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This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China.com Inc., you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser(s) or the transferee(s).

china.com

China.com Inc.

中華網科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8006)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – PURCHASE OF 100% INTEREST IN TIMEHEART SCIENCE TECHNOLOGY LIMITED AND BEIJING TIMEHEART INFORMATION TECHNOLOGY LIMITED DISCLOSEABLE TRANSACTION – DISPOSAL OF 10% INTEREST IN CDC MOBILE MEDIA CORPORATION AND ISSUE OF NEW SHARES AS PART OF THE CONSIDERATION FOR THE TRANSACTION

Independent Financial Advisor to the Independent Board Committee

CIMB

CIMB-GK Securities (HK) Limited

A letter from the Board is set out on pages 6 to 22 of this circular and a letter from the Independent Board Committee containing its recommendation in respect of the transaction is set out on pages 23 and 24 of this circular. A letter from CIMB-GK Securities (HK) Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 41 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 33rd Floor Citicorp Centre, 18th Whitfield Road, Causeway Bay, Hong Kong on Tuesday, 28th November, 2006 at 10:30 a.m. is set out on pages 191 and 192 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not prevent members of the Company from attending and voting in person at the extraordinary general meeting or any adjourned meeting thereof if they so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.inc.china.com.

13th November, 2006

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

"$" or "US$"	means the U.S. dollar, the legal currency of the U.S.A.
"2006 Q4 TimeHeart Financial Statements"	means the audited consolidated balance sheet of TimeHeart as of 31st December, 2006 and the related audited consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period commencing 1st October, 2006 and ending 31st December, 2006 prepared in accordance with Hong Kong Generally Accepted Accounting Principles, together with a true and correct copy of the report on such audited information with all existing management letters from the auditors with respect to the results of such audit as issued by auditors, a licensed PRC independent public accounting firm mutually acceptable to the Seller and the Purchaser.
"2007 TimeHeart Financial Statements"	means the audited consolidated balance sheet of TimeHeart as of 31st December, 2007 and the related audited consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the calendar year ending 31st December, 2007 prepared in accordance with Hong Kong Generally Accepted Accounting Principles, together with a true and correct copy of the report on such audited information with all existing management letters with respect to the results of such audit as issued by auditors, a licensed PRC independent public accounting firm mutually acceptable to the Seller and the Purchaser.
"Acquisition"	means the acquisition by CMMC of 100% of the entired issued share capital of TimHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders.
"Agreement"	means the Share Purchase Agreement effective as of 25th July, 2006 by and among TimeHeart, Beijing TimeHeart, CMMC, Fresh Earn, the Founders and Palmweb Inc.
"Amendment"	means the amendment to the Share Purchase Agreement effective as of 5th October, 2006 by and among TimeHeart, Beijing TimeHeart, CMMC, Fresh Earn, the Founders and Palmweb Inc.
"Beijing TimeHeart"	means Beijing TimeHeart Information Technology Limited.
"CCASS"	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited including, where the context so requires, its agents, nominees, representatives, officers and employees.

"CDC Corporation" or "CDC"	means CDC Corporation, a company established under the law of the Cayman Islands with limited liability, whose shares are listed on The NASDAQ Stock Market under the Symbol "CHINA". CDC Corporation is the ultimate holding company of China.com.
"China Mobile Operators"	means mobile operators including China Mobile Communications Corporation, China United Telecommunications Corporation Ltd., China Network Communications Group Corporation and China Telecommunications Corporation.
"CIMB-GK"	CIMB-GK Securities (HK) Ltd, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee in relation to the Acquisition.
"CMMC"	CDC Mobile Media Corporation, a wholly owned subsidiary of the Company.
"Company" or "China.com"	means China.com Inc., a company established under the law of the Cayman Islands with limited liability, whose shares are listed on GEM of the The Stock Exchange of Hong Kong Limited (Stock Code: 8006). References to the Company shall be construed as China.com Inc. and its subsidiaries, as applicable.
"Company Shareholders"	means the registered holders of the ordinary shares of the Company, par value HK$0.10 per share.
"China.com Restricted Shares"	means the Company's shares of HK$0.10 each that shall be vested after 90 days upon the issuance of the corresponding share certificate.
"Closing Date"	means the later of (a) 31st July, 2006, subject to the conditions being satisfied or waived by the Purchaser or Seller in accordance with the Agreement or (b) such other date on or before 28th November, 2006 as shall be notified by the Purchaser in writing one day in advance to the Seller.
"Directors"	means the directors of the Company.
"EGM"	means the extraordinary general meeting of the Company convened to be held on Tuesday, 28th November, 2006 at 10:30 a.m. to consider and, if thought fit, approve the Agreement, the Amendment and the Acquisition.

"Exchange Rate"	means the US$ cash buying rate of RMB announced by Bank of China one business day preceding the Closing Date.
"Effective Date"	means the date of the Agreement.
"Enlarged Group"	The Company and its subsidiaries after the completion of the Acquisition.
"Founders"	means Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang.
"GEM"	means the Growth Enterprise Market of the Stock Exchange.
"GEM Listing Rules"	means The Rules Governing the Listing of Securities on GEM.
"ICP"	means Internet Content Provider.
"Independent Board Committee"	means the independent board committee comprising Mr. Wong Sin Just, Mr. Wang Cheung Yue, Fred and Mr. Chia Kok Onn, each being an independent non-executive director of the Company, appointed for the sole purpose of advising the Independent Shareholders in respect of the Acquisition.
"Independent Shareholders"	means any shareholder other than those who are to abstain from voting (including their respective associates).
"Latest Practicable Date"	means 8th November, 2006 , being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular.
"Listing Approval"	means the approval/permission which shall be granted by the Stock Exchange for the listing of and permission to deal with China.com Restricted Shares.
"Net Profit Margin of 2006 Q4"	means the Net Profit of TimeHeart 2006 Q4 divided by the Net Revenue of TimeHeart 2006 Q4.
"Net Profit Margin of 2007"	means the Net Profit of TimeHeart 2007 divided by the Net Revenue of TimeHeart 2007.
"SMS"	means short message service.
"MMS"	means multimedia message service.
"PDA"	means an application for personal digital assistants.

"WAP"	means wireless application protocol.
"IVR"	means interactive voice response service.
"RBT"	means ringback tone.
"JAVA"	means a mobile application written in Java programming language.
"Mflash"	means mobile flash application.
"Media Stream"	means a mobile application that delivers media using streaming technology
"MVAS"	means mobile value added service.
"Net Profit of TimeHeart 2006 Q4"	means the audited consolidated net profit after tax of TimeHeart based on 2006 Q4 TimeHeart Financial Statements add back the amortization expenses associated with the intangible assets arising from the acquisition of TimeHeart.
"Net Profit of TimeHeart 2007"	means the audited consolidated net profit based on 2007 TimeHeart Financial Statements after tax of TimeHeart add back the amortization expenses associated with the intangible assets arising from the acquisition of TimeHeart.
"Net Revenue of TimeHeart 2006 Q4"	means the entire revenue of TimeHeart for a period commencing from 1st October, 2006 ended as of 31st December, 2006 as set out in the 2006 Q4 TimeHeart Financial Statements after deducting the corresponding business tax applicable to TimeHeart during that period also as set out in the 2006 Q4 TimeHeart Financial Statements.
"Net Revenue of TimeHeart 2007"	means 2007 full year revenue of TimeHeart as set out in the 2007 TimeHeart Financial Statements after deducting the business tax applicable to TimeHeart during 2007 also as set out in the 2007 TimeHeart Financial Statements.
"PRC"	means the People's Republic of China.
"PRC WFOE"	means a wholly foreign owned enterprise established under the laws of the People's Republic of China.
"Purchaser" or "CMMC"	means CDC Mobile Media Corporation, a company established under the law of the British Virgin Islands.
"RMB"	means Renminbi, the legal currency of the PRC.

"Second Conversion Price"	means the average per share closing price of the Company's shares for the 45 trading days on GEM preceding 30th June, 2007 or the last 45 trading days of the Company's shares on GEM but in any event shall not be less than 90% of the First Conversion Price.
"Seller" or "Fresh Earn"	means Fresh Earn Holdings Limited, a company established under the law of the British Virgin Islands.
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited.
"The First Conversion Price"	means the average per share closing price of the Company's shares for the 45 trading days on GEM preceding the effective date of the Agreement.
"The Second Conversion Price"	means the average per share closing price of the Company's shares for the 45 trading days on GEM preceding 30th June, 2007 or the last 45 trading days of the Company's shares on GEM but in any event shall not be less than 90% of the First Conversion Price.
"TimeHeart"	means TimeHeart Science Technology Limited.
"TimeHeart Group"	means TimeHeart and its subsidiaries.
"Working Day"	means any day except a Saturday, Sunday or any day on which commercial banks in Hong Kong are authorized or permitted by law to close.

China.com Inc.
中華網科技公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8006)

Executive Directors:
Yip Hak Yung, Peter
(Acting Chief Executive Officer)
Chen Xiaowei

Non-Executive Directors:
Ch'ien Kuo Fung, Raymond *(Chairman)*
Fang Xin

Independent Non-Executive Directors:
Chia Kok Onn
Wang Cheung Yue, Fred
Wong Sin Just

Registered Office:
Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Principal Place of Business
33rd Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

13th November, 2006

To Shareholders of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – PURCHASE OF 100% INTEREST IN TIMEHEART SCIENCE TECHNOLOGY LIMITED AND BEIJING TIMEHEART INFORMATION TECHNOLOGY LIMITED DISCLOSEABLE TRANSACTION – DISPOSAL OF 10% INTEREST IN CDC MOBILE MEDIA CORPORATION AND ISSUE OF NEW SHARES AS PART OF THE CONSIDERATION FOR THE TRANSACTION

1. INTRODUCTION

Reference is made to the announcement dated 4th August, 2006 and published on 7th August, 2006 (the "1st Announcement") to the effect that CMMC, a wholly-owned subsidiary of the Company, entered into an Agreement on 25th July, 2006 for the acquisition of 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders. Reference is also made to the announcement dated 5th October, 2006 and published on 6th October, 2006 (the "2nd Announcement") to the effect that the parties to the Agreement have entered into the Amendment effective as of 5th October, 2006 pursuant to which the parties agree to amend the terms of the Agreement. The following is a summary of the terms of the Agreement and the Amendment:

(i) RMB equivalent to US$1,600,000 (equivalent to HK$12,480,000) at the Exchange Rate;

(ii) RMB3,861,000 (equivalent to HK$3,731,000);

(iii) 10% of the entire issued share capital of CMMC upon the Closing Date, instead of 20%, representing approximately HK$77,301,000;

(iv) US$1,600,000 (equivalent to HK$12,480,000) in China.com Restricted Shares converted at the First Conversion Price to Fresh Earn; and

(v) The issue of a number of China.com Restricted Shares equivalent to a maximum amount of US$2,080,000 (equivalent to HK$16,224,000) converted at the Second Conversion Price to Fresh Earn within 21 Working Days after 30th April, 2008 subject to adjustment pursuant to the performance of TimeHeart which is a substantial part of the entire MVAS unit of the Company in Q4 2006 and in the year 2007 pursuant to a revised formula set forth in the Amendment instead of payment to the entire MVAS unit of the Company.

(vi) The completion or closing of the purchase and sale of the entire issued share capital of TimeHeart and the entire equity interest of Beijing TimeHeart shall take place on or before 28th November, 2006, as opposed originally to 31st July, 2006 or any later agreed date before the long stop date of 16th October, 2006.

(vii) Mr. Sun Jiang Tao, currently the chief executive officer of Beijing TimeHeart and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, will, pursuant to the Amendment, remain as the chief executive officer of Beijing TimeHeart and be appointed as a director of the MVAS unit instead of its chief executive officer.

(viii) After the amendment of terms, the total consideration will be up to HK$122,216,000, as opposed to originally up to HK$198,246,000 under the Agreement.

The Company believes that the above amendments are more appropriate given that the adverse impact of the new policies introduced by China Mobile Operators in July 2006 has recently begun to surface in the operating environment of the MVAS industry.

As the profits ratio is over 160% and Mr. Sun Jiang Tao, currently the chief executive officer of Beijing TimeHeart and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, will become a director instead of the chief executive officer of the Company's MVAS unit, the transaction remains a very substantial acquisition and connected transaction of the Company under Rule 19.06 (5) of Chapter 19 and Rule 20.13 (1)(b) of Chapter 20 of the GEM Listing Rules after the amendment of the relevant terms of the Agreement. That portion of the consideration involving the issue of 10% instead of 20% of the entire issued share capital of CMMC gives rise to a profits ratio of under 25%, thereby constituting a discloseable transaction under Rule 19.06(3) of the GEM Listing Rules.

An Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Agreement and the Amendment. CIMB-GK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreement and the Amendment are fair and reasonable so far as the Independent Shareholders are concerned.

The purposes of this circular are:

(i) to provide you with further details of the Agreement and the Amendment;

(ii) to set out the recommendations from the Independent Board Committee and the advice of CIMB-GK to the Independent Board Committee and the Independent Shareholders on the terms of the Agreement, the Amendment and the Acquisition;

and

(iii) to give the Company Shareholders notice of the EGM to be convened for the purpose of considering and, if thought fit, approving the terms of the Agreement, the Amendment and the Acquisition.

2. THE AGREEMENT EFFECTIVE AS OF 25TH JULY, 2006 AND THE AMENDMENT EFFECTIVE AS OF 5TH OCTOBER, 2006

Parties:

CMMC (as Purchaser) is a company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company;

Palmweb Inc. (as Guarantor) is a company established under the laws of the Cayman Islands and a wholly-owned subsidiary of CMMC. It is to guarantee the performance of CMMC as Purchaser under the Agreement which performance includes payment of the Consideration.

Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (collectively, the Founders), each a citizen of PRC, collectively hold 100% equity interests in Beijing TimeHeart;

Beijing TimeHeart is a company established under the laws of PRC and its 100% equity interests are collectively held by the Founders;

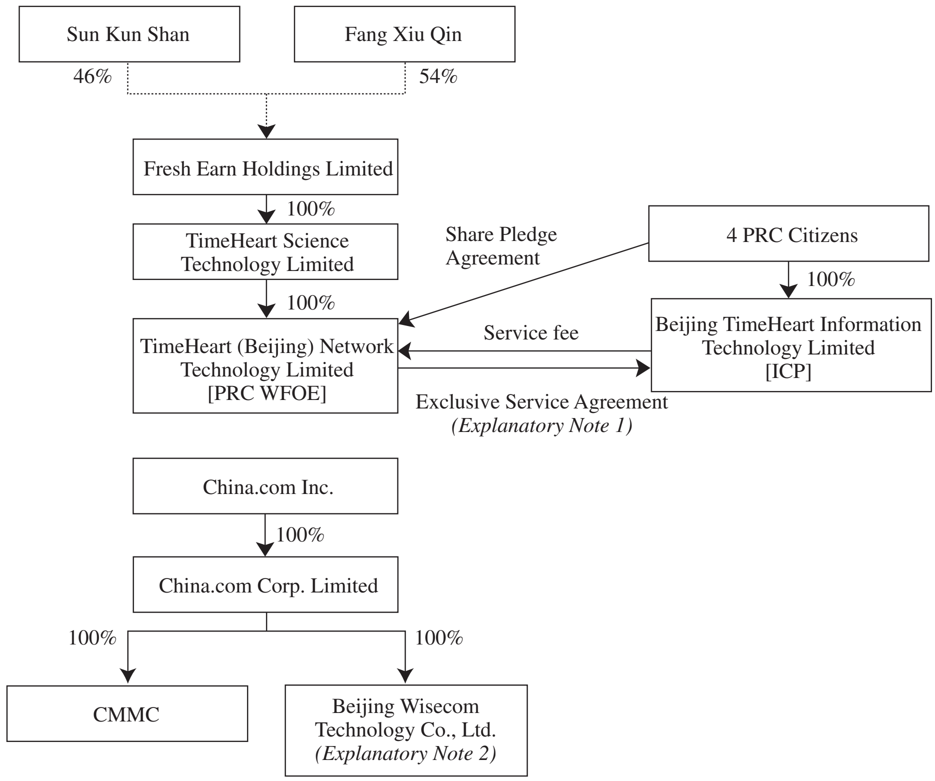
TimeHeart is a company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of Fresh Earn as well as an offshore holding company of Beijing TimeHeart through business and contractual agreements;

Fresh Earn (as Seller) is a company established under the laws of the British Virgin Islands and 46% and 54% beneficially owned by Mr. Sun Kun Shan and Ms. Fang Xiu Qin respectively, two of the Founders; and

Mr. Sun Kun Shan and Ms. Fang Xiu Qin (collectively, the Beneficiaries), each a citizen of PRC. Mr. Sun Kun Shan beneficially owned 46% of Fresh Earn and 44% of Beijing TimeHeart. Ms. Fang Xiu Qin beneficially owned 54% of Fresh Earn and 51% of Beijing TimeHeart.

Shareholding structure before and after the acquisition and disposal:

(i) Before the acquisition and disposal

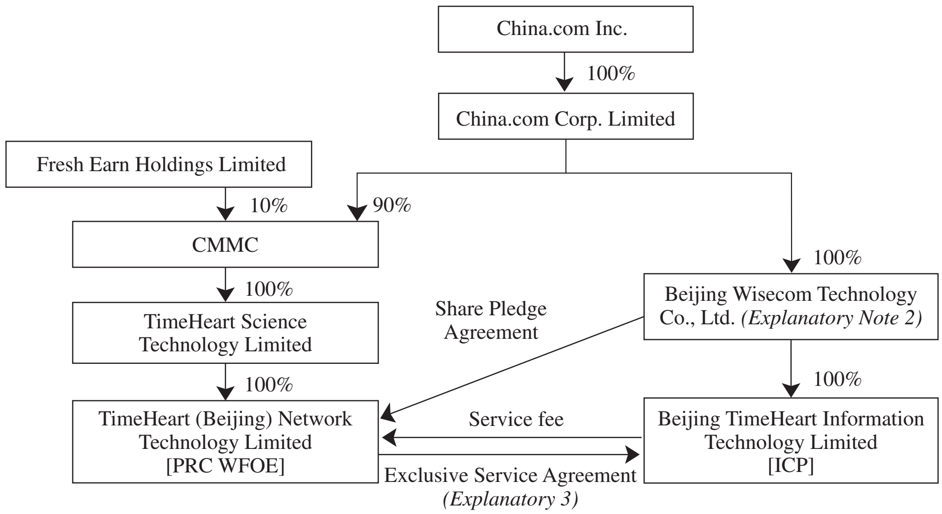


Explanatory note to the Exclusive Service Agreement and Share Pledge Agreement already in place before the acquisition and disposal

1. Under the Exclusive Service Agreement between the ICP and the PRC WFOE, the PRC WFOE provides technical and other services in connection with MVAS and Internet content, application software for network servers, system solutions, technical training, content and design to the ICP in exchange for a service fee payable by the ICP on a quarterly basis. Under the Share Pledge Agreement between the PRC WFOE and the Founders in respect of the shares of the ICP held by the Founders, where the ICP fails to pay the service fee due under the Exclusive Service Agreement to the PRC WFOE for whatever reason, the PRC WFOE will have priority over the shares of the ICP held by the Founders. In other words, the share pledge arrangement is an additional safeguard over the control of the ICP.

2. Beijing Wisecom Technology Co., Ltd. is legally owned by employees of China.com Corp. Limited who are PRC nationals. These employees have entered into trust deed arrangements with China.com Corp. Limited in connection with their legal ownership of Beijing Wisecom Technology Co., Ltd. This trust deed arrangement in connection with ICP has been used for many years by all foreign companies with MVAS businesses in the PRC.

(ii) After the acquisition and disposal



Explanatory note to the Exclusive Service Agreement and Share Pledge Agreement after the acquisition and disposal

3. Under PRC laws, shares in an Internet Content Provider or "ICP" like Beijing TimeHeart will have to be held by PRC nationals or a PRC company. To ensure compliance with this after the acquisition and to take advantage of the structure already in place before the acquisition, shares in the ICP will be transferred to Beijing Wisecom Technology Co., Ltd., an existing PRC subsidiary of the Company, whilst CMMC will hold 100% of the shares of TimeHeart, and the existing Exclusive Service Agreement entered into between the PRC WFOE and the ICP will remain in force. The Purchaser has the option to cause a new Share Pledge Agreement in respect of the shares of the ICP that will be held by Beijing Wisecom Technology Co., Ltd. to be entered into between Beijing Wisecom Technology Co., Ltd. and the PRC WFOE. Having regard to the rationale behind the share pledge arrangement already stated above, and similar practice among its foreign peers in the PRC MVAS businesses, the Company considers that such an arrangement will be to the benefit of the Company and intends to enter into such a new share pledge agreement.

Risk Factors associated with the holding of Beijing TimeHeart via Beijing Wisecom Technology Co., Ltd.

The PRC government has imposed foreign ownership restrictions and prohibitions on internet content and telecommunications operations. Laws and regulations in the PRC require that all ICP licence holders must be Chinese nationals or domestic PRC companies. As a result, the Company cannot be the direct legal owner of Beijing TimeHeart which currently holds the necessary ICP license for the operation of the MVAS business, the subject of the acquisition.

As a result, and for the purpose of the acquisition, the Company has caused Beijing Wisecom Technology Co., Ltd., a PRC registered company, to hold Beijing TimeHeart. With respect to the ownership structure between Beijing Wisecom Technology Co., Ltd. and Beijing TimeHeart, it is via a trust deed arrangement as set out in explanatory notes 2 and 3 herein.

Due to uncertainties relating to the relevant legislation in the PRC, the authorities in the PRC could, at any time, assert that any part of the Company's existing or future business, or the ownership of Beijing TimeHeart through the trust deed arrangements, violate Chinese laws or regulations. If the Company is found to be in violation of any PRC law or regulation, the relevant authorities would have broad discretion in imposing penalties, which could include one or more of the following:

- **levying of fines;**
- **compulsory disgorgement of income for both current and past periods;**
- **revocation of the relevant ICP or business license;**
- **closure or suspension of the Company's PRC operations; and**
- **compulsory restructuring of the Company's PRC operations or licensing arrangements.**

Any of these actions may disrupt the Company's services in the PRC, may harm its reputation and could have a material adverse effect on the Company's MVAS business. In particular, if the necessary ICP licence currently held by Beijing TimeHeart is revoked or terminated, there will be a material adverse effect on the Company's MVAS business.

The above risk associated with the holding of Beijing TimeHeart as an ICP company is also applicable to similar structure in the Company's existing MVAS business, and is in addition to other business, operational, political and other risks that the Company has been facing.

Value of Transaction

Subject to the terms and conditions of the Agreement and the Amendment, and in reliance upon the representations, warranties and covenants contained therein, CMMC shall purchase 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders for a total consideration of up to HK$122,216,000.

Consideration and Payment Terms

The total consideration was to be paid as follows:

(i) RMB equivalent to US$1,600,000 (equivalent to HK$12,480,000) at the Exchange Rate;

(ii) RMB3,861,000 (equivalent to HK$3,731,000);

(iii) 10% of the entire issued share capital of CMMC upon the Closing Date, instead of 20%, representing approximately HK$77,301,000;

(iv) US$1,600,000 (equivalent to HK$12,480,000) in China.com Restricted Shares converted at the First Conversion Price to Fresh Earn upon the Closing Date; and

(v) Issue of a number of China.com Restricted Shares equivalent to a maximum amount of US$2,080,000 (equivalent to HK$16,224,000) converted at the Second Conversion Price to Fresh Earn within 21 working days after 30th April, 2008 subject to adjustment pursuant to the performance of TimeHeart which is a substantial part of the entire MVAS unit of the Company in Q4 2006 and in the year 2007 pursuant to a revised formula set forth in the Amendment instead of payment to the entire MVAS unit of the Company.

None of the above has been fulfilled as at the Latest Practicable Date.

That portion of the total consideration to be paid in cash and referred to in (i) and (ii) above shall be paid to Beijing Xunyu Technology Co., Ltd., a company jointly designated by all the Founders.

That portion of the total consideration to be paid in shares in CMMC and referred to in (iii) above shall be made in favor of Fresh Earn. As the disposal of 10% of CMMC is part of the consideration to be given for the entire acquisition, its value will be accounted for as acquisition cost, as such no gain or loss will be expected to accrue to the Company. The disposal will encourage and motivate the Sellers to stay and maximize the performance of the operation of the MVAS business of the Company and to have their interests to be aligned with the Company.

That portion of the total consideration to be paid in China.com Restricted Shares and referred to in (iv) and (v) above shall be made in favor of Fresh Earn. The number of China.com Restricted Shares converted at the First Conversion Price and the Second Conversion Price provided as part of the total consideration shall be issued pursuant to a general mandate granted to the directors at the annual general meeting of the Company held on 30th May, 2006 (which has not been utilized before) is calculated as follows:

No. of China.com Restricted Shares Converted at the First Conversion Price

US$1,600,000 (equivalent to HK$12,480,000) divided by the First Conversion Price. The number of the China.com Restricted Shares to be issued shall be 27,320,490 ordinary shares of HK$0.10 each, representing approximately 0.62 % of both the existing and enlarged issued share capital of the Company.

No. of China.com Restricted Shares Converted at the Second Conversion Price

The number of China.com Restricted Shares converted at the Second Conversion Price will now be calculated pursuant to the following revised formula set forth in the Amendment (being in any event shall be no more than 39,464,850 in accordance with the original terms) as set out below. The revised formula employs performance figures for the fourth quarter of 2006 in addition to the 2007 performance figures in the original formula, and also makes adjustments referring specifically to the performance figures of TimeHeart portion of the MVAS unit and uses, in the determination of the value of K in the formulae of lower initial threshold percentage of 75% (originally 80%).

$T = K*N/C2$

T means the number of the China.com Restricted Shares as part of the total consideration which will be adjusted pursuant to the performance of TimeHeart Science Technology Limited which is a substantial part of the entire MVAS unit of the Company in the year 2007 pursuant to the above formula.

N = US$1,600,000 (equivalent to HK$12,480,000)

C2 means the Second Conversion Price

Targeted two mile stones:

(a) targeted net profit of TimeHeart 2006 Q4 = RMB5,000,000 (equivalent to HK$4,815,000)

targeted net profit of TimeHeart for 2007 = RMB40,000,000 (equivalent to HK$38,520,000)

(b) targeted net profit margin of 2006 Q4 = 27.5%

targeted net profit margin of 2007 = 27.5%

R1 = (Net Profit of TimeHeart 2006 Q4 + Net Profit of TimeHeart 2007)/(targeted net profit of TimeHeart 2006 Q4 + targeted net profit of TimeHeart 2007)

R2 = (Net Profit Margin of 2006 Q4 + 4 x Net Profit Margin of 2007)/(targeted net profit margin of 2006 Q4 + 4 x targeted net profit margin of 2007)

If either the R1 or R2 is less than or equals to 75%, then K = 0

If the lower number of R1 and R2 is greater than 75% but less than or equals to 90%, then K = 50%

If the lower number of R1 and R2 is greater than 90% but less than or equals to 130%, then K equal the lower number out of R1 and R2

If both R1 and R2 are greater than 130%, then K = 130%, and in which case, the number of China.com Restricted Shares to be issued will be equivalent to a maximum of US$2,080,000 (equivalent to HK$16,224,000). Where the Second Conversion Price equals to 90% of the First Conversion Price, the number of China.com Inc. Restricted Shares to be issued will be no more than 39,464,850.

Currently, most of the Company's MVAS businesses are held under CMMC, although the Company intends to transfer its remaining MVAS business to be held under CMMC to enlarge the same such that the 10% of the CMMC to be disposed will be based on the enlarged CMMC.

As at 31st December, 2004 and 31st December, 2005, the net asset value of the enlarged CMMC, a party to be disposed, before the Closing Date were HK$594,262,000 and HK$754,392,000 respectively. The net profit of the enlarged CMMC for the years ended 31st December, 2004 and 31st December, 2005 were HK$54,358,000 and HK$32,051,000 and its net profit margin for the same periods were 32% and 12% respectively.

The net asset value of Beijing TimeHeart as at 31st December, 2005 was RMB14,849,882 (equivalent to HK$14,351,000). Its audited profits after tax for the year ended 31st December, 2005 was RMB28,186,337 (equivalent to HK$27,142,000). These audited financial information were prepared under

International Accounting Standards. The audited financial information of Beijing TimeHeart for the financial year 2004 is not available but will be included in the accountants' report in the circular to be issued. The audited and net asset value of Beijing TimeHeart, under PRC Generally Accepted Accounting Principles, as at 31st December, 2004 and 2005 were RMB28,296,012 (equivalent to HK$26,591,000) and RMB22,793,321 (equivalent to HK$22,028,000) respectively. Its audited profit after tax under PRC Generally Accepted Accounting Principles, for the years ended 31st December, 2004 and 2005 were RMB13,811,226 (equivalent to HK$12,979,000) and RMB28,187,083 (equivalent to HK$27,143,000) respectively.

The First Conversion Price and the Second Conversion Price are based on commercial decision reached by the parties. The Directors including the independent non-executive Directors of the Company consider the First Conversion Price and the Second Conversion Price to be fair and reasonable and in the interest of the Company and its Shareholders.

