicom for providing the network and gateway for our short messaging services. We also utilize their billing systems to collect service fees from our short messaging subscribers.

If CMCC's or Unicom's systems encounter technical problems, they refuse to cooperate with us, our short messaging services may cease or be severely disrupted, which would have a significant and adverse impact on our operating results.

***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

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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 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 reforms 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.

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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.

On December 11, 2001, the day China formally joined the WTO, the PRC State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the FI Telecom Regulations, which became effective on January 1, 2002. The FI Telecom Regulations stipulate that the foreign party to a foreign-invested telecommunications enterprise can hold equity share in such foreign-invested telecommunications enterprise that provides basic telecom services or value-added telecom services ultimately not to exceed 49% or 50% respectively. The Administrative Measures for Telecommunications Business Operating License, were promulgated by MII on January 4, 2002 to supplement the FI Telecom Regulations. The Measures confirm that the MII is the competent approval authority for foreign-invested telecom enterprises. However, there are still some uncertainties regarding the interpretation and application of the FI Telecom Regulations.

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 the 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 SINA Information Technology Co. Ltd. or BSIT, (formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS), is currently licensed to operate as a software company. BSIT 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 BSIT 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 is 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.

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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, BSIT 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. BSIT 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 BSIT. 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.

***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

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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.

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.

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***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 businesses 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 businesses 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 securities, 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

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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, 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

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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 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 2002 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

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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. During fiscal year 2002, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$1.06 to \$1.90 and the sale price of our common stock closed at \$2.44 on August 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 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 2. *Properties***

In San Mateo, California, we have entered into a sublease agreement that expires in February 2004. In Hong Kong, we have entered into a three-year lease agreement that expires in January 2003. In Beijing, we have offices under two lease agreements with expiration dates March 2004 and June 2007. In Shanghai, we have entered into a three-year lease agreement that expires in August 2005. We have entered into a lease agreement for our Taipei office that expires in December 2002. We have also leased sales and marketing spaces in Guangzhou and Shenzhen. We believe that our existing facilities are adequate to meet our current requirements, and that future growth can be accommodated by leasing additional or alternative space.

### **Item 3. *Legal Proceedings***

As of the date of this Form 10-K, there are no material legal proceedings pending or, to the best of our knowledge, threatened against us.

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

No matters were submitted to a vote of our shareholders during the last quarter of the fiscal year ended June 30, 2002.

**Table of Contents****PART II****Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters***(a) Market Information*

SINA.com Ordinary Shares are quoted on the Nasdaq National Market System under the symbol SINA since April 13, 2000. The following table sets forth the high and low closing sales prices of the Company's Ordinary Shares for each period indicated as reported on the Nasdaq Stock Market:

|                          | <u>High</u> | <u>Low</u> |
|--------------------------|-------------|------------|
| Year Ended June 30, 2001 |             |            |
| First Quarter            | 31.00       | 14.13      |
| Second Quarter           | 12.38       | 3.13       |
| Third Quarter            | 4.31        | 1.50       |
| Fourth Quarter           | 2.35        | 1.50       |
| Year Ended June 30, 2002 |             |            |
| First Quarter            | 1.90        | 1.08       |
| Second Quarter           | 1.68        | 1.06       |
| Third Quarter            | 1.72        | 1.48       |
| Fourth Quarter           | 1.75        | 1.40       |

The closing price of the Company's Ordinary Share on the Nasdaq Stock Market on August 30, 2002 was \$2.44.

*(b) Holders*

As of August 30, 2002, the Company had approximately 285 shareholders of record, although the Company believes that there is a significantly larger number of beneficial owners of its Ordinary Shares.

*(c) Dividends*

The Company has not declared or paid any cash dividends on its Ordinary Shares at any time and has no present plans to do so in the future.

*(d) Securities authorized for issuance under equity compensation plans*

The following table sets forth information for our equity compensation plans as of June 30, 2002:

| Plan Category                                                 | Number of Securities to<br>be Issued upon Exercise<br>of Outstanding Options,<br>Warrants and Rights | Weighted Average<br>Exercise Price of<br>Outstanding Options,<br>Warrants and Rights | Number of Securities<br>Remaining Available for<br>Future Issuance |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------|
|                                                               | (a)                                                                                                  | (b)                                                                                  | (c)                                                                |
| Equity compensation plans approved<br>by security holders     | 5,551,000                                                                                            | \$ 3.75                                                                              | 6,550,000                                                          |
| Equity compensation plans not<br>approved by security holders |                                                                                                      | N/A                                                                                  |                                                                    |
| Total                                                         | 5,551,000                                                                                            | \$ 3.75                                                                              | 6,550,000                                                          |





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|                                                                   | (In thousands) | (In thousands) | (In thousands) | (In thousands) | (In thousands) |
|-------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Consolidated Balance Sheet Data:</b>                           |                |                |                |                |                |
| Cash and cash equivalents                                         | \$ 31,095      | \$ 52,505      | \$ 99,149      | \$20,571       | \$5,090        |
| Working capital                                                   | 89,914         | 102,246        | 125,867        | 24,057         | 5,268          |
| Total assets                                                      | 121,355        | 133,122        | 156,038        | 47,582         | 6,685          |
| Mandatorily redeemable convertible preference shares and warrants |                |                |                | 37,415         | 6,004          |
| Total shareholders' equity (deficit)                              | 111,690        | 119,967        | 146,817        | 7,703          | (5)            |

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### **Item 7. 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 document 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 online media company and value-added information service provider for China and the global Chinese communities. With a branded network of localized websites, targeting greater China and overseas Chinese, we provide an array of services to our users including region-focused online portals, search and directory, interest-based and community-building channels, free and premium email, wireless short messaging, online games, virtual ISP, classified listings, e-commerce, e-learning and enterprise e-solutions. In turn, we generate revenue through advertising, fee-based services, e-commerce and enterprise services. With 53.3 million registered users worldwide and over 3 million active paid users for a variety of our fee-based services at June 30, 2002, we believe SINA is the most recognized online brand in China and among Chinese communities world-wide.

One of our subsidiaries, Beijing SINA Information Technology Co. Ltd., or BSIT (formerly known as 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 services that speak directly to the audience of each region, enriching the online experience of their users.

We derive our revenues from advertising and non-advertising sources. Advertising revenues are derived principally from online 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. Non-advertising revenues are primarily derived from software sales, e-commerce and other fee-based services. We sell 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. We derive e-commerce revenues mainly from transaction and slotting fees paid by merchants for selective positioning and promoting their goods or services within our online mall, SinaMall. We derive fee-based service revenues primarily from short messaging service, subscription service, online listings and paid email services.

We have incurred significant net losses and negative cash flows from operations since our inception. As of June 30, 2002, we had an accumulated deficit of \$115.4 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 June 30, 2002, which represents the difference between the exercise price of options granted through June 30, 2002 and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is

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amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was \$2.3 million and \$7.5 million in fiscal 2002 and 2001, respectively. We expect the amortization of deferred compensation to approximate \$1.0 million for fiscal 2003 and \$0.3 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 were fully amortized over the three-year period ended June 30, 2002.

In April 2000, we sold 4,600,000 ordinary shares in an underwritten initial public offering, inclusive of 600,000 ordinary shares through the exercise of the underwriter's over-allotment option for net proceeds of approximately \$68.8 million.

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 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, 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 was waived in April 2002 by an amendment to the original Share Purchase Agreement with Ms. Yang. The investment is accounted for using the equity method of accounting. Our investment in Sun TV was diluted to 21.8% as of June 30, 2002 as a result of Sun TV's issuance of new shares to new investors.

On September 2, 2002, we announced that we entered into a definitive agreement with the shareholders of Shanghai Techur Technology Developing Co., Ltd. (Techur) to acquire 100% equity interest in Techur for a consideration of approximately \$1.9 million. If Techur meets certain performance targets over the next 12 months, the maximum consideration would increase to approximately \$3.8 million. The acquisition is expected to be completed in October 2002.

Techur is an Internet and logistic software company in the PRC, providing Internet and Intranet based logistic software and online applications to shipping and export business in Eastern China. Additionally, Techur operates a leading business to business (B2B) portal (www.eastchina.com) for various industries in Eastern China.

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are 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 advertising and non-advertising sources.

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Advertising revenues are derived principally from advertising and sponsorship arrangements. In our advertising contracts we typically guarantee a minimum number of impressions or pages to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized on the basis of the number of impressions delivered or ratably over the period in which the advertising is displayed, whichever amount is lower, when the collectibility is reasonably assured. To the extent that minimum guaranteed impressions deliveries are not met, we defer recognition of the corresponding revenues until the guaranteed impressions deliveries are achieved. Sponsorship arrangements typically allow advertisers to sponsor a particular area on our network in exchange for a fixed payment over the contract period. Advertising revenues are recognized ratably over the period of sponsorship. Advertising revenues derived from the design, coordination and integration of advertising campaigns and sponsorship to be placed on our web sites are recognized ratably over the term of such programs.

Revenue from barter transactions is recognized during the period in which the advertisements are displayed in our properties. Barter transactions are recorded at the lower of the fair value of the goods or services received or the fair value of the advertisement given, provided the fair value of the transaction is reliably measurable.

Non-advertising revenues are derived from proprietary software products and licenses, e-commerce and other fee-based services.

Revenue from the sale of software products is recognized primarily on the delivery of software products to end users, resellers, distributors, retail merchants and original equipment manufacturers. We deliver our software products in packaged form or under software licenses. Revenues from sales of software products in the packaged form are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. Software license agreements are non-refundable and allow the OEM partners to reproduce our software products for a specified period of time for a fixed fee or a specified number of copies for a predetermined unit price. Revenues from software license agreements are recognized upon delivery of a master copy when the fixed-fee agreements become effective or based upon activity reports provided by the OEM partners under the per-copy arrangements. Provision is made for expected sales returns and allowances when revenue is recognized. Payments received in advance of revenue recognition are recorded as deferred revenue. We recognize revenues in accordance with Statement of Position ( SOP ) 97-2, Software Revenue Recognition, as amended by SOP 98-4 and SOP 98-9. These Statements generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. Our software product agreements do not involve multiple elements.

E-commerce revenues are derived principally from slotting fees charged to merchants for selective positioning and promoting their goods or services within our online mall, SinaMall, and from commissions calculated as a percentage of the online sales transaction value of the merchants. Slotting fee revenue is recognized ratably over the period the products are shown on our web site while the commission revenue is recognized on a net basis after both successful on-line verification of customers credit cards and shipment of products. Product returns have not been significant and are assumed by vendors.

Fee-based services revenues mainly include wireless short messaging, subscription services and paid email services. Revenues are recognized in the period in which the service is performed, provided that no significant Company obligations remain and collection of the receivables is reasonably assured.

