

**HONGKONG.COM CORPORATION :
HOPELESS !**

One of the most recent listings on The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd is claiming to have enjoyed advertising service fees of about \$HK12.66 million for the Financial Year, ended December 31, 1999.

However, on close examination of the Accountants' Report at Page 166 of this Company's Prospectus, one notes that only \$HK1,133,000 in advertising service fees was obtained from third parties.

hongkong.com Corporation obtained advertising service fees, aggregating \$HK11,523,000, from, what Ernst and Young, the reporting accountants, claims are *'related parties'*.

This sounds about right because hongkong.com is an 84-percent-owned subsidiary of china.com Corporation; and, it stands to reason that the left hand should help the right hand.

hongkong.com, as everybody knows, is, what TARGET would call, a concept company.

It has yet to prove itself to be a money-spinner: It is merely an idea which Management prays will be supported by generous donations from *'home welfare'* of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

If the current idea of hongkong.com had been pitched, back in 1995, most investors, probably, would have scoffed at it, but, in today's wild and woolly stock-market world, investors appear to love the idea of playing with fire, hoping not to get burned while they play the dangerous gambling game.

Being caught up in the euphoria of today's hi-tech world is extremely risky because there is an old cliché, which states that numbers can prove just about anything ... or nothing.

The logical fallacy, known as *'Numbers Prove'*, requires explicit and implicit over-generalisation of the facts in order to bring the submission to a point, which has the appearance of being logical -- even though, in reality, there is no, or little, substance to the presentation.

If a corporate spin-off of a large, publicly listed conglomerate takes place, and the spin-off could be said to be able to perform a service for the parent company (whether or not that is, truly, the case), on consolidation, the income from that related party transaction(s) should be looked at askew because such income could be likened to milking the corporate *'cow'* for the benefit of its new-born offspring.

Which would mean, in most cases, that the benefits, given to the offspring, would be to the detriment of the parent.

To dress up a profit and loss account of a new company for a listing, at the expense of the parent and its existing shareholders, must be getting very close to the bone because it must mean that minority shareholders of the parent company, indirectly, are subsidising the majority shareholders of the spin-off company.

Most importantly, of course, is that such related party transactions tend to distort the true and fair view of the spin-off company.

In the case of hongkong.com, if one eliminated related-party transactions from the trading results of the Financial Year, ended December 31, 1999, the Company suffered a Net Loss Attributable to Shareholders of at least \$HK33.30 million instead of the Loss of about \$HK21.78 million.

Since this Company was established in December 1997, it has lost, in aggregate, not less than \$HK61.87 million.

And the Company admits, very openly, at Page 30, that *'the Group will continue to incur operating losses for the foreseeable future due to a high level of planned operating and capital expenditure, potential acquisitions, increased sales and marketing costs, additional personnel hires, greater levels of product development and the Group's general growth objectives. It is likely that the Group's operating losses will increase in the future and possible that the Group will never achieve or sustain profitability.* (TARGET has made no attempt to correct the grammar in the above text)

So, what the above should mean, to any right-minded investor, is that one should treat hongkong.com as one would treat a bet on a 10,000-numbered roulette wheel (rather than the normal 36 numbers), with the odds of winning, being one chance in 9,999 spins of the wheel.

And that would exclude the double zero, '00', because when this number comes up, only the House wins.

Come Feed The Kitty

This Company is trying to raise about \$HK1 billion by Placing a total of 640 million shares at \$HK1.60 per share.

The money, to be raised, is supposed to be used as follows:

1. \$HK115 million to buy some more computers and to expand network infrastructure;
2. \$HK82 million to buy some more software;
3. \$HK495 million to be used for marketing and advertising in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), other areas of Asia, North America, and Europe;
4. \$HK195 million to be put aside to try to find a suitable partner to buy;
5. \$HK55 million to repay the chinadotcom Group; and,
6. \$HK120 million to be used as working capital.

However, the Prospectus, also, states, at Page 115: *'The Directors believe that the proceeds from the issue of the Placing Shares may not be sufficient to finance all of the planned and/or intended projects of the Group. The Directors expect that, after the listing of the Shares on GEM, the Group may also finance such projects through, among other ways, raising funds in the international capital and debt markets, bank financings and internal resources or through a combination of these methods.'*

This Company, therefore, could be likened ... [CLICK TO ORDER FULL ARTICLE](#)