The First Conversion Price is the average per share closing price of the Company's shares for the 45 trading days on GEM preceding the effective date of the Agreement, and based on the effective date of 25th July, 2006, it was HK$0.4568. The latest closing price, 5 day average price and 10 day average price of the Company's shares preceding the effective date were respectively HK$0.4450, HK$0.4480 and HK$0.4490. They are respectively 2.58%, 1.93% and 1.71% lower than the First Conversion Price. In addition, the net asset value per share as of 31st December, 2005 was HK$0.3634.

The Second Conversion Price is the average per share closing price of the Company's shares for the 45 trading days on GEM preceding 30th June, 2007 or any other date agreed upon by the parties but in any event shall not be less than 90% of the First Conversion Price. Where the Second Conversion Price equals to 90% of the First Conversion Price, that is, where the Second Conversion Price equals to HK$0.4111, then the number of China.com Restricted Shares to be issued will be no more than 39,464,850. As soon as practicable after the Second Conversion Price is known, the Company will issue an announcement in this regard.

The total number of China.com Restricted Shares to be issued under the First Conversion Price and the Second Conversion Price will be no more than 66,785,340 shares, which number represents approximately 1.53% of the existing and approximately 1.51% the enlarged share capital of the Company.

The number of China.com Restricted Shares converted at the First Conversion Price and the Second Conversion Price shall vest after 90 days upon the issue of the corresponding share certificates. Voting rights and rights to dividends in cash in respect of such Restricted Shares will accrue to their holders after the same Restricted Shares have vested. The Purchaser will retain any dividends paid in stock with respect to unvested Restricted Shares, and shall immediately distribute such stock dividends to the respective holders of the Restricted Shares as soon as such Restricted Shares have vested. In so far as vesting is concerned, the share certificates of the Restricted Shares will contain a legend stating that vesting will occur 90 days after issuance of the share certificates.

The shareholding structure of the Company before and after the issue of the China.com Restricted Shares is as follows:

Shareholders	No. of shares held & approximate percentage of shareholding		
	Before the issue of any new shares to Fresh Earn	After the issue of new shares converted at the First Conversion Price to Fresh Earn	After the issue of new shares converted at the First and the Second Conversion Price to Fresh Earn (where Second Conversion Price equals to 90% of the First Conversion Price)
China M Interactive (BVI) Limited *"Note"*	3,361,828,000 (77.25%)	3,361,828,000 (76.77%)	3,361,828,000 (76.08%)
Fresh Earn	–	27,320,490 (0.62%)	66,785,340 (1.51%)
In the hands of the public	990,108,488 (22.75%)	990,108,488 (22.61%)	990,108,488 (22.41%)
Total	4,351,936,488 (100%)	4,379,256,978 (100%)	4,418,721,828 (100%)

"Note" China M Interactive (BVI) Limited is a wholly owned subsidiary of chinadotcom Mobile Interactive Corporation. chinadotcom Mobile Interactive Corporation is a wholly owned subsidiary of CDC Corporation, the ultimate holding company of the Company.

The consideration was arrived at after arm's length commercial negotiations between the parties.

Application will be made to the Exchange for the listing of and permission to deal in the Restricted Shares.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Company's shares.

Completion

The completion or closing of the purchase and sale of the entire issued share capital of TimeHeart and the entire equity interest of Beijing TimeHeart shall take place on or before 28th November, 2006 as shall be notified by the Purchaser in writing one day in advance to the Seller (previously July 31, 2006 or any later agreed date before the long stop date of October 16, 2006).

No approval from the relevant PRC authorities is required for the acquisition. The Company is in the process of obtaining certain approvals from the Ministry of Information Industry in relation to the operations of the MVAS business, which approvals will, in the opinion of the Company, be readily obtainable given its track record in the MVAS business.

Conditions

The Agreement is conditional upon the satisfaction or waiver in accordance with the Agreement of, among others, the following conditions (of which the Purchaser currently has no intention of waiving in so far as any of them is within the power of the Purchaser to waive):

- The Purchaser shall have received duly executed transfers of the equity interest in its favor, in a registrable form and in accordance with TimeHeart's constitution representing the equity interest, together with share certificates for such equity interest and all other consents, approvals and/or documents including those documents evidencing ownership of Beijing TimeHeart needed by the Purchaser to register the transfers and obtain ownership of the equity interest as the Purchaser may require.

- The Purchaser shall cause itself to be restructured such that, on or before the Closing Date, it shall hold all the MVAS businesses of the Company.

- Fulfillment of the relevant requirements of the GEM Listing Rules which shall include without limitation: (a) the obtaining of accountants' report and/or independent financial advice; (b) the recommendation of the Independent Board Committee by China.com in respect of the transaction documents and the transactions contemplated therein; (c) the convening of an Independent Shareholders' meeting of China.com at which Independent Shareholders' approval shall have been duly obtained in respect of the execution of the transaction documents and the transactions contemplated therein.

- The Sellers shall have procured share certificates representing the China.com Restricted Shares in registrable forms and the Listing Approval.

- A two-year term employment agreement for the appointment of Mr. Sun Jiang Tao as the chief executive officer of TimeHeart and a director of the MVAS business unit of the Company shall be duly executed. Mr. Sun Jiang Tao, who has a Bachelor of Science in engineering from the Beijing University of Aeronautics and Astronautics, was the Head of Research and Development for Multimedia Education Department of Clever Net Co. Ltd., has had several years management experience in the technology and internet areas.

- The Agreement and the Amendment may be terminated and the transaction contemplated therein may be abandoned at any time after 16th October, 2006 in the event that closing has not already taken place; or at any time before closing in the event of (i) a proven material breach hereof by any non-terminating party if such non-terminating party fails to cure such breach within 14 working days following notification thereof by the terminating party; or (ii) the giving of notice in writing by the terminating party to the non-terminating party stating that the fulfillment of any material condition to the terminating party's obligations under the Agreement becomes impossible or impracticable with the use of commercially reasonable efforts if the failure of such condition to be satisfied is not caused by a material breach hereof by the terminating party (but not otherwise).

As at the Latest Practicable Date, items (a) and (b) of the third condition above and the fifth condition above have been fulfilled; and the Company has taken steps in relation to the first condition above, the second condition above, item (c) of the third condition above and the fourth condition above.

3. BUSINESS OF THE PARTIES

The principle activities of the Company are the provision of MVAS; the operation of portal sites; the provision of content and internet services, advertising services through the internet and a travel magazine, event organizing services and magazine publication; and distribution of online games.

CMMC

CMMC is the holding company of the Company's MVAS business. The MVAS provides popular news and mobile applications services targeting the consumer market in China. It offers wireless services including Short Message Service ("SMS"), Multimedia Message Service (MMS"), Wireless Application Protocol ("WAP") and Interactive Voice Response ("IVR"). It has established strong local direct connectivity with provincial mobile network operators in 31 provinces, which facilitates the marketing and promotional activities of our wireless services.

Set out below is a summary of the unaudited combined results of CMMC (assuming the internal reorganization of the Group where the existing MVAS business of the Group will be grouped under CMMC) for the two years ended 31st December 2004 and 2005:

	Year ended 31st December	
	2004	2005
	(HK$'000)	*(HK$'000)*
Turnover	168,017	268,237
Gross profit	136,601	144,502
Net profit/(loss) attributable to shareholders	54,358	27,316

Palmweb Inc.

Palmweb Inc. and its subsidiaries are principally engaged in providing MVAS in the PRC. including SMS, WAP, MMS and IVR products.

Beijing TimeHeart Information Technology Limited

Beijing TimeHeart is a MVAS service provider. It has been engaged in the MVAS business since 2001 and is now in full line of MVAS business products including PDA, WAP, SMS, MMS, IVR and Media Stream with connection at both headquarter and provincial level to all the four national telecom operators including China Mobile Communications Corporation, China Unicom, China Telecom and

China Netcom. It provides popular news and mobile application services targeting the consumer market in China. The services including marketing and promotional activities are delivered to the mobile end users through telecom operator's network by MVAS service provider. It currently has two types of revenue models: (1) subscription base; and (2) usage-on-demand. Its audited net asset value for the year ended 31st December, 2005 was RMB13,955,507 (equivalent to HK$13,487,000), and its audited net profits before tax for the year ended 31st December, 2005 was RMB30,329,349 (equivalent to HK$29,206,000).

TimeHeart Science Technology Limited

TimeHeart, an offshore holding company of Beijing TimeHeart, is 100% owned by Fresh Earn. It was formed in January 2006 as part of a re-organization to facilitate the sale of the MVAS business under Beijing TimeHeart to an ultimate non-PRC purchaser under an agreement to be governed by non-PRC laws (with the Agreement in the current sale being governed by Hong Kong laws). Its principal business is investment holding. It is a vehicle by which the Founders obtain benefits of their investments in and the business under Beijing TimeHeart. There is no other asset or operating activity in TimeHeart and accordingly the Seller and Founders have not caused financial statements of TimeHeart to be prepared.

Fresh Earn Holdings Limited

Fresh Earn, which wholly owns TimeHeart, is a company established under the laws of the British Virgin Islands and 100% beneficially owned by Ms. Fang Xiu Qin and Mr. Sun Kun Shan, two of the Founders.

4. REASONS FOR THE TRANSACTION

The directors are of the view that the acquisition will benefit the Company for the following reasons:

- For the year ended 31st December, 2005, the audited net profits after tax of Beijing TimeHeart was approximately HK$27 million, and compared with the total consideration of up to approximately HK$122 million, the price/earnings ratio is approximately 4.5. Compared with peers on Nasdaq such as KongZhong Corporation and Linktone Ltd. trading at over 10 times earning, management believes the Acquisition is good value for money.

- It will create synergy with the Company's existing MVAS platform as Beijing TimeHeart engages in a full line of MVAS business products namely SMS, MMS, PDA, WAP, IVR, RBT, JAVA Mflash and Media Stream. The MVAS businesses of CMMC and Beijing TimeHeart also differ in and geographic coverage with CMMC being strong in mostly coastal provinces such as Zhejiang, Jiangsu, Shanghai, Shandong and Guangdong, and Beijing TimeHeart being strong in the northeastern and western provinces such as Hunan, Xinjiang, Chongqing, Neimung, Shaanxi, Liaoning and Heilongjiang. The Acquisition will enable China.com's wireless to first develop the PDA products, enhance cross selling opportunities, increase revenue and growth rate as well as market share of both the existing business unit and Beijing TimeHeart's.

- It will help China.com capture the emerging mobile value added applications opportunities such as PDA, Media Stream and Mflash.

- It will achieve cost savings by sharing marketing cost, co-marketing events, research and development and customer services resources, enabling further streamline of the existing MVAS business unit.

- It will generate additional revenue by leveraging distribution channel of partner companies and promoting partners contents/services.

- It will tap into expertise of Beijing TimeHeart's management team. The track record of Beijing TimeHeart indicates that its management could contribute to the management of the Company's MVAS unit and further improve the profitability of the Company.

- As stated in the Company's report of its 2006 Q2 earnings, the China Mobile Operators have introduced the policies in early July 2006 aimed at reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the MVAS industry, which policies required, among other things, subscribers to provide double confirmations for orders and MVAS providers to send billing reminders to existing subscribers (the "New Policies"). The Directors consider that the New Policies have resulted in slower acquisition rate of new subscribers for MVAS services and higher cancellation rates among the Group's existing subscribers. The Directors also consider that whilst the New Policies would impact the operating environment of the MVAS industry in the near term resulting in consolidation in the MVAS industry, they would ultimately create a better operating environment for both consumers and service providers in the long run. In fact, by August 2006, the Company's MVAS business has begun to recover, with revenue recorded by the company's MVAS business for the months of August and September 2006 registering respective increase of 2% and 21% on a month-on-month basis. Therefore the Directors consider that the Acquisition, in particular, at the time when market sentiment is adversely affected by the introduction of the New Policies, provides the Group with the opportunity to further expand its market share in the MVAS industry, and to position the Group to benefit from the launch of 3G in the PRC in the near future. As an established player in the PRC MVAS industry, and with the anticipated potential for introducing additional value-added mobile services following the broadening of bandwidth in the near future, the Directors believe that the enlarged CMMC will be in a better position to capture new opportunities and to increase market share.

The Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" set out in this circular) believe that the terms of the Agreement and the Amendment were arrived at after arm's length negotiation, in the best interests of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

5. GEM LISTING RULES REQUIREMENTS

As the profits ratio is over 160% and Mr. Sun Jiang Tao, currently the chief executive officer of Beijing TimeHeart and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, will become a director of the Company's MVAS unit, the transaction constitutes a very substantial acquisition and connected transaction of the Company under Rule 19.06 (5) of Chapter 19 and Rule 20.13 (1)(b) of Chapter 20 of the GEM Listing Rules after the amendment of the relevant terms of the Agreement. The transaction is subject to, among other things, the reporting, announcement and the Independent Shareholders' approval requirements. That portion of the consideration involving the issue of 10% of the entire issued share capital of CMMC gives rise to a profits ratio of under 25%, thereby constituting a discloseable transaction under Rule 19.06(3) of the GEM Listing Rules. The disposal is conditional upon the completion of the acquisition. None of Mr. Sun Jiang Tao, the Seller, and the Founders including their respective associates currently owns any shareholding in the Company, and accordingly they are not entitled to vote in any shareholders' meeting of the Company, and regardless of this, they will in any event be required to abstain from voting at the shareholders' meeting where the subject of this circular is put forward for a shareholders' vote. The total consideration also involves the issue of China.com Restricted Shares. This circular is to provide additional information relating to the Agreement and the Amendment.

The Company is required to despatch to its shareholders a circular containing where appropriate further details of the Agreement, the Amendment, the accountants' report, the recommendation of the independent board committee, the advice of the independent financial advisers and the relevant notice to convene an EGM of the Company within 21 days after the publication of the 1st Announcement, that is, on or before 27th August, 2006. As the compilation of the relevant financial information, including the accountants' report for the years ended 31st December, 2003, 2004 and 2005 respectively of Beijing TimeHeart for inclusion in the circular is not expected to finish on or before 30th November, 2006, the Company has applied to the Stock Exchange for waivers whereby the deadline to despatch a circular to its shareholders was extended to on or before 30th November, 2006.

6. EXTRAORDINARY GENERAL MEETING

Set out pages 191 to 192 of this circular is a notice convening the EGM to be held at 33rd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong on 28th November, 2006 at 10:30 a.m. at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the terms of the Agreement, the Amendment and the Acquisition. Mr. Sun Jiang Tao, the Seller, and the Founders including their respective associates are not entitled to vote at the meeting. The vote of the Independent Shareholders at the EGM will be taken by poll pursuant to the GEM Listing Rules. An announcement will be made in respect of the results of the poll.