In accordance with generally 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.

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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 recognized as 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.

## **Results of Operations**

### ***Years ended June 30, 2002, 2001 and 2000***

#### ***Net Revenues***

**Advertising.** Our advertising revenues were \$21.1 million for the year ended June 30, 2002, as compared to \$23.4 million and \$11.0 million for the years ended June 30, 2001 and 2000, respectively. During the year ended June 30, 2002, the decrease from 2001 was mainly due to the reduced spending in the Internet advertising market in the U.S., Taiwan and Hong Kong. During the year ended June 30, 2001, the increase from 2000 was mainly due to the increase in the number of advertisers and the number of advertising contracts. Approximately 980 customers advertised on our web sites during the year ended June 30, 2002 as compared to approximately 970 and 730 during the years ended June 30, 2001 and 2000, respectively. For the years ended June 30, 2002, 2001 and 2000, advertising revenues accounted for 74%, 88% and 78% of our total revenues, respectively.

**Non-Advertising.** Our non-advertising revenues were \$7.4 million, \$3.3 million and \$3.2 million for the years ended June 30, 2002, 2001 and 2000, respectively. For the year ended June 30, 2002, non-advertising revenues consisted of \$5.0 million of Internet fee-based services including short messaging service, subscription service and paid email service, \$1.5 million of e-commerce sales and \$0.9 million of the sales software products. For the year ended June 30, 2001, non-advertising revenues consisted mainly of \$2.3 million of the sales software products and \$1.0 million of e-commerce sales. For the year ended June 30, 2000, non-advertising revenues consisted mainly of the sales of software products. For the years ended June 30, 2002, 2001 and 2000, non-advertising revenues accounted for 26%, 12% and 22% of our total revenues, respectively.

#### ***Cost of Revenues***

**Advertising.** Our cost of advertising revenues was \$11.5 million, or 55% of net advertising revenue, as compared to \$13.8 million and \$9.0 million, or 59% and 81% of net advertising revenues, for the years ended June 30, 2001 and 2000, respectively. Our cost of advertising revenues consists of costs associated with the production of our web sites, 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. The year-to-year decrease in cost of revenues from fiscal year 2001 to fiscal year 2002 was primarily due to lower Internet connection costs as a result of a decrease in bandwidth cost in China and lower personnel related costs as a result of improved productivity and reduced headcount. The year-to-year increase in cost of revenues from fiscal year 2000 to fiscal year 2001 was due to higher Internet connection costs, such as bandwidth expansion and server co-location cost to support increased Internet traffic on our web sites, and the increase in content and service provider fees to expand our web site contents and to support the increased advertisement impressions.

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*Non-advertising.* Our cost of non-advertising revenues was \$1.9 million, \$1.2 million and \$2.0 million for the years ended June 30, 2002, 2001 and 2000, respectively. Our cost of non-advertising revenues consists mainly of fees paid to third parties for services and for royalties associated with the fee-based services, and cost of our software products. The year-to-year increase in cost of revenues from fiscal year 2001 to fiscal year 2002 was due to the increase in fees paid to third parties for services and for royalties associated with the fee-based services. The year-to-year decrease in cost of revenues from fiscal year 2000 to fiscal year 2001 was primarily due to a higher percentage of the software revenues is derived from licensing arrangements which involved minimal costs during fiscal year 2001.

### *Sales and Marketing*

Our sales and marketing expenses were \$12.5 million, or 44% of total net revenues for the year ended June 30, 2002, as compared to \$21.7 million and \$17.5 million, or 81% and 123% of total net revenues for years ended June 30, 2001 and 2000, respectively. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion expenditures and travel expenses. The year-to-year decrease in absolute dollar amount from fiscal year 2001 to fiscal year 2002 was primary due to the curtailment in spending for market promotion of our web sites and cost savings from workforce reduction. The year-to-year increase in absolute dollar amount from fiscal year 2000 to fiscal year 2001 was primarily attributable to an increase in advertising expenses associated with our brand-building strategy, and increase in compensation expense associated with the growth in our direct sales force and marketing personnel, and an increase in sales commission associated with the increased revenues.

### *Product Development*

Our product development expenses were \$6.7 million, or 23% of total net revenues for the years ended June 30, 2002, as compared to \$9.6 million and \$7.4 million, or 36% and 52% of total net revenues in the year ended June 30, 2001 and 2000, 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 the development of our software products and web-based products. The year-to-year decrease in absolute dollar amount from fiscal year 2001 to fiscal year 2002 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. The year-to-year increase in absolute dollar amount from fiscal year 2000 to fiscal year 2001 was attributable to increased staffing and associated support for engineers for developing and enhancing our online network.

### *General and Administrative*

Our general and administrative expenses were \$8.2 million, or 29% of total net revenues for the year ended June 30, 2002, as compared to \$8.9 million and \$7.0 million, or 33% and 49% of total net revenues in the years ended June 30, 2001 and 2000, respectively. General and administrative expenses consist primarily of compensation for personnel, fees for professional services, and provisions for doubtful accounts. For fiscal year 2002, the slight decrease from fiscal year 2001 was a result of our cost reduction measures. For fiscal year 2001, the increase from fiscal year 2000 was mainly due to the increase in general business activities as a result of business expansion and building our administrative infrastructure.

### *Stock-Based Compensation*

In connection with the grant of certain stock options, the Company recorded net deferred stock compensation totaling \$33.4 million through June 30, 2002, which is being amortized over the four-year vesting period of the options. Of the total deferred stock compensation, approximately \$2.3 million, \$7.5 million and \$19.1 million was amortized in the years ended June 30, 2002, 2001 and 2000, respectively.

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### *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 were amortized over the three-year period ended June 30, 2002. The amortization expense for the years ended June 30, 2002, 2001 and 2000 was \$5.1 million, \$6.8 million and \$6.8 million, respectively.

### *Interest Income, Net*

Interest income, net, was \$4.2 million for the year ended June 30, 2002, as compared to \$7.3 million and \$3.8 million for the years ended June 30, 2001 and 2000, respectively. During the year ended June 30, 2002, the decrease from 2001 was primarily due to the lower average cash and short-term investment balance and lower applicable interest rates during the year. During the year ended 30, 2001, the increase from 2000 was primarily due to higher cash and short-term investment balances as a result of the proceeds from our sale of Series C preference shares in October and November 1999, and the initial public offering in April 2000.

### *Loss on Equity Investments*

In September 2001, we acquired an approximately 27.6% equity interest in Sun TV and accounted for the investment using the equity method of accounting. Our investment in Sun TV was diluted to 21.8% as of June 30, 2002 as a result of Sun TV's issuance of new shares. During the year ended June 30, 2002, we recorded a loss of \$562,000 on our investment in Sun TV, representing our share of Sun TV's reported loss and amortization of intangible assets, partially offset by a gain related to the issuance of new shares by Sun TV to other investors at a price higher than our investment cost.

In December 1999, we paid \$1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd.. We accounted for our investment in the joint venture using the equity method of accounting. We recorded a \$501,000 loss from our investment in the joint venture in the year ended June 30, 2000 and the remaining investment of \$894,000 was fully written off during the year ended June 30, 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 our initial public offering. From inception through June 30, 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 our initial public offering. As of June 30, 2002, we had \$93.2 million in cash and cash equivalents and short-term investments.

For the year ended June 30, 2002, net cash used in operating activities was \$6.4 million and was primarily attributable to our net loss of \$16.1 million and a decrease in accrued liabilities of \$2.7 million, largely offset by the non-cash stock-based compensation expense of \$2.3 million, amortization expense of \$5.1 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com, depreciation expense of \$5.2 million and loss on equity investment of \$562,000. For the year ended June 30, 2001, net cash used in operating activities was \$14.2 million and was primarily attributable to our net loss of \$36.4 million, largely offset by the non-cash stock-based compensation expense of \$7.5 million, amortization expense of \$6.8 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com, depreciation expense of \$3.6 million, and an increase in accrued liabilities of \$3.5 million. For the year ended June 30, 2000, net cash used in operating activities was \$20.1 million and was primarily attributable to our net loss of \$51.0 million, largely offset by the non-cash stock-based compensation expense of \$19.1 million, amortization expense of \$6.8 million related to goodwill and other intangible assets, and an increase in accrued liabilities of \$6.6 million.

Net cash used in investing activities was \$15.4 million for the year ended June 30, 2002, primarily due to the purchase of short-term investments of \$4.8 million, the acquisition of Sun TV of \$8.6 million and the purchase of capital equipment of \$2.0 million. Net cash used in investing activities was \$34.5 million for the year ended June 30, 2001, primarily due to the purchase of short-term investments of \$26.8 million and the

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purchase of capital equipment of \$7.7 million. Net cash used in investing activities was \$34.9 million for the year ended June 30, 2000, primarily due to the purchase of short-term investments of \$26.5 million, the purchase of capital equipment of \$7.0 million and the investment in a joint venture of \$1.4 million.

Net cash provided by financing activities was \$352,000 for the year ended June 30, 2002, primarily attributable to proceeds of \$30,000 from sale of Ordinary Shares under stock plans and proceeds of \$429,000 from repayment of notes receivable from shareholders, offset by the repurchase of Ordinary Shares of \$107,000. Net cash provided by financing activities was \$2.1 million for the year ended June 30, 2001, primarily attributable to proceeds of \$1.5 million from sale of Ordinary Shares under stock plans and proceeds of \$588,000 from repayment of notes receivable from shareholders. Net cash provided by financing activities was \$133.5 million for the year ended June 30, 2000, primarily attributable to net proceeds of \$69.1 million received from the initial public offering in April 2000 and of \$63.9 million received from the Series C preference share issuance in October and November 1999. The remaining cash provided by the financing activities was primarily from the proceeds of exercising stock options and preference share warrants.

## **Commitment and Contingencies**

We currently have no material commitments other than the operating leases for our facilities. As of June 30, 2002, we had future minimum rental lease payments of \$902,000, \$995,000 and \$256,000 due less than one year, one to three years and after three 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 would 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 that financing will be available in amounts or on terms acceptable to us, if at all.

There are uncertainties regarding the legal basis of our 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 us, may operate. Therefore, we might be required to limit the scope of our operations in China, and this could have a material adverse effect on our 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.

## **Recent Accounting Pronouncements**

In July 2001, the Financial Accounting Standards Board issued 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. We adopted these new statements to account for our business combinations completed subsequent to June 30, 2001. The adoption of these pronouncements did not have a significant impact on the Company's consolidated 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

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disposed of by sale. We adopted this statement during the fiscal year ending June 30, 2003. The adoption of SFAS No. 144 did not have a significant impact on the Company's consolidated financial statements.

### **Item 7a. *Quantitative and Qualitative Disclosure about Market Risk***

#### **Interest Rate Risk**

Our investment policy limits our investments of excess cash to government or quasi-government securities and in high-quality corporate securities and limits the amount of credit exposure to any one issuer. We protect and preserve our 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 our 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, 2002 and 2001, 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 June 30, 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.

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**Item 8. *Financial Statements and Supplementary Data***

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders

of SINA.com

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows expressed in U.S. dollars present fairly, in all material respects, the financial position of SINA.com and its subsidiaries at June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California  
August 6, 2002, except for Note 12  
as to which the date is September 2, 2002

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## SINA.COM

## CONSOLIDATED BALANCE SHEET

|                                                                                                               | June 30,                            |            |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------|------------|
|                                                                                                               | 2002                                | 2001       |
|                                                                                                               | (In U.S. dollars)<br>(In thousands) |            |
| ASSETS                                                                                                        |                                     |            |
| Current assets:                                                                                               |                                     |            |
| Cash and cash equivalents                                                                                     | \$ 31,095                           | \$ 52,505  |
| Short-term investments                                                                                        | 62,056                              | 57,284     |
| Accounts receivable, net                                                                                      | 4,722                               | 4,262      |
| Prepaid expenses and other current assets                                                                     | 1,706                               | 1,350      |
|                                                                                                               |                                     |            |
| Total current assets                                                                                          | 99,579                              | 115,401    |
| Property and equipment, net                                                                                   | 8,240                               | 11,911     |
| Long-term investment                                                                                          | 13,167                              |            |
| Intangible assets, net                                                                                        |                                     | 5,063      |
| Receivables from related parties                                                                              |                                     | 556        |
| Other assets                                                                                                  | 369                                 | 191        |
|                                                                                                               |                                     |            |
| Total assets                                                                                                  | \$ 121,355                          | \$ 133,122 |
| LIABILITIES AND SHAREHOLDERS' EQUITY                                                                          |                                     |            |
| Current liabilities:                                                                                          |                                     |            |
| Accounts payable                                                                                              | \$ 1,099                            | \$ 1,613   |
| Accrued liabilities                                                                                           | 8,566                               | 11,542     |
|                                                                                                               |                                     |            |
| Total current liabilities                                                                                     | 9,665                               | 13,155     |
| Commitments and contingencies (Note 11)                                                                       |                                     |            |
| Shareholders' equity:                                                                                         |                                     |            |
| Ordinary Shares: \$0.133 par value; 75,000 shares authorized; 45,890 and 41,358 shares issued and outstanding | 6,107                               | 5,504      |
| Additional paid-in capital                                                                                    | 223,306                             | 220,671    |
| Notes receivable from shareholders                                                                            | (1,050)                             | (1,479)    |
| Deferred stock compensation                                                                                   | (1,299)                             | (5,423)    |
| Accumulated deficit                                                                                           | (115,393)                           | (99,301)   |
| Accumulated other comprehensive income (loss):                                                                |                                     |            |
| Cumulative translation adjustments                                                                            | 19                                  | (5)        |
|                                                                                                               |                                     |            |
| Total shareholders' equity                                                                                    | 111,690                             | 119,967    |
|                                                                                                               |                                     |            |
| Total liabilities and shareholders' equity                                                                    | \$ 121,355                          | \$ 133,122 |

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



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## SINA.COM

## CONSOLIDATED STATEMENT OF OPERATIONS

|                                                                               | Year Ended June 30,                                              |                           |                           |
|-------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                               | 2002                                                             | 2001                      | 2000                      |
|                                                                               | (In U.S. dollars)<br>(In thousands, except<br>per share amounts) |                           |                           |
| Net revenues:                                                                 |                                                                  |                           |                           |
| Advertising                                                                   | \$ 21,105                                                        | \$ 23,393                 | \$ 11,013                 |
| Non-advertising                                                               | 7,403                                                            | 3,290                     | 3,157                     |
|                                                                               | <u>28,508</u>                                                    | <u>26,683</u>             | <u>14,170</u>             |
| Cost of revenues:                                                             |                                                                  |                           |                           |
| Advertising                                                                   | 11,537                                                           | 13,771                    | 8,950                     |
| Non-advertising                                                               | 1,938                                                            | 1,169                     | 1,965                     |
| Stock-based compensation                                                      | 133                                                              | 414                       | 605                       |
|                                                                               | <u>13,608</u>                                                    | <u>15,354</u>             | <u>11,520</u>             |
| Gross profit                                                                  | <u>14,900</u>                                                    | <u>11,329</u>             | <u>2,650</u>              |
| Operating expenses:                                                           |                                                                  |                           |                           |
| Sales and marketing                                                           | 12,468                                                           | 21,694                    | 17,476                    |
| Product development                                                           | 6,666                                                            | 9,648                     | 7,358                     |
| General and administrative                                                    | 8,237                                                            | 8,918                     | 6,951                     |
| Stock-based compensation*                                                     | 2,208                                                            | 7,097                     | 18,460                    |
| Amortization of intangible assets                                             | 5,063                                                            | 6,765                     | 6,807                     |
| Total operating expenses                                                      | <u>34,642</u>                                                    | <u>54,122</u>             | <u>57,052</u>             |
| Loss from operations                                                          | (19,742)                                                         | (42,793)                  | (54,402)                  |
| Interest income, net                                                          | 4,212                                                            | 7,336                     | 3,801                     |
| Loss before loss in equity investment and minority interest                   | (15,530)                                                         | (35,457)                  | (50,601)                  |
| Loss on equity investments                                                    | (562)                                                            | (894)                     | (501)                     |
| Minority interest                                                             |                                                                  |                           | 119                       |
| Net loss                                                                      | <u>(16,092)</u>                                                  | <u>(36,351)</u>           | <u>(50,983)</u>           |
| Accretion on Mandatorily Redeemable Convertible<br>Preference Shares          |                                                                  |                           | (84)                      |
| Net loss attributable to ordinary shareholders                                | <u><u>\$ (16,092)</u></u>                                        | <u><u>\$ (36,351)</u></u> | <u><u>\$ (51,067)</u></u> |
| Basic and diluted net loss per share attributable to ordinary<br>shareholders | <u>\$ (0.36)</u>                                                 | <u>\$ (0.91)</u>          | <u>\$ (3.44)</u>          |
| Shares used in computing basic and diluted net loss per share                 | <u>44,315</u>                                                    | <u>40,110</u>             | <u>14,836</u>             |

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

|                            |                   |                   |                   |
|----------------------------|-------------------|-------------------|-------------------|
| Sales and marketing        | \$ 66             | \$ 219            | \$ 567            |
| Product development        | 707               | 2,295             | 5,973             |
| General and administrative | 1,435             | 4,583             | 11,920            |
|                            | <u>          </u> | <u>          </u> | <u>          </u> |
|                            | \$2,208           | \$7,097           | \$18,460          |
|                            | <u>          </u> | <u>          </u> | <u>          </u> |

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

**Table of Contents****SINA.COM****CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

|                                                                                     | <b>Ordinary Shares</b> |               | <b>Additional</b> | <b>Notes</b>        |                     |                    | <b>Cumulative</b>  | <b>Total</b>        |                      |
|-------------------------------------------------------------------------------------|------------------------|---------------|-------------------|---------------------|---------------------|--------------------|--------------------|---------------------|----------------------|
|                                                                                     | <b>Shares</b>          | <b>Amount</b> | <b>Paid-in</b>    | <b>Receivable</b>   | <b>Deferred</b>     | <b>Accumulated</b> | <b>Translation</b> | <b>Shareholders</b> | <b>Comprehensive</b> |
|                                                                                     |                        |               | <b>Capital</b>    | <b>from</b>         | <b>Stock</b>        | <b>Deficit</b>     | <b>Adjustments</b> | <b>Equity</b>       | <b>Loss</b>          |
|                                                                                     |                        |               |                   | <b>Shareholders</b> | <b>Compensation</b> |                    |                    |                     |                      |
|                                                                                     |                        |               |                   |                     |                     |                    |                    |                     |                      |
| <b>(In U.S. dollars, in thousands)</b>                                              |                        |               |                   |                     |                     |                    |                    |                     |                      |
| Balances at July 1, 1999                                                            | 7,102                  | \$ 947        | \$ 38,055         | \$                  | \$(19,453)          | \$ (11,883)        | \$ 37              | \$ 7,703            |                      |
| Issuance of Ordinary Shares pursuant to stock plans                                 | 597                    | 79            | 162               |                     |                     |                    |                    | 241                 |                      |
| Sale of Ordinary Shares for notes receivables from shareholders, net of repurchases | 2,957                  | 394           | 2,235             | (2,629)             |                     |                    |                    |                     |                      |
| Repayments of notes receivable from shareholders                                    |                        |               |                   | 562                 |                     |                    |                    | 562                 |                      |
| Issuance of Ordinary Shares in initial public offering                              | 4,600                  | 612           | 72,114            |                     |                     |                    |                    | 72,726              |                      |
| Costs of initial public offering                                                    |                        |               | (3,907)           |                     |                     |                    |                    | (3,907)             |                      |
| Conversion of Preference Shares and Warrants to Ordinary Shares                     | 25,508                 | 3,393         | 98,026            |                     |                     |                    |                    | 101,419             |                      |
| Deferred stock compensation                                                         |                        |               | 14,669            |                     | (14,669)            |                    |                    |                     |                      |
| Amortization of deferred stock-based compensation                                   |                        |               |                   |                     | 19,065              |                    |                    | 19,065              |                      |
| Accretion on Mandatorily Redeemable Convertible Preference Shares                   |                        |               |                   |                     |                     | (84)               |                    | (84)                |                      |
| Housing provided by the Stone Group                                                 |                        |               | 45                |                     |                     |                    |                    | 45                  |                      |
| Comprehensive loss:                                                                 |                        |               |                   |                     |                     |                    |                    |                     |                      |
| Net loss                                                                            |                        |               |                   |                     |                     | (50,983)           |                    | (50,983)            | \$(50,983)           |
| Currency translation adjustments                                                    |                        |               |                   |                     |                     |                    | 30                 | 30                  | 30                   |
| Comprehensive loss                                                                  |                        |               |                   |                     |                     |                    |                    |                     | \$(50,953)           |
| Balances at June 30, 2000                                                           | 40,764                 | 5,425         | 221,399           | (2,067)             | (15,057)            | (62,950)           | 67                 | 146,817             |                      |
| Issuance of Ordinary Shares pursuant to stock plans, net of                         | 594                    | 79            | 1,459             |                     |                     |                    |                    | 1,538               |                      |