A form of proxy for use at the EGM is enclosed with this circular, whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible, but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not prevent you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

7. PROCEDURES FOR DEMANDING A POLL AT EGM

Under the Articles of Association of the Company, at the EGM, a poll may be demanded, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll, by:

(a) the chairman of the EGM; or

(b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the EGM on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

8. RECOMMENDATION

The Independent Board Committee, having taken into account the advice of CIMB-GK, considers that the terms of the Agreement, the Amendment and the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the terms of the Agreement, the Amendment and the Acquisition.

9. ADDITIONAL INFORMATION

The letter from the Independent Board Committee containing its recommendation is set out on pages 23 to 24 of this circular. The letter from CIMB-GK containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 41 of this circular.

Your attention is drawn to the letters from the Independent Board Committee and CIMB-GK, and the information set out in the appendix of this circular.

Your attention is drawn to the additional information set out in the appendix to this circular.

On behalf of the Board
China.com Inc.
Chen Xiaowei
Executive Director

China.com Inc.

中華網科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8006)

Head office and principal place of business:
33/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Registered office:
Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

13th November, 2006

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
PURCHASE OF 100% INTEREST IN
TIMEHEART SCIENCE TECHNOLOGY LIMITED AND
BEIJING TIMEHEART INFORMATION TECHNOLOGY LIMITED
DISCLOSEABLE TRANSACTION –
DISPOSAL OF 10% INTEREST IN CDC MOBILE MEDIA CORPORATION
AND
ISSUE OF NEW SHARES
AS PART OF THE CONSIDERATION FOR THE TRANSACTION**

We refer to the circular (the "Circular") dated 13th November, 2006 of China.com Inc., of which this letter forms a part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As independent non-executive Directors who are independent of the parties to the Agreement and the Amendment and do not have any interest in the transaction, we have been appointed to form this Independent Board Committee to advise you as to whether, in our opinion, the terms of the Agreement, the Amendment and the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company Shareholders as a whole.

CIMB-GK has been appointed as the independent financial adviser to advise this Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Agreement, the Amendment and the Acquisition.

We wish to draw your attention to the letter from the Board of Directors, as set out on pages 6 to 22 of the Circular, and the letter from CIMB-GK, as set out on pages 25 to 41 of the Circular, both of which provide details of the Agreement, the Amendment and the Acquisition. Having considered the advice rendered by CIMB-GK and the principal factors and reasons taken into consideration by it in arriving its advice, we are of the opinion that the terms of the Agreement, the Amendment and the Acquisition are fair and reasonable as far as the Independent Shareholders are concerned and in the best interests of the Company and the Company Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution which will be proposed at the EGM to approve the terms of the Agreement, the Amendment and the Acquisition.

Your attention is drawn to the letters from the Board of Directors and the independent financial advisor set out in the Circular.

Yours faithfully
For and on behalf of the
Independent Board Committee of China.com Inc.

Wong Sin Just	**Wang Cheung Yue, Fred**	**Chia Kok Onn**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

CIMB-GK Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

13 November 2006

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – PURCHASE OF 100% INTEREST IN TIMEHEART SCIENCE TECHNOLOGY LIMITED AND BEIJING TIMEHEART INFORMATION TECHNOLOGY LIMITED

DISCLOSEABLE TRANSACTION – DISPOSAL OF 10% INTEREST IN CDC MOBILE MEDIA CORPORATION AND ISSUE OF NEW SHARES AS PART OF THE CONSIDERATION FOR THE TRANSACTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in relation to the acquisition of TimeHeart and Beijing TimeHeart (together, the "TimeHeart Group"), details of which are contained in a circular (the "Circular") to the Shareholders dated 13 November 2006, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An independent board committee comprising Messrs. Wong Sin Just, Wang Cheung Yue, Fred and Chia Kok Onn, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Acquisition. Any vote of the Independent Shareholders at the extraordinary general meeting to approve the Acquisition (the "EGM") shall be taken by poll. As at the Latest Practicable Date, none of Mr. Sun Jiang Tao, the Seller, nor the Founders owned any shareholding in the Company, and accordingly they are not entitled to vote in any shareholders' meeting of the Company, and regardless of this, they will in any event be required to abstain from voting in the EGM.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. The Directors have declared in a responsibility statement set out in Appendix I to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or TimeHeart or Beijing TimeHeart or any of their respective subsidiaries or associates.

THE ACQUISITION, THE AMENDMENT AND THE DISPOSAL

Pursuant to the Company's announcement dated 25 July 2006, it was stated that the Company entered into the Agreement for the acquisition of 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders for a total consideration of up to HK$198,246,000. As referred to in the Company's announcement dated 5 October 2006, taking into account the impact to the operating environment of MVAS industry following the introduction of new policies by China Mobile Operators in July 2006 (the "New Policies"), the Company, together with the parties to the Agreement, entered into the Amendment on 5 October 2006. Pursuant to the Amendment, the maximum consideration payable by the Company will be amended to up to HK$122,216,000, representing a decrease of approximately 38.4% from the original maximum consideration under the Agreement.

The Acquisition constitutes a very substantial acquisition and connected transaction of the Company under Rule 19.06 (5) of the GEM Listing Rules. As Mr. Sun Jiang Tao, currently the chief executive officer of Beijing TimeHeart and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, will become a director of the Company's MVAS unit, the transaction also constitutes a connected transaction of the Company under Rule 20.13 (1)(b) of the GEM Listing Rules.

Pursuant to the terms of the Acquisition, a portion of the consideration will be satisfied by the transfer (the "Disposal") of 10% of the entire issued share capital of CMMC by the Company to Fresh Earn. The Disposal constitutes a discloseable transaction of the Company under Rule 19.06(2) of the GEM Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Acquisition, we have considered the following principal factors and reasons:

1) Existing business of the Group

The principal activities of the Company and its subsidiaries (the "Group") are the provision of MVAS; the operation of portal sites; the provision of content and internet services, advertising services through the internet and a travel magazine; event organizing services and magazine publication; and distribution of online games. Set out below is a summary of the audited consolidated results of the Group for the two years ended December 2004 and 2005 and the unaudited consolidated results of the Group for the six months ended 30 June 2005 and 30 June 2006 as extracted from the respective annual or interim report of the Company:

	(Audited) Year ended 31 December		**(Unaudited) Six months ended 30 June**	
	2004	**2005**	**2005**	**2006**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Turnover	231,411*	387,315	162,589	279,796
Gross profit	176,186 #	222,380	86,222	169,314
Net profit/(loss) attributable to Shareholders	53,594	9,737	7,673	26,353

* excluding the turnover of discontinued operation of approximately HK$3.9 million.

\# excluding the gross profit of discontinued operation of approximately HK$1.4 million.

For the financial year ended 31 December 2005 ("FY2005"), the Group's turnover increased by approximately 67.4% as compared to the previous year. As noted in the 2005 annual report of the Company, the increase in turnover was a result of change in a "gross basis" presentation of mobile services and applications revenue, increase in online game revenue and advertising revenue from both portals and TTG Asia Media Pte. Limited ("TTG"), a wholly-owned subsidiary of the Company, which involves principally in the provision of advertising, event organizing services and magazine publication. Excluding the effect of the change in presentation, the turnover in FY2005 amounted to approximately HK$313.1 million, representing an increase of 35.3% as compared to the previous year. For FY2005, the gross profit margin was 57.4% (or 71.0% under the net presentation for mobile services and applications revenue), compared to 76.2% when the net presentation was used for mobile services and applications revenue in 2004. The decrease in gross profit margin was mainly due to (i) lower margin of online game business; (ii) decline of the Group's SMS business which typically generates higher profit margins than the Group's other mobile services and applications businesses; and (iii) change in presentation to a "gross basis" as mentioned above, thereby decreasing the gross profit margin.

For the six months ended 30 June 2006, the Group's turnover increased by approximately 72.1% as compared to the corresponding period in the previous year. As noted in the 2006 interim report of the Company, the increase in turnover was a result of (i) full consolidation of the revenue contribution from 17game, a wholly owned subsidiary of the Company, starting from the second quarter of 2006 resulting in an increase in online game revenue of approximately HK$92.2 million; (ii) increase in mobile services and applications subscription revenue of approximately HK$17.8 million from 2.5G platforms such as WAP and MMS; and (iii) increase in advertising revenue from both portals and TTG of approximately HK$7.2 million. As compared to the six months ended 30 June 2005, the gross profit increased by approximately 96.4% to approximately HK$169.3 million. Significant increase in the online game business has improved the gross profit margin to 60.5% for the six months ended 30 June 2006, as compared to 53.0% in the corresponding period in the previous year. The Group's unaudited net profit attributable to

Shareholders for the six months ended 30 June 2006 increased from approximately HK$7.7 million as recorded in the corresponding period in the previous year to approximately HK$26.4 million, representing an increase of approximately 243.5%.

2) CMMC

CMMC is the holding company of the Group's MVAS business. The MVAS business unit provides popular news and mobile applications services targeting the consumer market in China. It offers wireless services including Short Message Service ("SMS"), Multimedia Message Service ("MMS"), Wireless Application Protocol ("WAP") and Interactive Voice Response ("IVR"). It has established strong local direct connectivity with provincial mobile network operators in 31 provinces of the PRC, which facilitates the marketing and promotional activities of the Group's wireless services.

As stated in the Letter from the Board, set out below is a summary of the unaudited combined results of CMMC (assuming the internal reorganization of the Group where the existing MVAS business of the Group will be grouped under CMMC) for the two years ended 31 December 2004 and 2005:

	Year ended 31 December	
	2004	**2005**
	(HK$'000)	*(HK$'000)*
Turnover	168,017	268,237
Gross profit	136,601	144,502
Net profit/(loss) attributable to shareholders	54,358	27,316

For FY2005, CMMC's turnover increased by approximately 59.7% as compared to the previous year. As noted in the 2005 annual report of the Company, the increase in turnover was mainly due to the change in presentation of mobile services and application revenue to a "gross basis". As compared to FY2004, the gross profit of CMMC showed a slight increase from approximately HK$136.6 million to HK$144.5 million. However, the gross profit margin for FY2005 declined from approximately 81.3% in FY2004 to 53.9% (or 74.5% under the net presentation). As advised by the Directors, the decline was principally the result of the change in presentation to a "gross basis" and decline of the SMS business as mentioned in the sub-section headed "Existing business of the Group" above, thereby decreasing the gross profit margin. CMMC's unaudited combined net profit attributable to shareholders for FY2005 decreased from approximately HK$54.4 million as recorded in the previous year to approximately HK$27.3 million. As advised by the Company, the decrease in net profit was attributable to the increase in sales and marketing expense in FY2005 in connection with new 2.5G products and applications (including WAP, IVR and MMS).

3) The TimeHeart Group

According to the Letter from the Board of the Circular, TimeHeart is an offshore holding company of Beijing TimeHeart which is 100% owned by Fresh Earn. Its principal business is investment holding.

As referred to in the Letter from the Board of the Circular, the TimeHeart Group is a MVAS service provider. Since 2001, the TimeHeart Group has been engaged in the MVAS business and now provides full line of MVAS business products including personal digital assistant ("PDA"), WAP, SMS, MMS, IVR and media stream ("Media Stream") with connection at both headquarter and provincial level to all the four national telecom operators in the PRC, namely, China Mobile Communications Corporation, China Unicom, China Telecom and China Netcom. It provides popular news and mobile application services targeting the consumer market in China. The services involve the delivery of marketing and promotional activities messages by MVAS service provider, through telecom operator's network, to the mobile end users.

Set out below is a summary of the audited consolidated results of the TimeHeart Group for the three years ended 31 December 2005 and the seven-month period ended 31 July 2006 and unaudited consolidated results of the TimeHeart Group for the seven-month period ended 31 July 2005 as extracted from the Accountants' Report of the TimeHeart Group as set out in Appendix II to the Circular:

	Year ended 31 December 2003 (audited) *RMB*	Year ended 31 December 2004 (audited) *RMB*	Year ended 31 December 2005 (audited) *RMB*	Seven months ended 31 July 2005 (unaudited) *RMB*	Seven months ended 31 July 2006 (audited) *RMB*
Turnover	17,513,128	41,100,125	66,233,180	36,221,586	45,504,674
Gross Profit	13,352,579	30,652,525	46,875,991	26,314,983	34,023,759
Net profit attributable to shareholders	5,500,557	11,748,086	26,848,270	14,646,973	19,992,373

For FY2004, the TimeHeart Group recorded a turnover of approximately RMB41.1 million, representing a growth of approximately 134.7% as compared to the previous year. The growth was mainly due to business expansion following the granting of the nationwide license for operating telecommunication value-added services to the TimeHeart Group in 2004. In line with substantial growth in turnover, the gross profit of FY2004 increased by approximately 129.6% from that of the previous year to approximately RMB30.7 million. As a result of the significant growth in gross profit, the TimeHeart Group recorded a net profit attributable to shareholders of approximately RMB11.7 million for FY2004, representing an increment of approximately 113.6% as compared to the previous year.

For FY2005, the TimeHeart Group recorded a turnover of approximately RMB66.2 million, representing a growth of approximately 61.2% as compared to the previous year. The growth was mainly due to the broadening of the geographic coverage and launch of new products, which resulted in considerable expansion of the business. In line with the growth in turnover, the gross profit of FY2005 increased by approximately 52.9% from approximately RMB30.7 million for the FY2004 to approximately RMB46.9 million for FY2005. The increase in gross profit was primary due to the increase in revenue. The TimeHeart Group recorded a net profit attributable to shareholders of approximately RMB26.8 million for FY2005 which represented an increment of approximately 129.1% as compared to that of approximately RMB11.7 million for FY2004. The increase in profit was principally a result of economy of scale and the improvement of operating efficiency.

The TimeHeart Group achieved a turnover of approximately RMB45.5 million for the seven months ended 31 July 2006, representing a growth of approximately 25.6% as compared to the seven months ended 31 July 2005. Gross profit also rose by approximately 29.3% to approximately RMB34.0 million during the seven months ended 31 July 2006. The increase in turnover and gross profit were mainly attributable to the continuous upgrade and launch of new products and increase in marketing promotion in the coastal provinces. In line with the increase in gross profit, net profit attributable to shareholders for the seven months ended 31 July 2006 increased by approximately 36.5% to approximately RMB20.0 million compared to the seven months ended 31 July 2005.

4) New policies recently introduced by China Mobile Operators

As stated in the Letter from the Board, the China Mobile Operators have introduced the New Policies in early July 2006. Under the policy directive of China's Ministry of Information Industry, the New Policies, principally aim at reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the MVAS industry, include requiring subscribers to provide double confirmations for orders and MVAS providers to send billing reminders to existing subscribers. As referred to in the Company's announcement dated 19 September 2006, the Directors consider that the New Policies have resulted in a slower acquire rate of new subscribers for its services, higher cancellation rates among the Group's existing subscribers and decline in the unaudited revenue for the Company's MVAS business for the months of July and August 2006 as compared with the corresponding periods in 2005.