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|                                                                         |        |         |           |           |            |             |       |           |            |
|-------------------------------------------------------------------------|--------|---------|-----------|-----------|------------|-------------|-------|-----------|------------|
| repurchases                                                             |        |         |           |           |            |             |       |           |            |
| Repayments of notes receivable from shareholders                        |        |         |           | 588       |            |             |       | 588       |            |
| Costs of initial public offering                                        |        |         |           | (64)      |            |             |       | (64)      |            |
| Deferred stock compensation                                             |        |         |           | (2,123)   | 2,123      |             |       |           |            |
| Amortization of deferred stock-based compensation                       |        |         |           |           | 7,511      |             |       | 7,511     |            |
| Comprehensive loss:                                                     |        |         |           |           |            |             |       |           |            |
| Net loss                                                                |        |         |           |           |            | (36,351)    |       | (36,351)  | \$(36,351) |
| Currency translation adjustments                                        |        |         |           |           |            |             | (72)  | (72)      | (72)       |
| Comprehensive loss                                                      |        |         |           |           |            |             |       |           | \$(36,423) |
| Balances at June 30, 2001                                               | 41,358 | 5,504   | 220,671   | (1,479)   | (5,423)    | (99,301)    | (5)   | 119,967   |            |
| Issuance of Ordinary Shares pursuant to stock plans, net of repurchases | (61)   | (8)     | (69)      |           |            |             |       | (77)      |            |
| Repayments of notes receivable from shareholders                        |        |         |           | 429       |            |             |       | 429       |            |
| Deferred stock compensation                                             |        |         |           | (1,783)   | 1,783      |             |       |           |            |
| Amortization of deferred stock-based compensation                       |        |         |           |           | 2,341      |             |       | 2,341     |            |
| Acquisition of long-term investment                                     | 4,593  | 611     | 4,487     |           |            |             |       | 5,098     |            |
| Comprehensive loss:                                                     |        |         |           |           |            |             |       |           |            |
| Net loss                                                                |        |         |           |           |            | (16,092)    |       | (16,092)  | \$(16,092) |
| Currency translation adjustments                                        |        |         |           |           |            |             | 24    | 24        | 24         |
| Comprehensive loss                                                      |        |         |           |           |            |             |       |           | \$(16,068) |
| Balances at June 30, 2002                                               | 45,890 | \$6,107 | \$223,306 | \$(1,050) | \$ (1,299) | \$(115,393) | \$ 19 | \$111,690 |            |

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

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## SINA.COM

## CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                                             | Year Ended June 30, |             |             |
|-----------------------------------------------------------------------------|---------------------|-------------|-------------|
|                                                                             | 2002                | 2001        | 2000        |
| (In U.S. dollars, in thousands)                                             |                     |             |             |
| Cash flows from operating activities:                                       |                     |             |             |
| Net loss                                                                    | \$ (16,092)         | \$ (36,351) | \$ (50,983) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                     |             |             |
| Minority interests                                                          |                     |             | (119)       |
| Loss on equity investments                                                  | 562                 | 894         | 501         |
| Loss on disposal of fixed assets                                            | 267                 |             |             |
| Depreciation and amortization                                               | 5,186               | 3,566       | 1,476       |
| Stock-based compensation                                                    | 2,341               | 7,511       | 19,065      |
| Amortization of intangible assets                                           | 5,063               | 6,765       | 6,807       |
| Changes in assets and liabilities:                                          |                     |             |             |
| Accounts receivable, net                                                    | (460)               | (341)       | (2,680)     |
| Prepaid expenses and other current assets                                   | (356)               | 184         | (981)       |
| Receivable from related parties                                             | 556                 | (288)       | (268)       |
| Other assets                                                                | (178)               | 32          | 128         |
| Accounts payable                                                            | (514)               | 410         | 375         |
| Accrued liabilities                                                         | (2,735)             | 3,452       | 6,576       |
| Net cash used in operating activities                                       | (6,360)             | (14,166)    | (20,103)    |
| Cash flows from investing activities:                                       |                     |             |             |
| Acquisition of property and equipment                                       | (2,035)             | (7,740)     | (7,019)     |
| Investment in joint venture                                                 |                     |             | (1,395)     |
| Acquisition of long-term investment                                         | (8,595)             |             |             |
| Purchase of short-term investments                                          | (4,772)             | (26,800)    | (26,447)    |
| Net cash used in investing activities                                       | (15,402)            | (34,540)    | (34,861)    |
| Cash flows from financing activities:                                       |                     |             |             |
| Proceeds from issuance of Preference Shares, net                            |                     |             | 63,920      |
| Proceeds from issuance of Ordinary Shares, net                              | 30                  | 1,474       | 69,060      |
| Repurchase of ordinary shares                                               | (107)               |             |             |
| Proceeds from notes receivable from shareholders                            | 429                 | 588         | 562         |
| Net cash provided by financing activities                                   | 352                 | 2,062       | 133,542     |
| Net increase (decrease) in cash and cash equivalents                        | (21,410)            | (46,644)    | 78,578      |
| Cash and cash equivalents at beginning of year                              | 52,505              | 99,149      | 20,571      |
| Cash and cash equivalents at end of year                                    | \$ 31,095           | \$ 52,505   | \$ 99,149   |
| Supplemental disclosure of noncash investing and financing activities:      |                     |             |             |
| Ordinary Shares issued for notes receivable                                 | \$                  | \$          | \$ 2,629    |
|                                                                             | \$                  | \$          | \$ 84       |

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| Accretion on Mandatorily Redeemable Convertible Preference Shares |          |    |    |
|-------------------------------------------------------------------|----------|----|----|
|                                                                   |          |    |    |
| Ordinary shares issued for acquisition of long-term investment    | \$ 5,098 | \$ | \$ |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In U.S. dollars)**

**1. The Company and Summary of Significant Accounting Policies**

***The Company***

SINA.com ( SINA or the Company ) is a leading online media and value-added service provider for China and for global Chinese communities. The Company operates a branded network of web sites targeting greater China and overseas Chinese, providing an array of services including online portals, premium email, wireless short messaging, virtual ISP, search, classified information, online games, e-commerce, e-learning and enterprise e-solutions.

***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but which are less than majority owned and not otherwise controlled by the Company, are accounted for under the equity method.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. At June 30, 2002 and 2001, cash equivalents were composed primarily of investments in commercial paper and money market accounts stated at cost, which approximated fair value.

***Short-Term Investments***

Short-term investments were held as securities available for sale are reported at amortized cost as of the balance sheet date which approximates fair market value. As of June 30, 2002 and 2001, the amounts of gross unrealized gains and losses were not significant.

***Property and Equipment***

Property and equipment, including leasehold improvements, are stated at historical cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining lease term.

***Intangible Assets, Net***

Intangible assets, which include developed technology, trade name, content technology and goodwill arising from the acquisitions of Sinanet and additional interests in Beijing SINA Information Technology Co. Ltd. or BSIT, (formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS), were amortized using the straight-line method over a period of three years from the acquisition date.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Impairment of Long-Lived Assets***

The Company evaluates the recoverability of long-lived assets from time to time and will recognize impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. Based on its most recent analysis, the Company believes that there was no impairment of its property and equipment and intangible assets in any of the periods presented.

***Revenue Recognition***

The Company derives its revenues from advertising and non-advertising sources.

***Advertising***

Advertising revenues are derived principally from advertising and sponsorship arrangements. In its advertising contracts the Company typically guarantees a minimum number of impressions or pages to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized on the basis of the number of impressions delivered or ratably over the period in which the advertising is displayed, whichever amount is lower, when the collectibility is reasonably assured. To the extent that minimum guaranteed impressions deliveries are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions deliveries are achieved. Sponsorship arrangements typically allow advertisers to sponsor a particular area on the Company's network in exchange for a fixed payment over the contract period. Advertising revenues are recognized ratably over the period of sponsorship. Advertising revenues derived from the design, coordination and integration of advertising campaigns and sponsorship to be placed on the Company's web sites are recognized ratably over the term of such programs.

Revenue from barter transactions is recognized during the period in which the advertisements are displayed in the Company's properties. Barter transactions are recorded at the lower of the fair value of the goods or services received or the fair value of the advertisement given, provided the fair value of the transaction is reliably measurable. Barter revenues represented 1.3% of the advertising revenues for the year ended June 30, 2000 and less than 1% of the advertising revenues for the years ended June 30, 2002 and 2001.

***Non-advertising***

Non-advertising revenues are derived from proprietary software products and licenses, e-commerce and other fee-based services.

Revenue from the sale of software products is recognized primarily on the delivery of software products to end users, resellers, distributors, retail merchants and original equipment manufacturers. The Company delivers its software products in packaged form or under software licenses. Revenues from sales of software products in the packaged form are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. Software license agreements are non-refundable and allow the OEM partners to reproduce the Company's software products for a specified period of time for a fixed fee or a specified number of copies for a predetermined unit price. Revenues from software license agreements are recognized upon delivery of a master copy when the fixed-fee agreements become effective or based upon activity reports provided by the OEM partners under the per-copy arrangements. Provision is made for expected sales returns and allowances when revenue is recognized. Payments received in advance of revenue recognition are recorded as deferred revenue. The Company recognizes revenues in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-4 and SOP 98-9. These Statements generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. The Company's software product agreements do not involve multiple elements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

E-commerce revenues are derived principally from slotting fees charged to merchants for selective positioning and promoting their goods or services within the Company's online mall, SinaMall, and from commissions calculated as a percentage of the online sales transaction value of the merchants. Slotting fee revenue is recognized ratably over the period the products are shown on the Company's web site while the commission revenue is recognized on a net basis after both successful on-line verification of customers' credit cards and shipment of products. Product returns have not been significant and are assumed by vendors.

Fee-based services revenues mainly include wireless short messaging, subscription services and paid email services. Revenues are recognized in the period in which the service is performed, provided that no significant Company obligations remain and collection of the receivables is reasonably assured.

***Product Development Costs***

Product development costs include expenses incurred by the Company to maintain, monitor and manage the Company's web site. The Company recognizes website development costs in accordance with SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development and costs associated with repair or maintenance of the existing site or the development of website content. Costs incurred in the development phase are capitalized and amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected product revenue, whichever is greater. Since inception, the amount of costs qualifying for capitalization has been immaterial and as a result, all product development costs have been expensed as incurred.

***Advertising Expenses***

The Company expenses the costs of producing advertisements at the time production occurs and expenses the cost of communicating advertising in the period in which the advertising space or airtime is used. Advertising expenses totaled \$4.7 million, \$12.1 million and \$8.8 million during the years ended June 30, 2002, 2001 and 2000, respectively.

***Stock-Based Compensation***

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as amended by FASB Interpretation No. (FIN) 44 and Emerging Issues Task Force (EITF) No. 00-23 and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Under APB No. 25, as amended, compensation cost is, in general, recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. Deferred compensation is amortized over the vesting period of 4 years on an accelerated basis using the model presented in paragraph 24 of FIN 28. Accordingly, the percentages of the deferred compensation amortized in the first, second, third and fourth years following the option grant date are approximately 52%, 27%, 15% and 6%, respectively.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and FIN 44 and EITF No. 96-18 and No. 00-23.

***Income Taxes***

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

***Foreign Currency***

The Company's operations in China, Hong Kong and Taiwan use the local currencies as their functional currencies. Accordingly, all assets and liabilities of the entities in China, Hong Kong and Taiwan are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Gains and losses resulting from foreign currency translation are recorded in accumulated other comprehensive income (loss) as a component of shareholders' equity.

Net gains and losses resulting from foreign exchange transactions are included in the consolidated statement of operations and were not significant during the periods presented.

***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.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive loss did not differ materially from net loss for the periods presented.

***Recent Accounting Pronouncements***

In July 2001, the Financial Accounting Standards Board issued 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 Company adopted these new statements to account for business combinations completed subsequent to June 30, 2001. The adoption of these pronouncements did not have a significant impact on the Company's consolidated 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 Company adopted this statement during the fiscal year ending June 30, 2003. The adoption of SFAS No. 144 did not have a significant impact on the Company's consolidated financial statements.

**Table of Contents****SINA.COM****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. 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 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 was waived in April 2002 by an amendment to the original Share Purchase Agreement with Ms. Yang. The investment is accounted for using the equity method of accounting.

As of June 30, 2002, the investment in Sun TV had a market value of \$28.6 million.

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

|                                                |          |
|------------------------------------------------|----------|
| Sun TV net equity as of acquisition date       | \$32,373 |
| SINA.com's equity interest                     | 27.6%    |
|                                                | <hr/>    |
|                                                | 8,935    |
| SINA.com's goodwill relates to Sun TV          | 1,000    |
| SINA.com's intangible assets relates to Sun TV | 3,794    |
|                                                | <hr/>    |
| Purchase price                                 | \$13,729 |
|                                                | <hr/>    |

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 was obliged to repay the loan to Ms. Yang only if Sun TV had first complied with all its payment obligations and the Company had received all monies due under the loan agreement between the Company and Sun TV. These two loan agreements had identical terms that both loan facilities were unsecured, carried interest at LIBOR plus a margin of 1% per annum and were repayable on September 28, 2004. 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.

During the year ended June 30, 2002, the Company recorded a loss of \$562,000 on its investment in Sun TV, representing the Company's share of Sun TV's reported loss and amortization of intangible assets, partially offset by a gain related to the issuance of new shares by Sun TV to other investors at a price higher than the Company's investment cost. The new issuance of shares by Sun TV resulted in a dilution of the Company's interest in Sun TV to 21.8% as of June 30, 2002.

The carrying value of the investment as of June 30, 2002 was as follows (in thousands):

|                                                |          |
|------------------------------------------------|----------|
| Sun TV net equity as of June 30, 2002          | \$47,453 |
| SINA.com's equity interest                     | 21.8%    |
|                                                | <hr/>    |
|                                                | 10,345   |
| SINA.com's intangible assets relates to Sun TV | 2,822    |
|                                                | <hr/>    |
| Investment in Sun TV                           | \$13,167 |
|                                                | <hr/>    |



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## SINA.COM

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Balance Sheet Components

|                                                 | June 30,         |                  |
|-------------------------------------------------|------------------|------------------|
|                                                 | 2002             | 2001             |
|                                                 | (In thousands)   |                  |
| <b>Cash and cash equivalents:</b>               |                  |                  |
| Cash                                            | \$ 31,095        | \$ 14,334        |
| Commercial paper                                |                  | 38,171           |
|                                                 | <u>\$ 31,095</u> | <u>\$ 52,505</u> |
| <b>Short-term investments:</b>                  |                  |                  |
| Time deposits                                   | \$ 33            | \$ 30            |
| Corporate notes and government bonds            | 62,023           | 57,254           |
|                                                 | <u>\$ 62,056</u> | <u>\$ 57,284</u> |
| <b>Accounts receivable, net:</b>                |                  |                  |
| Accounts receivable                             | \$ 6,718         | \$ 5,843         |
| Less: Allowance for doubtful accounts           | (1,996)          | (1,581)          |
|                                                 | <u>\$ 4,722</u>  | <u>\$ 4,262</u>  |
| <b>Property and equipment, net:</b>             |                  |                  |
| Computer equipment and software                 | \$ 16,265        | \$ 15,885        |
| Furniture and fixtures                          | 773              | 735              |
| Leasehold improvements                          | 704              | 913              |
|                                                 | <u>17,742</u>    | <u>17,533</u>    |
| Less: Accumulated depreciation and amortization | (9,502)          | (5,622)          |
|                                                 | <u>\$ 8,240</u>  | <u>\$ 11,911</u> |
| <b>Intangible assets, net:</b>                  |                  |                  |
| Purchased technology                            | \$ 1,638         | \$ 1,638         |
| Trade name                                      | 931              | 931              |
| Work force                                      | 762              | 762              |
| Content relationship                            | 1,197            | 1,197            |
| Goodwill                                        | 15,895           | 15,895           |
|                                                 | <u>20,423</u>    | <u>20,423</u>    |
| Less: Accumulated amortization                  | (20,423)         | (15,360)         |
|                                                 | <u>\$</u>        | <u>\$ 5,063</u>  |
| <b>Accrued liabilities:</b>                     |                  |                  |
| Payroll and related expenses                    | \$ 2,176         | \$ 3,489         |

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|                     |                   |                   |
|---------------------|-------------------|-------------------|
| Deferred revenue    | 1,967             | 2,200             |
| Sales taxes payable | 372               | 245               |
| Marketing expenses  | 1,247             | 2,261             |
| Other               | 2,804             | 3,347             |
|                     | <u>          </u> | <u>          </u> |
|                     | \$ 8,566          | \$ 11,542         |
|                     | <u>          </u> | <u>          </u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Related Party Transactions**

*Transactions with ICP Company and Ad Company.* To comply with Chinese regulations, in April 2000, Beijing SINA Information Technology Co. Ltd. or BSIT, the Company's subsidiary in China, entered into agreements with two limited liability companies incorporated in China: Beijing SINA Interactive Advertising Co., Ltd. (the Ad Company) and Beijing SINA Internet Information Services Co., Ltd. (the ICP Company). The Ad Company is a Chinese advertising company that is 75% owned by Yan Wang, the Company's president, and 25% owned by BSIT. The ICP Company is a Chinese Internet content provider that is 30% owned by Daniel Mao, the Company's chief executive officer, 30% owned by Yan Wang and 40% by four other employees of the Company. All individual shareholders of the Ad Company and the ICP Company are required under their agreements with BSIT to transfer their interest in the Ad Company or ICP Company to BSIT or to any person specified by BSIT at any time at BSIT's request, provided that such transfer is not in violation of Chinese laws and regulations. In the opinion of SINA's Chinese counsel, the ownership of BSIT and its businesses comply with existing Chinese laws and regulations.

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 the China web site to the Ad Company. The Ad Company, in turn, places advertisements in this space for third parties under its advertising license. In addition, BSIT 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. BSIT is also a consultant and service provider to the Ad Company for its domestic Chinese customers. Substantially all of the income received from sales by the Ad Company and ICP Company from third parties is paid to BSIT.

Through ten-year proxies ending in the years 2011 and 2010, BSIT has complete voting control over the ICP Company and the Ad Company. The employee owners of the ICP Company and the Ad Company do not have participating rights as defined in EITF 96-16 with respect to the management of the ICP Company and the Ad Company. Therefore, the financial position and results of operations of the ICP Company and the Ad Company are consolidated with the financial statements of SINA.com, and intercompany transactions and balances are eliminated in the consolidation.

Prior to October 1, 2001, when BSIT obtained the proxy for the ICP Company, the financial position and results of operations of the ICP Company were not consolidated in the Company's financial statements. During the quarter ended September 30, 2001 and the years ended June 30, 2001 and 2000, BSIT recorded \$614,000, \$924,000 and \$95,000, respectively, of revenue from technical support service provided to the ICP Company, which amounts were equal to the revenue the ICP Company received from unrelated parties during the same periods. During the quarter ended September 30, 2001 and the years ended June 30, 2001 and 2000, the Ad Company paid the ICP Company \$72,000, \$338,000 and \$434,000, respectively, for advertising space. As a result of the transactions, BSIT recorded a receivable from the ICP Company of \$436,000 and \$148,000 at June 30, 2001 and 2000, respectively. These amounts plus loans by BSIT to certain employees for the purpose of setting up the ICP Company totaled to \$556,000 and \$268,000, which were reported as receivables from related parties as of June 30, 2001 and 2000, respectively. Also, BSIT accrued for the costs and expenses of the ICP Company in excess of its revenues as the costs are incurred by the ICP Company. For the quarter ended September 30, 2001 and the years ended June 30, 2001 and 2000, BSIT accrued \$662,000, \$1.6 million and \$381,000, respectively, for the ICP Company's losses. BSIT obtained the proxy for the Ad Company earlier, and the results of the Ad Company have been consolidated for all periods presented.

BSIT was formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS.

*Joint venture investment.* In December 1999, the Company contributed \$1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd. The investment in the joint venture was accounted for under the equity method. The total expenses incurred from service provided by the

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joint venture for the year ended June 30, 2001 amounted to \$309,000. The payable to the joint venture as of June 30, 2001 was \$309,000. The investment was written off due to the joint venture's cease of operation during the year ended June 30, 2001.

*Shareholder notes.* During the years ended June 30, 2002 and 2001, respectively, notes of \$429,000 and \$588,000 were repaid. As of June 30, 2002 and 2001, notes receivable from shareholders were \$1.1 million and \$1.5 million. These ordinary shares are subject to rights of repurchase by the Company until such shares are vested. The notes are full recourse and have a five-year term expiring in 2005. They bear interest ranging from 5.74% to 5.87%.