Whilst the New Policies have an immediate impact on the operating environment of the MVAS industry, the Directors are of the view that the impact is short term. As stated in the Letter from the Board, by August 2006 the Company's MVAS business had begun to recover, with revenue recorded by the Company's MVAS business for the months of August and September 2006 registering respective increase of 2% and 21% on a month-on-month basis. In addition, the Directors believe that the New Policies serve to consolidate the industry and would ultimately create a better operating environment for both consumers and service providers in the long run. As an established player in the PRC MVAS industry, and with the anticipated potential for introducing additional value-added mobile services following the broaden of bandwidth in the near future, the Directors believe that the enlarged CMMC will be in a better position to benefit from the launch of 3G in the PRC in the near future.

5) **Reasons for the Acquisition**

We note that for the two years ended 31 December 2005, revenue from mobile services and applications income represented approximately 70% of the Group's total revenue. As stated in the Group's annual report for the year ended 31 December 2005, in preparation for the launch of 3G in the PRC, it is the Group's strategy to further solidify its competitive position in the market and work closely with the handset manufacturers and mobile operators.

As referred to in the Letter from the Board of the Circular, the Directors are of the view that while the TimeHeart Group engages in a full line of MVAS business products, the MVAS business of CMMC and the TimeHeart Group differs in product types, in particular the PDA and Media Stream services not currently covered by CMMC, and subscribers portfolio. The geographic coverage of the MVAS businesses of CMMC and Beijing TimeHeart also vary with CMMC being strong in mostly coastal provinces such as Zhejiang, Jiangsu, Shanghai, Shandong and Guangdong whereas Beijing TimeHeart has a solid presence in the northeastern and western provinces such as Hunan, Xinjiang, Chongqing, Neimung, Shaanxi, Liaoning and Heilongjiang. Accordingly, the Acquisition is expected to create synergy with the Group's existing MVAS platform as it will enable the Group's wireless business unit to develop the PDA products, enhance cross selling opportunities by leveraging distribution channel of partner companies and promoting partners' contents/services, achieve cost savings, and increase the overall market share of the enlarged entity. While the Directors consider that near term operational environment of the MVAS industry may be adversely affected by the New Policies, they believe that the New Policies would ultimately create a better environment for both consumers and service providers in the long run. Accordingly, the Directors consider that the Acquisition, in particular, at the time when market sentiment is adversely affected by the introduction of the New Policies, provides the Group with the opportunity to further expand its market share in the MVAS industry at a reasonable consideration, and to position the Group to benefit from the launch of 3G in the PRC in the near future.

Having taken into account the above factors, in particular, the business nature of the MVAS business of CMMC and the TimeHeart Group, the overall impact of the New Policies on the MVAS business, and the reasons for the Acquisition, we concur with the views of the Directors that the Acquisition (i) enables the Group to enter into the PDA product market; (ii) creates potential synergy with the Group's existing MVAS platform; and (iii) serves to expand the Group's market share in the MVAS industry, and to position the Group for the launch of 3G in the PRC in the near future; and thus, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

6) The Consideration

The total consideration for the Acquisition is up to approximately HK$122.2 million (the "Consideration"). As noted in the Letter from the Board, the Consideration has been determined with reference to financial performance and future prospects of Beijing TimeHeart.

Payment terms

The Consideration shall be satisfied as follows:

(i) Cash denominated in RMB equivalent to US$1,600,000 (equivalent to approximately HK$12,480,000) at the Exchange Rate;

(ii) RMB3,861,000 (equivalent to approximately HK$3,731,000) in cash;

(iii) 10% of the entire issued share capital of CMMC (the "Sale Shares") upon the Closing Date, representing approximately HK$77,301,000;

(iv) Issue of a number of China.com Restricted Shares for an amount of US$1,600,000 (equivalent to approximately HK$12,480,000) at the First Conversion Price to Fresh Earn upon the Closing Date (the "First Tranche Consideration Shares"); and

(v) Issue of a number of China.com Restricted Shares equivalent to a maximum amount of US$2,080,000 (equivalent to approximately HK$16,224,000) at the Second Conversion Price to Fresh Earn within 21 working days after 30 April 2008 (the "Second Tranche Consideration Shares"), which shall be adjusted pursuant to a formula where the final number of China.com Restricted Shares to be issued to Fresh Earn shall be determined with reference to the differences between the target net profit and target profit margin of the TimeHeart Group, in the fourth quarter of 2006 and in the financial year 2007, with its actual performances for the corresponding period. For further detail of the formula, please refer to the Letter from the Board.

The Comparables

In assessing the fairness and reasonableness of the Consideration, we have identified and analyzed comparable listed companies (the "Comparables") of market capitalization below HK$2,000 million as at 5 October 2006 (the date the Amendment becoming effective) and whose principal business is similar with MVAS. For this purpose, we have identified two Comparables listed in the Stock Exchange and seven Comparables in other stock exchanges and compared the price-earning multiple ("PER"), a common valuation method, of the Comparables with the implied PER of the TimeHeart Group and CMMC, details of which are as follows:

Name of comparables	Principal business	Primary Exchange	Market Capitalization *HK$' million* *(Note 1)*	Price-earnings multiple as at 5 October 2006 (the date the Amendment becoming effective) *(Times)* *(Note 2)*	Price-earnings multiple as at the Latest Practicable Date *(Times)* *(Note 5)*
Comparables:					
Kongzhong Corporation	develops and markets wireless value added telecommunications services and offers interactive entertainment, media, and community services to cellular telephone subscribers in China	Nasdaq (ADR)	1,900.18	9.28	10.28
Hurray! Holding Co., Ltd.	sells ring-tones, pictures and wireless entertainment services to mobile phone users in China	Nasdaq (ADR)	1,030.59	12.87	14.21
Linktone Ltd.	provides entertainment-oriented wireless value-added services to mobile phone users in China	Nasdaq (ADR)	951.51	10.80	13.80
M-Mode Berhad	provides mobile media content and data application services ranging from entertainment to information and news delivered via SMS, MMS, or WAP/GPRS	Kuala Lumpur	32.38	N/A *(Note 3)*	N/A *(Note 3)*
Mobile Streams Limited	provides media content to mobile devices	London	241.93	N/A *(Note 3)*	N/A *(Note 3)*

Name of comparables	Principal business	Primary Exchange	Market Capitalization	Price-earnings multiple as at 5 October 2006 (the date the Amendment becoming effective)	Price-earnings multiple as at the Latest Practicable Date
			HK$' million	*(Times)*	*(Times)*
			(Note 1)	*(Note 2)*	*(Note 5)*
Stream Group plc	provides special interest information and entertainment services at a fee, via a variety of digital channels	London	151.52	7.22	7.85
Sun Innovation Holdings Limited	provides entertainment media services, invests in properties and provides financial services and telecommunication services	Hong Kong	202.89	N/A *(Note 3)*	N/A *(Note 3)*
WIN Plc	provides SMS text messaging and wireless data services, including MMS picture, video, and audio messaging	London	178.91	5.60	4.96
China.com Inc.	provision of short messaging services and other mobile value-added services, sale of online banner advertising, sponsorships and offline advertising campaigns, direct mailings and online sales	Hong Kong	1,980.13	70.00	66.15
			Maximum *(Note 4)*	**12.87**	**14.21**
			Minimum	**5.60**	**4.96**
			Average *(Note 4)*	**9.15**	**10.22**
TimeHeart Group					**5.24**
CMMC					**14.53**

Source: Bloomberg and the published financial results of the Comparables.

Notes:

1. Based on the market capitalization in the respective original currency, and translated to HK$ based on the exchange rates as quoted on Bloomberg on 5 October 2006 (the date the Amendment becoming effective).

2. Price-earnings multiple based on closing price on 5 October 2006 (the date the Amendment becoming effective).

3. Not applicable, as these companies were loss making in the latest financial year.

4. Given the substantial decline of profit for FY2005, the Shares were traded at a PER unreasonably higher than that of the Comparables. Accordingly, we have treated China.com Inc. as an outliner and taken it out from the analysis.

5. Price-earnings multiple based on closing price on the Latest Practicable Date.

PER

Based on the Accountants' Report of the TimeHeart Group as set out in Appendix II to the Circular, the audited net profit attributable to shareholders of the TimeHeart Group for the year ended 31 December 2005 was approximately RMB26.8 million (equivalent to approximately HK$25.9 million). Given the disposal of the Sale Shares, which represents 10% of the entire issued share capital of CMMC, upon completion of the Acquisition, the Company will hold 90% of the effective interest of the TimeHeart Group. On this basis, the maximum Consideration of approximately HK$122.2 million represents a PER of approximately 5.24 times (the "TimeHeart PER").

Based on the unaudited combined results of CMMC and the audited results of the TimeHeart Group for the year ended December 2005, the combined net profit attributable to shareholders of the enlarged CMMC amounts to approximately HK$53.2 million. Taking into account that pursuant to the terms of the Acquisition, it is implied that 10% of the entire issued share capital of CMMC is valued at approximately HK$77.3 million, the Sale Shares represents a PER of approximately 14.53 times (the "Sale Share PER").

As noted from the table above, the TimeHeart PER implied by the Consideration is below the average, and at the low end of the range, of the historical PER of the Comparables, whereas the Sale Share PER is above the average and the top end of the range of the historical PER of the Comparables. In addition, the Sale Share PER is substantially higher than the TimeHeart PER. Accordingly, we consider the Consideration, with reference to PER, is fair and reasonable and is in the interest of the Company so far as the Independent Shareholders are concerned.

Net asset value

As advised by the Directors, MVAS is not a capital-intensive business as investment to fixed assets is insignificant and in general the business is not valued with reference to its net asset value. We have reviewed the audited financial statements of the TimeHeart Group and the unaudited combined balance sheet of CMMC as at 31 July 2006 and noted that (i) value of fixed assets only accounted for less than 6% of their respective net asset value; and (ii) net asset value of the TimeHeart Group and CMMC principally comprised of cash and accounts receivable. Given the above, we consider the analysis of the Consideration to the net asset value of the TimeHeart Group and CMMC is not appropriate.

The First Conversion Price and the Second Conversion Price

Pursuant to the Agreement, the First Tranche Consideration Shares will be issued at the First Conversion Price that represents the average per share closing price of the Company's shares (the "Shares") for the 45 trading days on GEM preceding the effective date of the Agreement, and based on the effective date of 25 July 2006, it was approximately HK$0.4568.

The First Conversion Price represents:

(i) a premium of approximately 2.7% over the closing price of HK$0.445 per Share as quoted on the Stock Exchange on 25 July 2006, the last trading date pending the issue of the Announcement (the "Last Trading Date");

(ii) a premium of approximately 2.0% over the average closing price of HK$0.448 per Share as quoted on the Stock Exchange for the last 5 trading days immediately prior to and including the Last Trading Date;

(iii) a premium of approximately 1.7% over the closing price of HK$0.449 per Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Date;

(iv) a premium of approximately 2.7% the closing price of HK$0.445 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 20.2% over the unaudited net asset value per Share of approximately HK$0.380 (based on 4,351,936,488 Shares in issue) as at 30 June 2006.

The Second Tranche Consideration Shares will be issued at the Second Conversion Price, which is the average closing price of the Shares for the 45 trading days on GEM preceding 30 June 2007 or any other date agreed upon by the parties but in any event shall not be less than 90% of the First Conversation Price. In the event that the Second Conversion Price equals to 90% of the First Conversation Price, the minimum value of the Second Conversion Price will be HK$0.4111.

As referred to in the Letter from the Board, the First Conversion Price and the Second Conversion Price are based on commercial decision reached by the parties. The Directors consider the First Conversion Price and the Second Conversion Price to be fair and reasonable and in the interest of the Company and its shareholders.

In assessing the fairness and reasonableness of the Issue Price, we have identified, on a best effort basis, the transactions (the "Consideration Shares Comparables") announced during the period from 1 January 2006 to the date of the Agreement by companies listed in Hong Kong involving the issue of shares to the relevant vendors to satisfy all or part of the consideration for an acquisition, and compared with the issue price premium/discount to the corresponding last trading day of the Consideration Shares Comparables with the First Conversion Price and the Second Conversion Price, details of which are as follows:

Company name	Stock Code	Announcement date	Amount	Issue price	Issue price premium/ (discount) to the corresponding last trading day
			(HK$' million)	*(HK$)*	*(%)*
China Merchants Dichain (Asia) Limited	632	20 July 2006	295.62	3.900	(6.6)
Yanion International Holdings Limited	82	13 July 2006	176.40	0.630	(30.0)
Everbest Century Holdings Limited	578	4 July 2006	28.80	0.320	16.4
Hantec Investment Holdings Limited	111	29 June 2006	15.64	0.680	1.5
Kanstar Environmental Paper Products Holdings Limited	8011	13 June 2006	225.60	0.282	(19.0)
Inner Mongolia Development (Holdings) Limited	279	9 June 2006	11.00	0.200	17.0
New Smart Holdings Limited	91	9 May 2006	38.13	0.250	(5.7)
SINO Proposer Holdings Limited	766	4 May 2006	319.97	1.420	4.4
Uni-Bio Science Group Limited	690	26 April 2006	198.00	0.900	(52.6)
Seapower Resources International Limited	269	20 April 2006	115.00	0.128	(7.9)
PYI Corporation Limited	498	11 April 2006	167.80	2.450	(14.8)
Softbank Investment International (Strategic) Limited	648	7 April 2006	15.00	0.102	44.9
CITIC International Financial Holdings Limited	183	31 March 2006	5,544.00	3.410	(1.9)
GOME Electrical Appliances Holding Limited	493	29 March 2006	5,235.30	8.050	0.0
Artfield Group Limited	1229	24 March 2006	50.40	1.200	(7.7)
Vision Grande Group Holdings Limited	2300	24 March 2006	488.60	7.000	(19.1)
Ming Pao Enterprise Corporation Limited	685	20 March 2006	16.20	1.350	(2.2)
Zida Computer Technologies Limited	859	13 March 2006	0.62	0.930	14.8

Company name	Stock Code	Announcement date	Amount	Issue price	Issue price premium/ (discount) to the corresponding last trading day
			(HK$' million)	*(HK$)*	*(%)*
Wanji Pharmaceutical Holdings Limited	835	7 March 2006	9.99	0.153	11.7
Credit Card DNA Security System (Holdings) Limited	1051	1 March 2006	50.00	0.054	(11.5)
Riche Multi-Media Holdings Limited	764	23 February 2006	266.06	0.200	0.0
Sunny Global Holdings Limited	1094	20 February 2006	42.00	0.140	15.7
Technology Venture Holdings Limited	61	17 February 2006	18.00	0.102	0.0
Sonavox International Holdings Limited	8226	16 February 2006	1.98	0.389	(5.1)
Credit Card DNA Security System (Holdings) Ltd.	1051	3 February 2006	34.02	0.060	3.5
SINO Gas Group Limited	260	1 February 2006	31.75	0.255	(37.0)
IA International Holdings Limited	8047	23 January 2006	9.00	0.120	(36.8)
Good Fellow Group Limited	910	20 January 2006	69.60	0.120	(21.6)
Willie International Holdings Limited	273	17 January 2006	66.25	0.265	0.0
Tianjin Development Holdings Limited	882	13 January 2006	74.90	3.745	(6.4)
Singal Media and Communications Holdings Limited	2362	3 January 2006	9.44	0.300	3.4
				Maximum	**44.9**
				Minimum	**(52.6)**
				Average	**(4.9)**
The Company	**8006**	**25 July 2006** *(Note 1)*			
– First Conversion Price			**12.48**	**0.4568**	**2.7**
– Second Conversion Price *(Note 2)*		**Up to**	**16.22**	**0.4111**	**(7.6)**

Source: www.hkex.com.hk, and the respective announcements/circulars containing details of the Consideration Shares Comparables.

Note 1: Being the date of the Agreement.

Note 2: Discount is calculated based on minimum value of the Second Conversion Price of HK$0.4111 (which equals to 90% of the First Conversation Price) pursuant to the terms of the Agreement.

As noted in the table above, Consideration Shares Comparables were issuing shares within a range of approximately 52.6% discount to and 44.9% premium over the share priced as at the corresponding last trading date, with an average discount of approximately 4.9%. We note that the premium of the First Conversion Price over and the discount of the minimum value of the Second Conversion Price to the Last Trading Date is comparable with the average discount of the Consideration Shares Comparables.

In light of the fact that (a) the premium/discount of the First Conversion Price and the minimum value of the Second Conversion Price to the Last Trading Date is comparable with the average discount of the Consideration Shares Comparables; (b) the First Conversion Price is determined based on the average per share closing price of the Shares for the 45 trading days on GEM preceding the effective date of the Agreement; (c) the First Conversion Price represents a premium to the closing price of the Shares prior to the Last Trading Date and the Latest Practicable Date, and (d) the Second Conversion Price will be based on the 45 trading days average closing price of the Company's shares, and shall not be less than 90% of the First Conversation Price, that is, HK$0.4111, we are of the view that both the First Tranche Consideration Shares and the Second Tranche Consideration Shares will be issued at market price and thus, the basis of the First Conversion Price and the Second Conversion Price are fair and reasonable and are in the interest of the Company and the Independent Shareholders as a whole.

Having considered the above analyses and factors, we are of the view that the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

7) Possible Financial Effect

Earnings

As mentioned in the Letter from the Board, given that the disposal of 10% of CMMC is part of the consideration to be given for the Acquisition, its value will be accounted for as acquisition cost, and no gain or loss from the Disposal is expected to accrue to the Company.

For the year ended 31 December 2005 and the six months ended 30 June 2006, the Group recorded an audited and unaudited profit attributable to equity holders of the Company of approximately HK$9.7 million and HK$26.4 million, respectively. Based on the Accountants' Report of the TimeHeart Group as set out in Appendix II to the Circular, the TimeHeart Group recorded an audited combined net profit attributable to shareholders of approximately RMB26.8 million (equivalent to approximately HK$25.9 million) and RMB20.0 million (equivalent to approximately HK$19.3 million) respectively for the year ended 31 December 2005 and the seven months ended 31 July 2006. Upon completion of the Agreement, the profit of the TimeHeart Group will be consolidated into the accounts of the Group.

As disclosed in the unaudited pro forma financial information of the Enlarged Group in Appendix VI to the Circular, the goodwill arising from the Acquisition is approximately HK$100.7 million. We have been advised by the Directors that such goodwill will be subject to annual assessment of impairment by the Company and there will be no immediate profit and loss effect immediately upon Completion.

Net asset value

As disclosed in the unaudited pro forma financial information of the Enlarged Group in Appendix VI to the Circular, the unadjusted combined net asset value of the Enlarged Group would increase from approximately HK$1,651.6 million to approximately HK$1,664.1 million.

Working capital and gearing

As at 30 June 2006, the Group had cash or cash equivalents amounted to approximately HK$364.2 million, and available-for-sale investment amounted to approximately HK$589.7 million. We have discussed with the Directors and were advised that based on the current working capital position and the business development of the Enlarged Group, the Directors confirmed that the Enlarged Group has sufficient working capital to meet its normal operations for the next 12 months from the date of the Circular.

As mentioned above, the Consideration will be satisfied principally by the issue of the China.com Restricted Shares and disposal of Sale Shares, and that the Acquisition will not involve purchase of any liabilities relating to the TimeHeart Group nor utilize any external financing. Accordingly, the Acquisition would have no adverse impact on the gearing level of the Enlarged Group.

8) Risk Factors associated with the holding of Beijing TimeHeart via Beijing Wisecom

As stated in the Letter from the Board, the PRC government has imposed foreign ownership restrictions and prohibitions on Internet content and telecommunications operations. Laws and regulations in the PRC require that all ICP licence holders must be Chinese nationals or domestic PRC companies. As a result, the Company cannot be the direct legal owner of Beijing TimeHeart which currently holds the necessary ICP license for the operation of the MVAS business, the subject of the acquisition.

Accordingly, and for the purpose of the Acquisition, the Company has caused Beijing Wisecom, a PRC registered company, to hold Beijing TimeHeart. With respect to the ownership structure between Beijing Wisecom and Beijing TimeHeart, it is via a trust deed arrangement as set out in the Letter from the Board.

Due to uncertainties relating to the relevant legislation in the PRC, the authorities in the PRC could, at any time, assert that any part of the Group's existing or future business, or the ownership of Beijing TimeHeart through the trust deed arrangements, violate Chinese laws or regulations. If the Group is found to be in violation of any PRC law or regulation, the relevant authorities would have broad discretion in imposing penalties, which could include one or more of the following:

- levying of fines;
- compulsory disgorgement of income for both current and past periods;
- revocation of the relevant ICP or business license;
- closure or suspension of the Group's PRC operations; and
- compulsory restructuring of the Group's PRC operations or licensing arrangements.

Any of these actions may disrupt the Group's services in the PRC, may harm its reputation and could have a material adverse effect on the Group's MVAS business.

In particular, if the necessary ICP licence currently held by Beijing TimeHeart is revoked or terminated, there will be a material adverse effect on the Group's MVAS business.

We are advised by the Directors that the Group's existing PRC MVAS business adopted similar ownership structure, which is common in the PRC MVAS industry. We have reviewed the publicly available documents of certain listed companies which are engaged in the PRC MVAS industry and noted disclosure of similar risk factors. Independent Shareholders should be aware that the above risk associated with the holding of Beijing TimeHeart is not limited to the Acquisition but also applicable to similar structure in the Group's existing MVAS business, and shall remain as a risk factor in addition to other business, operational, political and other risks that the Group has been facing, irrespective of whether the Acquisition is proceeded.

RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition.

However, Independent Shareholders should bear in mind the risk associated with ICP licence requirements as imposed by the PRC government as detailed under the section headed "Risk Factors associated with the holding of Beijing TimeHeart via Beijing Wisecom" of this letter.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau — *Executive Vice President*
Heidi Cheng — *Senior Vice President*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of each of the directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the directors, were as follows:

(A) The Company

Long positions in ordinary shares and the underlying shares of equity derivatives

Name of directors	Number of shares	Number of underlying shares	Nature of Interests/ Holding Capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	6,274,000	18,000,000	Personal/ beneficiary	0.56%
Chen Xiaowei	–	22,700,000	Personal/ beneficiary	0.52%
Chia Kok Onn	–	2,500,000	Personal/ beneficiary	0.06%
Fang Xin	–	1,000,000	Personal/ beneficiary	0.02%
Wang Cheung Yue, Fred	–	6,000,000	Personal/ beneficiary	0.14%
Wong Sin Just	–	5,100,000	Personal/ beneficiary	0.12%
Yip Hak Yung, Peter	10,254,000	–	Corporate *Note (1)*	0.24%
Yip Hak Yung, Peter	2,400,000	17,000,000	Personal/ beneficiary	0.45%
Yip Hak Yung, Peter	–	239,356,507	Interest of children or spouse *Note (2)*	5.50%

Notes:

(1) These shares were beneficially owned by Asia Internet Holdings Limited which is 100% owned by Mr. Yip Hak Yung, Peter.

(2) These options were beneficially owned by Asia Pacific Online Limited, a company of 50% owned by Mr. Yip Hak Yung, Peter's spouse and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children.

Options to subscribe for ordinary shares in the Company pursuant to the pre-IPO share option scheme, the post-IPO share option scheme and the 2002 share option scheme

Name of directors	Date of grant	Exercise price	Number of share options outstanding as at the Latest Practicable Date
		HK$	
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000
	5th June, 2003	0.626	4,000,000
	10th October, 2005	0.630	4,000,000
Chen Xiaowei	15th September, 2005	0. 560	4,000,000
	3rd January, 2006	0.526	11,200,000
	1st July, 2006	0.460	7,500,000
Chia Kok Onn	15th September, 2005	0.560	2,500,000
Fang Xin	10th October, 2005	0.630	1,000,000
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000
	15th September, 2005	0.560	4,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
	5th June, 2003	0.626	2,500,000
	15th September, 2005	0.560	1,000,000
Yip Hak Yung, Peter	5th June, 2003	0.626	4,000,000
	10th October, 2005	0.630	4,000,000
	3rd January, 2006	0.526	9,000,000
	14th August, 2006 *Note (3)*	0.445	239,356,507

Note:

(3) These options shall vest quarterly over two years effective from October 1, 2006 to July 1, 2008 subject to the terms and conditions as set out in the Executive Services (Acting CEO) Agreement. This option grant was approved by the shareholders of the Company at the EGM held on September 17, 2006.

All the share options may be exercised in accordance with the terms of the relevant share option schemes at any time during the period commencing from one year after the date of grant of options to the year ending 10 years after the date of grant of options. The consideration for the grant was HK$1.00. These share options other than those set out in Note (3) above shall vest over a period of four years.

(B) Associated Corporation

Long positions in Class A common shares in CDC Corporation and the underlying shares of equity of derivatives

Name of directors	Number of shares	Number of underlying shares	Nature of interests/ Holding Capacity	Appropriate percentage of interests *(%)*
Ch'ien Kuo Fung, Raymond	913,773	924,167	Personal/ beneficiary	1.63%
Chen Xiaowei	–	300,000	Personal/ beneficiary	0.27%
Chia Kok Onn	–	250,000	Personal/ beneficiary	0.22%
Fang Xin	–	70,000	Personal/ beneficiary	0.06%
Wang Cheung Yue, Fred	–	90,000	Personal/ beneficiary	0.08%
Yip Hak Yung, Peter	15,830,868	6,044,999	Interest of children or spouse *Note (1)*	19.39%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.08%

Note:

(1) 11,927,653 Class A common shares and 6,044,999 options were held under the name of Asia Pacific Online Limited ("APOL"). APOL is owned by the spouse of Mr. Yip Hak Yung, Peter ("Mr. Yip") and a trust established for the benefit of Mr. Yip's spouse and his children. 3,903,215 Class A common shares were held by the spouse of Mr. Yip.

Options to subscribe for Class A common shares in CDC Corporation pursuant to its share option schemes

Name of directors	Date of grant	Option Exercise period	Exercise price *US$*	Number of share options outstanding as at the Latest Practicable Date
Ch'ien Kuo Fung, Raymond	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	66,667
	17th October, 2000	17th January, 2001 to 16th October, 2010	6.8125	100,000
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000
	27th April, 2001	27th July, 2001 to 26th April, 2011	2.7400	220,000
	13th July, 2001	13th October, 2001 to 12th July, 2011	2.9700	400,000
	27th April, 2005	27th July, 2005 to 26th April, 2015	2.6860	62,500
	1st January, 2006	1st July, 2006 to 31st December, 2015	3.2200	45,000
Chen Xiaowei	19th July, 2005	19th July, 2006 to 18th July, 2015	2.7600	40,000
	27th September, 2005	27th September, 2006 to 26th September, 2015	3.2100	40,000
	14th July, 2006	14th October, 2006 to 13th July, 2013	3.9500	120,000
	25th August, 2006	25th November, 2006 to 24th August, 2013	5.2500	100,000
Chia Kok Onn	1st September, 2005	1st September, 2005 to 31st August, 2015	2.9760	50,000
	1st September, 2005	1st September, 2006 to 31st August, 2015	2.9760	35,000
	15th September, 2005	15th September, 2005 to 14th September, 2015	2.9940	50,000
	15th September, 2005	15th December, 2005 14th September, 2015	2.9940	50,000
	3rd January, 2006	3rd April, 2006 to 2nd January, 2016	3.2200	65,000

Name of directors	Date of grant	Option Exercise period	Exercise price US$	Number of share options outstanding as at the Latest Practicable Date
Fang Xin	16th November, 2005	16th November, 2006 to 15th November, 2015	3.3000	70,000
Wang Cheung Yue, Fred	24th October, 2005	24th October, 2006 to 23rd October, 2015	3.2100	90,000
Yip Hak Yung, Peter	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	60,000
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000
	6th June, 2002	6th June, 2002 to 5th June, 2012	2.8200	200,000*
	3rd June, 2003	30th June, 2003 to 2nd June, 2013	4.9500	200,000*
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	100,000*
	15th September, 2005	15th September, 2005 to 14th September, 2015	2.9940	50,000*
	15th September, 2005	15th December, 2005 to 14th September, 2015	2.9940	50,000*
	24th October, 2005	24th October, 2006 to 23rd October, 2015	3.2100	45,000*
	3rd January, 2006	3rd April, 2006 to 2nd January, 2016	3.2200	600,000*
	12th April, 2006	12th July, 2006 to 11th April, 2013	3.9900	2,400,000*
	12th April, 2006	as per Executive Services (CEO) Agreement	3.9900	2,399,999*

* These options were granted to Asia Pacific Online Limited ("APOL"). APOL is a company 50% owned by the spouse of Mr. Yip Hak Yung, Peter ("Mr. Yip") and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any director or chief executive of the Company, as at the Latest Practicable Date, the following companies (not being a Director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions in shares and underlying shares of equity derivatives

Name	Number of shares	Number of underlying shares	Percentage of interest
China M Interactive (BVI) Limited	3,361,828,000	–	77.25%
Asia Pacific Online Limited	–	239,356,507	5.5%

China M Interactive (BVI) Limited is a wholly owned subsidiary of chinadotcom Mobile Interactive Corporation. chinadotcom Mobile Interactive Corporation is a wholly owned subsidiary of CDC Corporation, the ultimate holding company of the Company. Each of chinadotcom Mobile Interactive Corporation and CDC Corporation are deemed to be interested in the 3,361,828,000 shares in the Company under the SFO.