**5. Income Taxes**

Income is subject to taxation in the various countries in which the Company and its subsidiaries operate. The components of losses before income taxes are as follows:

|                                                                               | <b>For the Year Ended June 30,</b> |                    |                    |
|-------------------------------------------------------------------------------|------------------------------------|--------------------|--------------------|
|                                                                               | <b>2002</b>                        | <b>2001</b>        | <b>2000</b>        |
|                                                                               | <b>(In thousands)</b>              |                    |                    |
| Loss subject to U.S. income taxes only                                        | \$ (6,153)                         | \$ (12,956)        | \$ (13,566)        |
| Loss subject to foreign income taxes, and in certain cases, U.S. income taxes | (9,939)                            | (23,395)           | (37,501)           |
| Loss before taxes                                                             | <u>\$ (16,092)</u>                 | <u>\$ (36,351)</u> | <u>\$ (51,067)</u> |

The components of the net deferred tax assets as of June 30, 2002 and 2001 are as follows:

|                                  | <b>June 30,</b>       |                 |
|----------------------------------|-----------------------|-----------------|
|                                  | <b>2002</b>           | <b>2001</b>     |
|                                  | <b>(In thousands)</b> |                 |
| Deferred tax assets:             |                       |                 |
| Net operating loss carryforward  | \$ 18,020             | \$ 15,224       |
| Other accruals and liabilities   | 484                   | 521             |
| Research and development credits | 622                   | 578             |
| Depreciation and amortization    | 374                   | 224             |
| Total deferred tax assets        | <u>19,500</u>         | <u>16,547</u>   |
| Less: Valuation allowance        | <u>(19,500)</u>       | <u>(16,547)</u> |
|                                  | <u>\$</u>             | <u>\$</u>       |

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. Management evaluates that significant evidence does not exist under generally accepted accounting principles to support a conclusion that it is more likely than not that the future deferred tax asset will be realized.

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As of June 30, 2002, the subsidiary of the Company in the United States had approximately \$40.6 million of federal and \$17.4 million of state net operating loss carryforwards available to offset future taxable income. The federal net operating loss carryforwards will expire, if unused, in fiscal years 2012 through 2022, and the state net operating loss carryforwards will expire, if unused, in fiscal years 2003 through 2011. Included in the net operating loss is \$168,000 and \$11,000 of federal and state net operating loss carryforwards relating to employee stock options, the benefit of which will be credited to equity when realized. The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations when changes occur

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in the stock ownership of a company. In the event the Company has a change in ownership, utilization of carryforwards could be restricted.

Additionally, as of June 30, 2002, the Company's Hong Kong subsidiary had approximately \$9.5 million net operating loss carryforwards which can be carried forward indefinitely to offset future taxable income. The China subsidiary also had net operating loss carryforwards of approximately \$17.0 million which can be carried forward for 5 years.

**6. Net Loss Per Share**

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

|                                                                                                                                                      | Year Ended June 30,                      |                    |                    |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------|--------------------|
|                                                                                                                                                      | 2002                                     | 2001               | 2000               |
|                                                                                                                                                      | (In thousands, except per share amounts) |                    |                    |
| Numerator:                                                                                                                                           |                                          |                    |                    |
| Net loss                                                                                                                                             | \$ (16,092)                              | \$ (36,351)        | \$ (50,983)        |
| Accretion of mandatorily redeemable convertible preference redemption value                                                                          |                                          |                    | (84)               |
| Net loss attributable to ordinary shareholders                                                                                                       | <u>\$ (16,092)</u>                       | <u>\$ (36,351)</u> | <u>\$ (51,067)</u> |
| Denominator:                                                                                                                                         |                                          |                    |                    |
| Shares used in computing basic and diluted net loss per share                                                                                        | <u>44.315</u>                            | <u>40,110</u>      | <u>14,836</u>      |
| Basic and diluted net loss per share attributable to ordinary shareholders                                                                           | <u>\$ (0.36)</u>                         | <u>\$ (0.91)</u>   | <u>\$ (3.44)</u>   |
| Antidilutive securities including options, warrants, preference shares and restricted ordinary shares not included in net loss per share calculation | <u>5,861</u>                             | <u>5,357</u>       | <u>23,859</u>      |

**7. Employee Benefit Plans*****401(k) Savings Plan***

The Company has a saving plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). Under the 401(k) Plan, participating employees may defer a percentage (not to exceed 25%) of their eligible pretax earnings up to the Internal Revenue Service's annual contribution limit. All employees on the United States payroll of the Company age 21 years or older are eligible to participate in the 401(k) Plan. The Company had not been required to contribute to the 401(k) Plan.

***China Contribution Plan and Profit Appropriation***

The Company's subsidiary in China participates in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiary to

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pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond its monthly contribution. During years ended June 30, 2002,

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2001 and 2000, the Company contributed to these funds a total of \$0.8 million, \$0.7 million and \$1.2 million, respectively.

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiary in China must make appropriations from after-tax profit to non-distributable reserve funds as determined by the Board of Directors. These reserve funds include a (i) general reserve, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under PRC GAAP); the other fund appropriations are at the Company's discretion. Since the Company's PRC subsidiary is in a loss making position, no appropriations have been made to the general reserve fund.

**8. Stock Plans*****1999 Stock Option Plan***

In May 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan"). The 1999 Plan provides for the granting of stock options to employees, consultants and directors of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. As of June 30, 2002, the Company has reserved 11,358,000 ordinary shares for issuance under the 1999 Plan, including a previous plan carried over from 1997 and options assumed in the Sinanet acquisition. The 1999 Plan will continue in effect until May 2009, unless terminated earlier in accordance with the terms of the Plan. As of June 30, 2002, there were a total of 3,072,000 options outstanding under the 1999 Plan.

Options under the Company's 1999 Plan may be granted for a term of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively. The exercise price of an ISO and NSO granted to a 10% shareholder should not be less than 110% of the estimated fair value of the shares on the date of grant. Options granted under the Plan through June 30, 2002 generally vest 25% after the first year and then 2.083% each month thereafter. Certain options vest monthly over a four year term or a one year term. Certain grants are exercisable immediately under such terms and conditions as determined by the Board of Directors. Ordinary Shares issued upon such early exercises are subject to rights of repurchases by the Company until such shares become fully vested. At June 30, 2002 and 2001, there were 309,000 and 888,000, respectively, shares of such Ordinary Shares issued that were subject to repurchase.

***1999 Executive Stock Option Plan***

In October 1999, the Board adopted the 1999 Executive Stock Option Plan (the "Executive Plan"). An aggregate of 2,250,000 Ordinary Shares have been reserved for issuance under the Executive Plan. The Executive Plan provides for the granting of options to purchase Ordinary Shares and Ordinary Share purchase rights to eligible employees and consultants. As of June 30, 2002, a total of 3,602,000 options had been granted under the Executive Plan, of which a total of 1,352,000 had been cancelled and a total of 56,000 had been exercised. As of June 30, 2002, there were a total of 2,194,000 options outstanding under the Executive Plan. Options under Executive Plan may be granted for a term of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively. The exercise price of an ISO and NSO granted to a 10% shareholder should not be less than 110% of the estimated fair value of the shares on the date of grant. Options granted under the Executive Plan through June 30, 2002 generally vest 25% after the first year and then 2.083% each month thereafter. Certain options vest monthly over a four year term or a one year term. Certain

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grants are exercisable immediately under such terms and conditions as determined by the Board of Directors. Ordinary Shares issued upon such early exercises are subject to rights of repurchases by the Company until such shares become fully vested. The Executive Plan will continue in effect until October 2009, unless terminated earlier in accordance with the terms of the Executive Plan.

***Directors' Stock Option Plan***

In October 1999, the Board approved the 1999 Directors' Stock Option Plan (the "Directors' Plan") covering an aggregate of 750,000 ordinary shares. The Directors' Plan became effective on the effective date of the initial public offering and provides a non-employee director after the completion of the offering (1) a nonstatutory stock option to purchase 37,500 ordinary shares on the date on which he or she first becomes a member of the Board of Directors, and (2) an additional nonstatutory stock option to purchase 15,000 shares on the date of each annual shareholders' meeting immediately thereafter, if on such date he or she has served on the Board for at least six months. All options granted under the Directors' Plan shall not be less than 100% of the estimated fair value of the shares on the date of grant and shall have a maximum term of 10 years. All options granted under the Directors' Plan vest in full immediately upon grant. As of June 30, 2002, a total of 323,000 options had been granted under the Directors' Plan and 285,000 options are outstanding at June 30, 2002.

***Activities of All Stock Option Plans***

The following table summarizes stock option activity under the Company's stock option plans:

|                                                                              | Year Ended June 30,    |                                          |                        |                                          |                        |                                          |
|------------------------------------------------------------------------------|------------------------|------------------------------------------|------------------------|------------------------------------------|------------------------|------------------------------------------|
|                                                                              | 2002                   |                                          | 2001                   |                                          | 2000                   |                                          |
|                                                                              | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price |
| (In thousands, except per share amounts)                                     |                        |                                          |                        |                                          |                        |                                          |
| Outstanding at beginning of period                                           | 4,469                  | \$6.21                                   | 4,722                  | \$7.02                                   | 5,999                  | \$0.56                                   |
| Granted                                                                      | 2,470                  | 1.62                                     | 1,919                  | 4.10                                     | 4,887                  | 7.24                                     |
| Exercised                                                                    | (37)                   | 0.47                                     | (531)                  | 1.66                                     | (5,171)                | 0.77                                     |
| Canceled                                                                     | (1,351)                | 8.08                                     | (1,641)                | 7.53                                     | (993)                  | 1.55                                     |
| Outstanding at period end                                                    | 5,551                  | 3.75                                     | 4,469                  | 6.21                                     | 4,722                  | 7.02                                     |
| Weighted average grant date fair value<br>of options granted during the year |                        | \$0.71                                   |                        | \$3.08                                   |                        | \$6.49                                   |

**Table of Contents****SINA.COM****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At June 30, 2002, approximately 2,888,000 options were available for grant under the Plans.

| Range of Exercise Prices | Options Outstanding at June 30, 2002 |                                             |                                 | Options Exercisable at June 30, 2002 |                                 |
|--------------------------|--------------------------------------|---------------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|                          | Number Outstanding                   | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Outstanding                   | Weighted Average Exercise Price |
|                          | (In thousands)                       |                                             |                                 | (In thousands)                       |                                 |
| \$0.16 - \$1.50          | 1,212                                | 7.95                                        | \$ 1.00                         | 795                                  | \$ 0.84                         |
| \$1.68 - \$3.13          | 2,953                                | 9.53                                        | 1.97                            | 580                                  | 2.23                            |
| \$6.50 - \$7.33          | 1,050                                | 7.46                                        | 7.18                            | 763                                  | 7.25                            |
| \$11.50 - \$27.94        | 336                                  | 7.80                                        | 18.63                           | 251                                  | 18.11                           |
|                          | <u>5,551</u>                         |                                             |                                 | <u>2,389</u>                         |                                 |

*Stock-based compensation.* The Company recorded deferred stock compensation totaling \$33.4 million which is being amortized over the vesting periods of the related options, which are generally four years. Amortization expense recognized during the years ended June 30, 2002, 2001 and 2000 totaled approximately \$2.3 million, \$7.5 million and \$19.1 million, respectively.