Asia Pacific Online Limited is a company 50% owned by the spouse of Mr. Yip Hak Yung, Peter ("Mr. Yip") and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children.

So far as is known to any director or chief executive of the Company, as at the Latest Practicable Date, the following companies/persons were interested in 10% or more of the normal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company:

Name of subsidiaries	Name of shareholders	Number and class of shares held	Percentage of Shareholding
Travio Global Inc.	Southeast Travel Service Co. Ltd.	1,030,000 ordinary shares	22.49%
iNFOiSLIVE Corporation Limited	Ko Chung Kin	824,307 ordinary shares	42.50%

Save as disclosed above, as at the Latest Practicable Date, none of the directors are aware of any other persons who has an interest or short position in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the normal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company.

4. SERVICE CONTRACTS

China.com Corp. Limited, a wholly owned subsidiary of the Company, and Asia Pacific Online Limited ("APOL") has entered into an Executive Services (CEO) Agreement (the "Executive Services Agreement") effective as of 12th April, 2006 with the latter agreeing to provide certain services to China.com Corp. Limited, including the services of Mr. Yip as acting chief executive officer of the Company for a period of 2 years. APOL shall be paid a cash remuneration of HK$1 per annum and granted options and contingent options to purchase an aggregate number of 239,356,507 of the Company's shares representing 2.5% and 3.0% respectively of the issued shares of the Company as at the date of the grant, 14th August, 2006. The Executive Services Agreement shall be automatically renewed for successive periods of one year after the expiration of the term unless either China.com Corp. Limited or APOL informs the other party in writing not less than 6 months prior to the expiration of the then-current term of its desire for the Executive Services Agreement to not be automatically renewed for the successive term.

Apart from the foregoing, as at the Latest Practicable Date, no director has a service contract with the Company in respect of his service to the Company in the capacity of a director that is not determinable by the Company within one year without payment other than statutory compensation.

5. LITIGATION

As at the Latest Practicable Date, no member of the Company was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material important known by the directors to be pending or threatened against any member of the Company.

6. COMPETING INTEREST

Saved as disclosed above, as at the Latest Practicable Date, so far as the directors are aware of, none of themselves or the management shareholders or their respective associates have any interest in a business which competes or may compete with the business of the Company.

7. INFORMATION ABOUT THE SECURITIES FOR WHICH LISTING IS SOUGHT AND THE TERMS AND CONDITIONS OF THEIR ISSUE AND DISTRIBUTION

(a) Application will be made to the Exchange for the listing of and permission to deal in the Restricted Shares. Please refer to the section - "Conditions" provided in the Letter from the Board of this circular.

(b) Dealings in securities of the Company may be settled through CCASS and that investors should seek the advice of their stockborker or other professional adviser for details of those settlement arrangement how such arrangements will affect their rights and interests.

(c) As at the Latest Practicable Date, the authorized capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. A total of 27,320,490 Restricted Shares of HK$0.10 each of the Company converted at the First Conversion Price and a total of no more than 39,464,850 Restricted shares of HK$0.10 each of the Company converted at the Second Conversion Price will be issued as part of the consideration for the transaction. The Restricted Shares shall be vested 90 days upon the issuance of the corresponding share certificate.

8. QUALIFICATION OF EXPERT

The following are the qualification of the experts whose advice or opinion are contained in this circular:

Name	Qualification
CIMB-GK Securities (HK) Limited	Corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, both CIMB-GK and Deloitte Touche Tohmatsu did not have any shareholding in any member of China.com Inc. or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of China.com Inc.

9. CONSENT OF EXPERT

Both CIMB-GK and Deloitte Touche Tohmatsu have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their reports and/or letters have dated 13th November, 2006 for incorporation in this circular, and/or reference to their names in the form and context in which it is included.

10. GENERAL

(a) The company secretary and the qualified accountant of the Company are Mr. Chau Kwok Keung. Mr. Chau is an associate member of the association of Chartered Certified Accountants, member of the Hong Kong Institute of Certified Public Accountants and Chartered Financial Analysts of CFA Institute.

(b) The compliance officer of the Company is Dr. Chen Xiaowei. Dr. Chen holds a Ph.D. degree in Molecular Genetics and Biochemistry from the University of Pittsburgh and a bachelor's degree from the University of Science and Technology of China. She conducted her post-doctoral work at the University of California, San Francisco.

(c) The Company established an audit committee on 25th February, 2000 with the written terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. The audit committee has three members comprising all independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Wang Cheung Yue, Fred, and Chia Kok Onn. The primary duties of the audit committee are to oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy.

(d) Mr. Chia Kok Onn has been serving as an independent non-executive director since July 2003. Mr. Chia is currently on each of the audit, remuneration and nominating committees of the board of directors of the Company. Mr. Chia has also served as an independent director and on the executive committee of the board of directors of CDC Corporation ("CDC"), the ultimate holding company of the Company since September 2005. Currently, Mr. Chia serves as the president of the Hong Kong Venture Capital & Private Equity Association. His 27-year career includes being a US-Asia venture capitalist with Walden International as managing director; member of the founding management team that built Premisys Communications, Inc., a venture–backed start-up technology company; and various management roles at Hewlett-Packard and Apple Computer. Mr. Chia holds a MBA degree from Strathclyde University, Scotland and a BEng (Hons) in Electronic Engineering from Sheffield University, England.

(e) Mr. Wang Cheung Yue, Fred has served as an independent non-executive director of the Company since February 2002. Mr. Wang is currently on each of the audit, remuneration and nominating committees of the board of directors of the Company. Mr. Wang has also served as an independent director and on the audit and compensation committees of the board of directors of CDC Corporation, the ultimate holding company of the Company since October 2005. The Wang family founded Salon Films (Hong Kong) Limited in 1969. Mr. Wang has been a director of Salon since 1970 and he has worked with various major Hollywood film and television companies in setting up projects in Asia. Since 1985, Mr. Wang has been involved with various investment groups including Unifund S.A., a Geneva based investment service company. Mr. Wang's current projects include a multimedia satellite investment business covering the Pacific Asia region as well as high definition technology of film and TV development in Asia. Mr. Wang is the Hon. vice president of the China Film Foundation, a member of the Hong Kong Trade Development Council Entertainment Industry Advisory Committee, a member of Board of Governors of the Federation of Hong Kong Business Associations Worldwide, director of the board of the Hong Kong International Film Festival Society Limited and Hon. vice director of the China Society of Motion Picture and Television Engineers. Mr. Wang graduated with Bachelor of Arts Degree in Business and Economics from Whittier College, California.

(f) Mr. Wong Sin Just served as an independent non-executive director of the Company since November, 1999. Mr. Wong is currently on each of the audit, remuneration and nominating committees of the board of directors of the Company. Mr. Wong is the executive and co-chairman of E2-Capital (Holdings) Limited, executive vice-chairman and chief executive officer of Softbank Investment International (Strategic) Limited, chairman of SBI E2-Capital Asia Holdings Limited and independent non-executive director of Capital Strategic Investment Limited, alternate director to Ong Tiang Lock of Intelligent Edge Technologies Berhad and non-executive of Westcomb Financial Group Limited. Mr. Wong possesses over 10 years of investment banking and venture capital experience and has held positions with a number of premier international investment banks. Mr. Wong holds a degree of Bachelor of Engineering from the Imperial College of Science, Technology and Medicine in London and is an associate of the Institute of Chartered Accountants, England and Wales.

(g) The registered office of the Company is at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The principal place of business of the Company is at 33/F., Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

11. MATERIAL CONTRACTS

On 17th March, 2006, Prime Leader Holdings Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement by and among Tridal Pacific Limited ("Tridal"), Skynet Global Limited, Mr. Hong Dai, Mr. Steve Xiaoming Zhao and Equity Pacific Limited ("Equity Pacific") for the acquisition of 24,569 ordinary shares, representing 52% of the total issued and outstanding shares in Equity Pacific for an aggregate consideration of US$18,000,000 and thereafter, become the legal and beneficial owner of 100% of Equity Pacific.

CDC Mobile Media Corporation, a wholly-owned subsidiary of the Company, entered into a share purchase agreement effective as of 25th July, 2006 by and among TimeHeart Science Technology Limited ("TimeHeart"), Beijing TimeHeart Information Technology Limited ("Beijing TimeHeart"), Fresh Earn Holdings Limited ("Fresh Earn"), Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (collectively, "the Founders") and Palmweb Inc. for the acquisition of 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders for a total consideration of up to HK$198,246,000.

CDC Mobile Media Corporation, a wholly-owned subsidiary of the Company, entered into an amendment to the share purchase agreement effective as of 5th October, 2006 by and among TimeHeart Science Technology Limited ("TimeHeart"), Beijing TimeHeart Information Technology Limited ("Beijing TimeHeart"), Fresh Earn Holdings Limited ("Fresh Earn"), Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (collectively, "the Founders") and Palmweb Inc. to amend certain terms of the share purchase agreement effective as of 25th July, 2006, whereby the total consideration after the amendment will be up to HK$122,216,000.

Apart from the foregoing, no material contracts (not being contracts entered into the ordinary course of business) have been entered into by any member of the Company within the two years from the Latest Practicable Date.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to and including 28th November, 2006 at the principal place of business of the Company at 33rd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong:

(a) the amended and restated memorandum and articles of association of the Company;

(b) the Executive Services Agreement dated as of 12th April, 2006 between China.com Corp. Limited and APOL;

(c) the employment contract of Mr. Sun Jiang Tao;

(d) all the material contracts described in section 11 above;

(e) the annual reports of the Company for each of the financial years ended 31st December, 2004 and 31st December, 2005;

(f) interim report of the Company for the six months ended 30th June, 2006;

(g) the letter from CIMB-GK as set out on pages 25 to 41 of this circular;

(h) the written consents from CIMB-GK and Deloitte Touche Tohmatsu referred to in paragraph 9 of this Appendix;

(i) the letter from the Independent Board Committee as set out on pages 23 to 24 of this circular;

(j) the circular dated 10th April 2006 in respect of the purchase of 52% interest in Equity Pacific Limited and issue of new shares as part of the consideration for the transaction; and

(k) this circular.

13. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

13 November 2006

The Directors,
China.com Inc.

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to TimeHeart Science Technology Limited ("TimeHeart") and its subsidiaries (hereinafter collectively referred to as the "TimeHeart Group") for each of the three years ended 31 December 2005 and seven months ended 31 July 2006 (the "Relevant Periods"), for inclusion in the circular of China.com Inc. dated 13 November 2006 (the "Circular") in connection with signing of the share purchase agreement and the amendment to the share purchase agreement to acquire control of TimeHeart.

Pursuant to a share purchase agreement effective as of 25 July 2006 and the amendment to the share purchase agreement effective as of 5 October, 2006, both entered into among TimeHeart, Beijing TimeHeart Information Technology Limited, CDC Mobile Media Corporation, Fresh Earn Holdings Limited, founders and beneficiaries of Fresh Earn Holdings Limited, China.com Inc. shall effectively acquire 100% equity interests in TimeHeart through its wholly owned subsidiary, CDC Mobile Media Corporation.

TimeHeart was incorporated in the British Virgin Islands on 13 January 2006. TimeHeart is an investment holding company and has not carried on any business since its incorporation. Through a group reorganisation as set out in detail in Note 2 to the Financial Information, TimeHeart became the holding company of the TimeHeart Group on 10 July 2006. TimeHeart has two subsidiaries as follows:

TimeHeart (Beijing) Network Technology Limited ("WFOE"), a wholly-owned foreign-invested company directly held by TimeHeart, was incorporated at Haidian District, Beijing, the People's Republic of China ("PRC") on 29 April 2006, which is an investment holding company and has not carried on any business since its incorporation.

Beijing TimeHeart Information Technology Co., Ltd. ("Beijing TimeHeart") is a private limited company incorporated in Haidian District, Beijing, the PRC on 13 November 2001. The principal activities of Beijing TimeHeart are provision of value-added telecommunication services in the PRC. No audited statutory financial statements have been prepared for Beijing TimeHeart because there is no statutory audit requirement. Beijing TimeHeart is controlled by the same group of ultimate shareholders of TimeHeart. Through a series of contractual arrangements as detailed in Note 2 below, Beijing TimeHeart has been controlled by WFOE since 10 July 2006.

No audited financial statements have been prepared for TimeHeart and WFOE since their respective date of incorporation as they have not carried on any business, other than the reorganisation referred to in Note 2 to the Financial Information. We have, however, reviewed all relevant transactions of TimeHeart and WFOE since their respective date of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies.

For the purpose of this report, the directors of TimeHeart have prepared the consolidated financial statements of the TimeHeart Group for the Relevant Periods and financial statements of TimeHeart since its date of incorporation to 31 July 2006, where this is a shorter period, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (the "Underlying Financial Statements"). Deloitte Touche Tohmatsu CPA Ltd. has audited the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and issued an audit report on the Underlying Financial Statements. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" as recommended by the HKICPA.

The Financial Information of TimeHeart and of the TimeHeart Group for the Relevant Periods set out in the report has been prepared from the Underlying Financial Statements on the basis set out in Note 1 to the Financial Information. No adjustments were deemed necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of TimeHeart who approved their issue. The directors of China.com Inc. are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, on the basis of preparation set out in Note 1 below the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the TimeHeart Group as at 31 December 2003, 2004, 2005 and 31 July 2006 and of the Company as at 31 July 2006 and of the consolidated results and consolidated cash flows of the TimeHeart Group for the Relevant Periods.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the TimeHeart Group for seven month period ended 31 July 2005 together with the notes thereon have been extracted from the TimeHeart Group's management accounts for the same period (the "31 July 2005 Management Accounts") which was prepared by the directors of TimeHeart solely for the purpose of this report. We have reviewed the 31 July 2005 Management Accounts in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of the management and applying analytical procedures to the 31 July 2005 Management Accounts and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 31 July 2005 Management Accounts. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 31 July 2005 Management Accounts.