*Fair value disclosures.* The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes pricing method with the following assumptions:

|                          | Year Ended June 30, |               |               |
|--------------------------|---------------------|---------------|---------------|
|                          | 2002                | 2001          | 2000          |
| Risk-free interest rate  | 3.70% - 4.36%       | 4.64% - 6.15% | 6.00% - 6.40% |
| Expected life (in years) | 4                   | 4             | 4             |
| Expected dividend yield  |                     |               |               |
| Volatility               | 49%                 | 108%          | 84%           |

Prior to the Company's initial public offering, the fair value of each option grant was determined using the minimum value method. Options granted subsequent to the initial public offering have been valued using the Black-Scholes model considering the expected volatility of our stock price, determined in accordance with FAS 123, in arriving at an option valuation. The minimum value method does not consider stock price volatility. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for the awards under a method prescribed by SFAS No. 123, the Company's net loss per share would have been adjusted to the pro forma amounts as follows:

|  | Year Ended June 30,                      |      |      |
|--|------------------------------------------|------|------|
|  | 2002                                     | 2001 | 2000 |
|  | (In thousands, except per share amounts) |      |      |

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|                                        |                   |                   |                   |
|----------------------------------------|-------------------|-------------------|-------------------|
| Net loss:                              |                   |                   |                   |
| As reported                            | \$ (16,092)       | \$ (36,351)       | \$ (51,067)       |
|                                        | <u>          </u> | <u>          </u> | <u>          </u> |
| Pro forma                              | \$ (16,313)       | \$ (36,878)       | \$ (53,429)       |
|                                        | <u>          </u> | <u>          </u> | <u>          </u> |
| Net loss per share, basic and diluted: |                   |                   |                   |
| As reported                            | \$ (0.36)         | \$ (0.91)         | \$ (3.44)         |
|                                        | <u>          </u> | <u>          </u> | <u>          </u> |
| Pro forma                              | \$ (0.37)         | \$ (0.92)         | \$ (3.60)         |
|                                        | <u>          </u> | <u>          </u> | <u>          </u> |

**Table of Contents****SINA.COM****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Employee Stock Purchase Plan***

In October 1999, the Board adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan"). An aggregate of 3,750,000 ordinary shares have been reserved for issuance under the plan, plus annual increases equal to the lesser of (1) 600,000 shares, (2) 0.5% of the ordinary shares outstanding on the last day of the immediately preceding fiscal year, or (3) such lesser number of shares as is determined by the Board. The Purchase Plan is implemented by a series of overlapping periods of approximately 24 months' duration, with new offering periods (other than the first offering period which will be approximately 9 1/2 months) commencing on February 1 and August 1 of each year. The price at which stock is purchased under the Purchase Plan is equal to the lower of 85% of the fair market value of the Ordinary Shares at the beginning of each offering period or at the end of each purchase period. The eligible employees can have up to 20% of their earnings withheld to be used to purchase shares of the Company's Ordinary Share. The Purchase Plan offers automatic withdrawal and reenrollment provision under which the participant in the ongoing offering period shall automatically be deemed to have withdrawn from the ongoing offering period and enrolled in such new offering period under the same subscription agreement in effect for such ongoing offering period if the fair market value of the shares on the new offering period is lower than the in progress offering period. The 1999 Employee Stock Purchase Plan became effective on the effective date of the initial public offering. As of June 30, 2002, total contributions by employees to the Purchase Plan was \$0.7 million and 88,000 shares had been issued under the Purchase Plan.

**9. 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 two principal business segments globally; advertising and non-advertising. The Company does not allocate any operating costs or assets to its 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 meaningful in evaluating these segments' performance.

The following is a summary of the Company's geographic operation:

|                                            | <u>U.S.</u>           | <u>China</u> | <u>Hong Kong</u> | <u>Taiwan</u> | <u>Total</u> |
|--------------------------------------------|-----------------------|--------------|------------------|---------------|--------------|
|                                            | <b>(In thousands)</b> |              |                  |               |              |
| <b>Year ended and as of June 30, 2002:</b> |                       |              |                  |               |              |
| Revenues                                   | \$2,524               | \$22,832     | \$1,542          | \$1,610       | \$28,508     |
| Long-lived assets                          | 666                   | 5,079        | 824              | 1,671         | 8,240        |
| <b>Year ended and as of June 30, 2001:</b> |                       |              |                  |               |              |
| Revenues                                   | \$6,866               | \$17,190     | \$1,002          | \$1,625       | \$26,683     |
| Long-lived assets                          | 1,754                 | 6,103        | 1,317            | 2,737         | 11,911       |
| <b>Year ended and as of June 30, 2000:</b> |                       |              |                  |               |              |
| Revenues                                   | \$4,414               | \$8,080      | \$525            | \$1,151       | \$14,170     |
| Long-lived assets                          | 1,694                 | 3,690        | 938              | 1,415         | 7,737        |

Revenues are attributed to the countries in which the invoices are issued. Long-lived assets comprise property and equipment.

**10. Certain Risks and Concentrations**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by depositing its cash and cash equivalents with financial institutions in the U.S., China, Hong

**Table of Contents****SINA.COM****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Kong and Taiwan which management believes are of high credit quality. The Company believes that the risk associated with accounts receivable is mitigated, to some extent, by the fact that the Company's customer base is geographically dispersed. The Company maintains an allowance for potential credit losses that it believes to be adequate. One customer represented 11% of net revenues for the year ended June 30, 2001. No individual customer accounted for more than 10% of total net revenues for the years ended June 30, 2002 and 2000. Two customers accounted for 13% and 14% of accounts receivable at June 30, 2002. One customer accounted for 11% of accounts receivable at June 30, 2001. No individual customer accounted for more than 10% of accounts receivable at June 30, 2000.

The Company operates in business segments which are characterized by rapid technological advances, changes in customer requirements and evolving regulatory requirements and industry standards. Any failure by the Company to anticipate or to respond adequately to technological changes in its industry segments, changes in customer requirements or changes in regulatory requirements or industry standards, could have a material adverse affect on the Company's business and operating results.

The Company relies on a number of third-party suppliers for various services, including web server hosting, banner advertising delivery software and Internet traffic measurement software.

**11. Commitments and Contingencies**

*Leases.* The Company leases office facilities under noncancelable operating leases with various expiration dates through June 2007. Rent expense for the years ended June 30, 2002, 2001 and 2000 totaled \$1.1 million, \$1.1 million and \$778,000, respectively.

At June 30, 2002, future minimum lease payments under noncancelable operating leases are as follows (in thousands):

| <b>Year Ending June 30,</b> |         |
|-----------------------------|---------|
| 2003                        | \$ 902  |
| 2004                        | 501     |
| 2005                        | 244     |
| 2006                        | 250     |
| 2007                        | 256     |
|                             | <hr/>   |
|                             | \$2,153 |
|                             | <hr/>   |

*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.

**12. Subsequent Event**

On September 2, 2002, the Company announced that a definitive agreement was entered into with the shareholders of Shanghai Techur Technology Developing Co., Ltd. ( Techur ) to acquire 100% equity interest in Techur for a consideration of approximately \$1.9 million. If Techur meets certain performance targets over the next 12 months, the maximum consideration would increase to approximately \$3.8 million. The acquisition is expected to be completed in October 2002.

**Table of Contents****SINA.COM****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Techur is an Internet and logistic software company in the PRC, providing Internet and Intranet based logistic software and online applications to shipping and export business in Eastern China. Additionally, Techur operates a leading business to business ( B2B ) portal (www.eastchina.com) for various industries in Eastern China.

**Supplementary Financial Data (unaudited)**

The following table reflects the Company's unaudited quarterly consolidated statement of operations data for each of the eight quarters in the period ended June 30, 2002. The Company believes that the historical quarterly information has been prepared substantially on the same basis as the audited consolidated financial statements, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to present fairly the unaudited quarterly results of operations data. Please refer to the Company's consolidated financial statements and the notes thereto for an explanation of the computation of basic and diluted net loss per share.

**Three Months Ended**

|                                                                            | <b>June 30,<br/>2002</b> | <b>March 31,<br/>2002</b> | <b>Dec. 31,<br/>2001</b> | <b>Sept. 30,<br/>2001</b> | <b>June 30,<br/>2001</b> | <b>March 31,<br/>2001</b> | <b>Dec. 31,<br/>2000</b> | <b>Sept. 30,<br/>2000</b> |
|----------------------------------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| <b>(In thousands, except per share amounts)</b>                            |                          |                           |                          |                           |                          |                           |                          |                           |
| Net revenues                                                               | \$ 8,563                 | \$ 7,115                  | \$ 6,769                 | \$ 6,061                  | \$ 5,779                 | \$ 6,129                  | \$ 7,622                 | \$ 7,153                  |
| Gross profit                                                               | 5,014                    | 3,697                     | 3,272                    | 2,917                     | 2,470                    | 2,472                     | 3,378                    | 3,009                     |
| Net loss attributable to ordinary shareholders                             | (1,894)                  | (3,971)                   | (4,933)                  | (5,294)                   | (8,217)                  | (9,010)                   | (8,875)                  | (10,249)                  |
| Basic and diluted net loss per share attributable to ordinary shareholders | \$ (0.04)                | \$ (0.09)                 | \$ (0.11)                | \$ (0.13)                 | \$ (0.20)                | \$ (0.22)                 | \$ (0.22)                | \$ (0.26)                 |
| Shares used in computing basic and diluted net loss per share              | 45,579                   | 45,488                    | 45,396                   | 40,798                    | 40,453                   | 40,300                    | 40,123                   | 39,565                    |

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**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

Incorporated by reference from the information under the captions "Proposal No. 1 Election of Directors", "Executive Officers of Registrant" and "Section 16 Beneficial Ownership Reporting Compliance" in the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders.

**Item 11. *Executive Compensation***

Incorporated by reference from the information under the captions "Compensation of Executive Officers", "Compensation Committee Report on Executive Compensation", "Compensation Committee Interlocks and Insider Participation", and "Stock Performance Graph" in the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management***

Incorporated by reference from the information under the captions "Record Date; Voting Securities" and "Information Regarding Beneficial Ownership of Principal Shareholders and Management" in the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders.

**Item 13. *Certain Relationships and Related Transactions***

Incorporated by reference from the information under the captions "Certain Transactions" and "Compensation Committee Interlocks and Insider Participation" in the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders.

**PART IV**

**Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

Upon request, we will provide, without charge, a copy of this Report on Form 10-K, including the consolidated financial statements, financial statement schedules and any exhibits for SINA's most recent fiscal year. All requests should be sent to:

SINA.com  
Investor Relations  
2988 Campus Drive, Suite 100  
San Mateo, CA 94403  
(650) 638-9228

In addition, the Securities and Exchange Commission maintains a website that provides access to all filings made electronically by SINA.com at [www.sec.gov](http://www.sec.gov). SINA's website is located at [www.sina.com](http://www.sina.com). Information contained on SINA's website is not a part of this Annual Report on Form 10-K.

(a) The following documents are filed as part of this report:

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(1) Consolidated Financial Statements: See Index to Consolidated Financial Statements at Item 8 on page 33 of this report.

(2) Financial Statement Schedules: See Index to Consolidated Financial Statements at Item 8 on page 33 of this report.

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(3) Exhibits are incorporated herein by reference or are filed with this report at Exhibit Index on page 59 to page 61 of this report (numbered in accordance with Item 601 of Regulation S-K).

(b) In October 2001, we filed a Current Report on Form 8-K regarding the acquisition of 2,028,122,000 ordinary shares of Sun Television Cybernetworks Holding Limited.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, SINA.com has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SINA.COM

By:

/s/ CHARLES CHAO

---

Charles Chao  
*Chief Financial Officer and  
Executive Vice President*

Date: September 27, 2002

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**CERTIFICATIONS**

I, Daniel Mao, certify that:

1. I have reviewed this annual report on Form 10-K of SINA.COM;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

By: /s/ DANIEL MAO

Daniel Mao  
*Chief Executive Officer and Director*

Date: September 27, 2002

I, Charles Chao, certify that:

1. I have reviewed this annual report on Form 10-K of SINA.COM;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

By: /s/ CHARLES CHAO

Charles Chao  
*Chief Financial Officer and  
Executive Vice President*

Date: September 27, 2002

**Table of Contents****POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel Mao and Charles Chao, jointly and severally, as his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

**Pursuant to the requirements of the Securities Act of 1934, this From 10-K has been signed by the following persons in the capacities and on the dates indicated:**

| <b>Signature</b>         | <b>Title</b>                                                                                            | <b>Date</b>        |
|--------------------------|---------------------------------------------------------------------------------------------------------|--------------------|
| <u>/s/ DANIEL MAO</u>    | Chief Executive Officer<br>and Director<br>(Principal Executive Officer)                                | September 27, 2002 |
| Daniel Mao               |                                                                                                         |                    |
| <u>/s/ CHARLES CHAO</u>  | Chief Financial Officer and Executive Vice<br>President (Principal Financial and Accounting<br>Officer) | September 27, 2002 |
| Charles Chao             |                                                                                                         |                    |
| <u>/s/ DANIEL CHIANG</u> | Chairman of the Board                                                                                   | September 27, 2002 |
| Daniel Chiang            |                                                                                                         |                    |
| <u>/s/ PEHONG CHEN</u>   | Director                                                                                                | September 27, 2002 |
| Pehong Chen              |                                                                                                         |                    |
| <u>/s/ YONGJI DUAN</u>   | Director                                                                                                | September 27, 2002 |
| Yongji Duan              |                                                                                                         |                    |
| <u>/s/ LIP-BU TAN</u>    | Director                                                                                                | September 27, 2002 |
| Lip-Bu Tan               |                                                                                                         |                    |
| <u>/s/ TER-FUNG TSAO</u> | Director                                                                                                | September 27, 2002 |
| Ter-Fung Tsao            |                                                                                                         |                    |
| <u>/s/ YICHEN ZHANG</u>  | Director                                                                                                | September 27, 2002 |
| Yichen Zhang             |                                                                                                         |                    |

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1*                      | Agreement and Plan of Reorganization by and among SRS International Ltd., SINO Acquisition Corporation and Sinanet.com dated January 19, 1999.                                                                                                                                                                                                                                                                                                                                             |
| 3.2*                      | Amended and Restated Articles of Association of SINA.com.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3.4*                      | Amended and Restated Memorandum of Association of SINA.com.                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 4.2*                      | Amended and Restated Investors' Rights Agreement dated October 19, 1999 among SINA.com and certain holders of SINA.com's securities.                                                                                                                                                                                                                                                                                                                                                       |
| 10.1*                     | Form of Indemnification Agreement between SINA.com and each of its officers and directors.                                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.2*                     | SRS International Ltd. 1997 Stock Option Plan and form of incentive stock option agreement.                                                                                                                                                                                                                                                                                                                                                                                                |
| 10.3*                     | Sinanet.com 1997 Stock Plan and form of stock option agreement.                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 10.4*                     | Amended SINA.com 1999 Stock Plan and form of share option agreement.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 10.5*                     | 1999 Employee Stock Purchase Plan and form of subscription agreement.                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10.6*                     | 1999 Directors' Stock Option Plan and form of nonstatutory stock option agreement.                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.9*                     | Lease agreements between Beijing Stone Rich Sight Information Technology Co. Ltd. (a subsidiary of SINA.com) and the following entities: a) Beijing Shilihe Property Management Company Ltd dated October 16, 1997, b) Beijing Wanquan Hope Technology Development Center dated April 2, 1998, and c) Wanquan Primary School, Haidian District, Beijing dated December 15, 1998. All agreements are for office space located in Beijing Wanquan Primary School, Haidian District, Beijing. |
| 10.12*                    | Offer Letter dated January 11, 1999 between SINA.com and Daniel Mao.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 10.19*                    | 1999 Executive Stock Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.23*                    | Business Cooperation Agreement dated March 7, 2000 between Beijing SINA Internet Information Services Co., Ltd. and BSRS.                                                                                                                                                                                                                                                                                                                                                                  |
| 10.24*                    | Equipment and Leased Line Transfer Agreement dated March 7, 2000 between Beijing SINA Internet Information Services Co., Ltd. and BSRS.                                                                                                                                                                                                                                                                                                                                                    |
| 10.26*                    | Advertising Agency Agreement dated March 7, 2000 between Beijing SINA Internet Information Services Co., Ltd. and SINA.com.                                                                                                                                                                                                                                                                                                                                                                |
| 10.27*                    | Advertisement Production and Technical Service Agreement dated March 7, 2000 between Beijing Stone Rich Sight Information Technology Co., Ltd. and Beijing SINA Interactive Advertising Co. Ltd.                                                                                                                                                                                                                                                                                           |
| 10.28*                    | Advertising Publication and Cooperation Agreement dated March 7, 2000 between Beijing SINA Internet Information Services Co., Ltd. and Beijing SINA Interactive Advertising Co., Ltd.                                                                                                                                                                                                                                                                                                      |
| 10.29*                    | Opinion of Commerce and Finance Law Offices dated March 14, 2000 regarding approval by China Securities Regulatory Commission.                                                                                                                                                                                                                                                                                                                                                             |
| 10.30*                    | Opinion of Commerce and Finance Law Offices dated March 20, 2000.                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 10.31*                    | Employment Agreement dated September 23, 1999 between Beijing Stone Rich Sight Technology Co. Ltd. and Yan Wang.                                                                                                                                                                                                                                                                                                                                                                           |
| 10.32*                    | Lease Agreement dated November 18, 1999 between Po-Hu Lee and SINA.Com Online for offices located at 3F, No. 29, AN Ho Road, Ta An District, Taipei City, Taiwan.                                                                                                                                                                                                                                                                                                                          |
| 10.33*                    | Lease Agreement dated November 8, 1999 between Vicwood International Limited and SINA.com (Hong Kong) Limited for offices located at Units 01-03, 18th Floor, 199 Des Voeux Road, Central, Hong Kong.                                                                                                                                                                                                                                                                                      |
| 10.36*                    | Loan agreement dated November 18, 1999 with Wang Yan for purposes of providing capital to the ICP Company.                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.37*                    | Amendment to Advertising Agency Agreement dated April 1, 2000 between Beijing SINA Interactive Advertising Co., Ltd. and SINA.com.                                                                                                                                                                                                                                                                                                                                                         |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.38*                    | Amendment to Advertisement Publication and Cooperation Agreement dated April 1, 2000 between Beijing SINA Interactive Advertising Co., Ltd. and Beijing SINA Internet Information Services Co., Ltd.                                                                                                                                                                                                                                                |
| 10.39*                    | Amendment to Advertising Production and Technical Service Agreement dated April 1, 2000 between Beijing Stone Rich Sight Information Technology Co., Ltd. and Beijing SINA Interactive Advertising Co., Ltd.                                                                                                                                                                                                                                        |
| 10.40*                    | E-Commerce Cooperation Agreement dated April 1, 2000 between Beijing Stone Rich Sight Information Technology Co., Ltd. and Beijing SINA Internet Information Services Co., Ltd.                                                                                                                                                                                                                                                                     |
| 10.42*                    | First Amendment dated April 6, 2000 to Yan Wang's Labor Contract.                                                                                                                                                                                                                                                                                                                                                                                   |
| 10.44**                   | Change of Control Agreement dated November 27, 2000 with Daniel Mao.                                                                                                                                                                                                                                                                                                                                                                                |
| 10.46**                   | Change of Control Agreement dated November 27, 2000 with Hurst Lin.                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.47**                   | Change of Control Agreement dated November 27, 2000 with Yan Wang.                                                                                                                                                                                                                                                                                                                                                                                  |
| 10.48***                  | Change of Control Agreement dated February 1, 2001 with Charles Chao.                                                                                                                                                                                                                                                                                                                                                                               |
| 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.                                                                                                                                                                                                                                                                                                                         |
| 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.                                                                                                                                                                                                                                                                                                                                                                                |
| 10.55##                   | Agreement on Exercising Voting Right by Proxy dated October 1, 2001 among Beijing Stone Rich Sight Information Technology Co., Ltd., Daniel Mao, Yan Wang and Four Other Employees of BSRS.                                                                                                                                                                                                                                                         |
| 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. |
| 10.59                     | Employment Agreement dated June 1, 2002 between Daniel Mao and SINA.com.                                                                                                                                                                                                                                                                                                                                                                            |
| 10.60                     | Employment Agreement dated June 1, 2002 between Charles Chao and SINA.com.                                                                                                                                                                                                                                                                                                                                                                          |
| 10.61                     | Office Lease dated July 18, 2002 between Shanghai Four Seasons Tong Ren Real Estate Developing Co., Ltd and Beijing Stone Rich Sight Information Technology Co., Ltd for office located at Suite 1802-5 United Plaza, 1468 Nanjing West Street, Jingan District, Shanghai, China                                                                                                                                                                    |
| 21.1                      | List of Subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 23.1                      | Consent of Independent Accountants.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 24.1                      | Power of Attorney (appears on the signature page of this report).                                                                                                                                                                                                                                                                                                                                                                                   |
| 99.1                      | Certification                                                                                                                                                                                                                                                                                                                                                                                                                                       |

**Table of Contents**

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- \* Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Registration Statement on Form F-1 (Registration No. 333-11718) filed with the Commission on March 27, 2000, as amended.
- \*\* Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.
- \*\*\* Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- \*\*\*\* Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Report on Form 10-K for the year ended June 30, 2001
- # Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- ## Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001.
- ### Incorporated by reference to the corresponding Exhibit previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.