(I) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Seven months ended 31 July	
		2003	**2004**	**2005**	**2005**	**2006**
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
					(unaudited)	
Revenue	6	17,513,128	41,100,125	66,233,180	36,221,586	45,504,674
Cost of sales		(4,160,549)	(10,447,600)	(19,357,189)	(9,906,603)	(11,480,915)
Gross profit		13,352,579	30,652,525	46,875,991	26,314,983	34,023,759
Other income		3,824	23,238	220,970	47,675	36,566
Research and development expenditure		(3,030,375)	(8,692,101)	(6,355,699)	(3,782,320)	(4,861,115)
Selling and marketing expenses		(3,979,838)	(6,871,949)	(6,426,760)	(3,830,225)	(3,722,668)
Administrative expenses		(556,090)	(2,392,751)	(3,763,087)	(1,988,630)	(3,913,123)
Finance costs	8	(3,894)	(33,447)	(222,066)	(129,802)	–
Profit before tax		5,786,206	12,685,515	30,329,349	16,631,681	21,563,419
Income tax credit (expense)	9	3,854	(319,109)	(2,068,012)	(1,213,815)	(1,571,046)
Profit for the year/period	10	5,790,060	12,366,406	28,261,337	15,417,866	19,992,373
Attributable to:						
Equity holders of the parent		5,500,557	11,748,086	26,848,270	14,646,973	19,992,373
Minority interest		289,503	618,320	1,413,067	770,893	–
		5,790,060	12,366,406	28,261,337	15,417,866	19,992,373

CONSOLIDATED BALANCE SHEETS

		31 December			31 July
		2003	**2004**	**2005**	**2006**
	Notes	*RMB*	*RMB*	*RMB*	*RMB*
Non-current assets					
Property, plant and equipment	14	546,556	1,151,098	1,537,681	1,497,125
Deferred tax assets	15	4,980	–	–	–
		551,536	1,151,098	1,537,681	1,497,125
Current assets					
Trade and other receivables	16	3,940,207	8,507,244	11,795,028	13,672,600
Deposits	17	200	101,205	487,210	433,810
Bank balances and cash	16	4,243,246	14,485,545	16,382,413	16,120,519
		8,183,653	23,093,994	28,664,651	30,226,929
Current liabilities					
Trade and other payables	18	1,217,652	1,547,020	2,715,027	3,786,443
Amount due to parent company	23	–	–	–	249,563
Bank loans	19	500,000	3,000,000	–	–
Distribution by the SPE	13	–	–	12,570,600	–
Tax liabilities		–	–	487,639	97,210
		1,717,652	4,547,020	15,773,266	4,133,216
Net current assets		6,466,001	18,546,974	12,891,385	26,093,713
Total assets less current liabilities		7,017,537	19,698,072	14,429,066	27,590,838
Non-current liabilities					
Deferred tax liabilities	15	–	314,129	473,559	442,950
Net assets		7,017,537	19,383,943	13,955,507	27,147,888
Capital and reserves					
Share capital	20	8	8	8	8
Capital contribution		–	–	–	697,775
Statutory reserves	21	866,961	1,387,856	5,328,438	5,328,438
Retained earnings		5,799,692	17,026,883	7,929,286	21,121,667
Equity attributable to equity holders of the parent		6,666,661	18,414,747	13,257,732	27,147,888
Minority interest		350,876	969,196	697,775	–
Total equity		7,017,537	19,383,943	13,955,507	27,147,888

BALANCE SHEET

	Notes	31 July 2006 RMB
Non-current assets		
Investment in subsidiaries	24	239,304
Current assets		
Cash	16	7,410
Current liabilities		
Accrued expenses and other payables	18	1,500,000
Amount due to parent company	23	249,563
Net current liabilities		(1,742,153)
Net liabilities		(1,502,849)
Capital and reserve		
Share capital	20	8
Accumulated losses		(1,502,857)
Total equity		(1,502,849)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							
	Share capital	Capital contribution	Statutory surplus reserve	Statutory welfare fund	Retained earnings	Total	Minority interest	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance at 1 January 2003	8	–	118,037	59,019	989,040	1,166,104	61,373	1,227,477
Profit for the year and total recognised income for the year	–	–	–	–	5,500,557	5,500,557	289,503	5,790,060
Transfer	–	–	459,937	229,968	(689,905)	–	–	–
Balance at 31 December 2003	8	–	577,974	288,987	5,799,692	6,666,661	350,876	7,017,537
Profit for the year and total recognised income for the year	–	–	–	–	11,748,086	11,748,086	618,320	12,366,406
Transfer	–	–	347,263	173,632	(520,895)	–	–	–
Balance at 31 December 2004	8	–	925,237	462,619	17,026,883	18,414,747	969,196	19,383,943
Profit for the year and total recognised income for the year	–	–	–	–	26,848,270	26,848,270	1,413,067	28,261,337
Transfer	–	–	2,627,055	1,313,527	(3,940,582)	–	–	–
Distribution by the SPE	–	–	–	–	(32,005,285)	(32,005,285)	(1,684,488)	(33,689,773)
Balance at 31 December 2005	8	–	3,552,292	1,776,146	7,929,286	13,257,732	697,775	13,955,507
Profit for the period and total recognised income for the period	–	–	–	–	19,992,373	19,992,373	–	19,992,373
Equity interest transferred by minority shareholders	–	697,775	–	–	–	697,775	(697,775)	–
Amount arising from Group Reorganisation	–	–	–	–	8	8	–	8
Reclassify statutory welfare fund to statutory surplus reserve (Note 21)	–	–	1,776,146	(1,776,146)	–	–	–	–
Distribution by the SPE	–	–	–	–	(6,800,000)	(6,800,000)	–	(6,800,000)
Balance at 31 July 2006	8	697,775	5,328,438	–	21,121,667	27,147,888	–	27,147,888
Balance at 31 December 2004	8	–	925,237	462,619	17,026,883	18,414,747	969,196	19,383,943
Profit for the period and total recognised income for the period	–	–	–	–	14,646,973	14,646,973	770,893	15,417,866
Balance at 31 July 2005	8	–	925,237	462,619	31,673,856	33,061,720	1,740,089	34,801,809

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
OPERATING ACTIVITIES					
Profit before taxation	5,786,206	12,685,515	30,329,349	16,631,681	21,563,419
Adjustments for:					
Impairment (reversal of) loss on receivables	–	50,000	(20,000)	(50,000)	420,824
Finance costs	3,894	33,447	222,066	129,802	–
Depreciation of property, plant and equipment	116,626	347,607	680,005	156,563	555,935
Operating cash flows before movements in working capital	5,906,726	13,116,569	31,211,420	16,868,046	22,540,178
(Decrease) increase in deposits	(200)	(101,005)	(386,005)	(195,000)	53,400
Increase in trade and other receivables	(3,235,597)	(4,617,037)	(3,267,784)	(5,538,419)	(2,298,396)
Increase in trade and other payables	1,079,871	329,368	1,168,007	1,351,859	1,071,416
Cash generated from operations	3,750,800	8,727,895	28,725,638	12,486,486	21,366,598
Income taxes paid	–	–	(1,420,943)	(740,162)	(1,992,084)
Net cash from operating activities	3,750,800	8,727,895	27,304,695	11,746,324	19,374,514
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(582,954)	(952,149)	(1,066,588)	(674,098)	(515,379)
Cash used in investing activities	(582,954)	(952,149)	(1,066,588)	(674,098)	(515,379)
FINANCING ACTIVITIES					
Proceeds on issue of share	–	–	–	–	8
Distribution by the SPE	–	–	(21,119,173)	–	(19,370,600)
New bank loans raised	500,000	4,000,000	2,000,000	2,000,000	–
Repayment of bank loans	–	(1,500,000)	(5,000,000)	–	–
Advance from parent company	–	–	–	–	249,563
Interest paid	(3,894)	(33,447)	(222,066)	(129,802)	–
Net cash generated from (used in) financing activities	496,106	2,466,553	(24,341,239)	1,870,198	(19,121,029)
Net increase (decrease) in cash and cash equivalents	3,663,952	10,242,299	1,896,868	12,942,424	(261,894)
Cash and cash equivalents at the beginning of the period	579,294	4,243,246	14,485,545	14,485,545	16,382,413
Cash and cash equivalents at the end of the period, representing bank balances and cash	4,243,246	14,485,545	16,382,413	27,427,969	16,120,519

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to a reorganisation (the "Reorganisation") of the TimeHeart Group in July 2006, details of which are set out in Note 2, TimeHeart became the holding company of the companies now comprising the TimeHeart Group. TimeHeart, WFOE and Beijing TimeHeart are considered to be entities under common control during the Relevant Periods as the shareholders, Fang Xiu Qin and Sun Kun Shan (the "Shareholders"), as a result of contractual arrangements, collectively have the power to govern the financial and operating policies of Beijing TimeHeart so as to obtain benefits from its activities both before and after the Reorganisation, and that control is not transitory.

The TimeHeart Group resulting from the Reorganisation is regarded as a continuing entity. The business combination is accounted for by applying Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the TimeHeart Group for the Relevant Periods include the results, changes in equity and cash flows of the companies now comprising the TimeHeart Group as if TimeHeart had always been the holding company of the TimeHeart Group and in accordance with the respective equity interests in the individual companies attributable to the existing shareholders of TimeHeart throughout the Relevant Periods, or since their respective dates of incorporation, where this is a shorter period.

The consolidated balance sheets of the TimeHeart Group as at 31 December 2003, 2004, 2005 and at 31 July, 2006 have been prepared to present the assets and liabilities of the companies comprising the TimeHeart Group as at the respective dates as if the current group structure had been in existence at those dates and in accordance with the respective equity interests in the individual companies attributable to existing shareholders of TimeHeart as at those dates.

2. TIMEHEART GROUP REORGANISATION

PRC laws and regulations prohibit direct foreign ownership of business entities providing value-added telecommunication services, which include activities and services operated by TimeHeart Group. In order to enable certain foreign companies to make investment into the business of the TimeHeart Group, a group reorganisation was carried out in 2006.

The operations of the TimeHeart Group are conducted through Beijing TimeHeart, a private limited company incorporated in the PRC on 13 November 2001 with an operation period of 10 years. At 31 December 2005, Beijing TimeHeart was legally owned by four PRC citizens, namely Fang Xiu Qin, Sun Kun Shan, Wang Bing, and Sui Hai Gang, who held 51%, 44%, 3% and 2% shares of Beijing TimeHeart.

On 13 January, 2006, TimeHeart was incorporated as an investment holding company under the laws of British Virgin Islands, and was wholly owned by Fresh Earn Holdings Limited ("Fresh Earn"). Fresh Earn's 100% shareholder is TNS Service Limited ("TNS"). According to the declaration of trust issued by TNS dated 20 June 2006, TNS holds 54% and 46% interest in Fresh Earn as nominee of and trustee for Fang Xin Qin and Sun Kun Shan, respectively.

To facilitate the Reorganisation, on 29 April 2006, TimeHeart established WFOE at Haidian District, Beijing, PRC.

Certain contractual arrangements have been made among Beijing TimeHeart, WFOE, and shareholders of Beijing TimeHeart on 10 July 2006, so that the decision-making rights and operating and financing activities of Beijing TimeHeart are controlled by WFOE. WFOE is also entitled to a majority of the operating benefits and residual benefit generated by Beijing TimeHeart. In particular, the shareholders of Beijing TimeHeart are required to transfer their interest in Beijing TimeHeart to WFOE upon request of WFOE at the lowest possible consideration required by PRC laws.

For the purpose of presenting the financial positions, financial results and cash flows of the TimeHeart Group in this report, Beijing TimeHeart is deemed to be a special purpose entity ("SPE") of the TimeHeart Group throughout the Relevant Periods.

3. SIGNIFICANT ACCOUNTING POLICIES

For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the TimeHeart Group has early adopted all of the new and revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the accounting periods beginning either on or after 1 January 2005, 1 December 2005 or 1 January 2006. The TimeHeart Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective during the Relevant Periods. The directors of TimeHeart anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and financial position of TimeHeart Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006

The Financial Information has been prepared on the historical cost basis and in accordance with accounting policies which conform with HKFRSs.

The principal accounting policies adopted are set out below:

Basis of consolidation

The Financial Information incorporates the financial information of TimeHeart and entities controlled by TimeHeart (its subsidiary and SPE). Control is achieved where TimeHeart has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business combinations under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Investment in subsidiaries

Investment in subsidiaries are included in TimeHeart's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

The TimeHeart Group's revenues are primarily derived from providing entertainment-oriented wireless value-added services primarily to mobile phone customers of mobile phone service operators in the PRC ("Mobile Operators"). Fees, established by an arrangement with Mobile Operators and indicated in the messages received on the mobile phones, for these services are charged on a transaction basis or on a monthly subscription basis, and vary according to the type of services delivered. The TimeHeart Group recognises revenues in the period in which the services are provided.

The TimeHeart Group measures its revenues based on customers' usage, which the Mobile Operators bill and collect on behalf of TimeHeart Group and is paid to the TimeHeart Group after deducting the service fee withheld by Mobile Operators. Accordingly, the service fee paid to the Mobile Operators is included in cost of sales.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable by the TimeHeart Group as lessee under operating leases are charged to the consolidated income statements on a straight-line basis over the term of the relevant lease.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of presenting the Financial Information, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of Beijing TimeHeart.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year/period in which they arise.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the TimeHeart Group's obligations under the plans are limited to the amount of contribution.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statements because it excludes period items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The TimeHeart Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet dates.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated balance sheets and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated income statements, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives on a straight-line basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statements.

Impairment of tangible assets

At each balance sheet date, the TimeHeart Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the TimeHeart Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the TimeHeart Group's balance sheets and TimeHeart's company balance sheet when the TimeHeart Group and TimeHeart become party to the contractual provisions of the instrument.

Trade and other receivables and deposits

Trade and other receivables and deposits are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Allowance is reversed in subsequent periods when an increase in the trade and other receivables' recoverable amount can be related objectively to an event occurring after the allowance was recognised, subject to a restriction that the carrying amount of the receivables at the date the allowance is reversed does not exceed what the amortised cost would have been had the allowance not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Demand deposits are subsequently measured at amortised cost by using effective interest method.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the TimeHeart Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the TimeHeart Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank loans

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of the loans is recognised over the term of the borrowings in accordance with the TimeHeart Group accounting policy for borrowing costs (see above).

Trade and other payables, amount due to parent company and distribution by the SPE

Trade and other payables, amount due to parent company and distribution by the SPE are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by TimeHeart are recorded at the proceeds received, net of direct issue cost.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Judgements in applying the TimeHeart Group's accounting policies

In the process of applying the TimeHeart Group's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements.

Special purpose entity

Through series contractual arrangement, the substance of the relationship between TimeHeart and Beijing TimeHeart indicates that Beijing TimeHeart is deemed to be a SPE and controlled by TimeHeart.

Going concern

As at 31 July 2006, TimeHeart's net current liabilities approximated RMB1.5 million. TimeHeart's SPE, which is ultimately controlled by TimeHeart, has been profitable and has been generating adequate cash flow to sustain the continuing operation of the TimeHeart Group. As a result, the Financial Information has been prepared on a going concern basis.

Key sources of estimation uncertainty

The TimeHeart Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets are discussed below.

Revenue recognition

Note 3 describes the accounting policy for revenue recognition. The TimeHeart Group has its internal computer system to track the services provided to its customers. Such information is analysed, compared and reconciled to the statements provided from the mobile phone operators. The differences are adjusted so that revenue is recorded at the amounts for services actually provided and accepted by the customers. Such amounts are normally less than the amounts reflected in the TimeHeart Group's computer system. There can be situations when the TimeHeart Group prepares the Financial Information, the statements from the mobile phone operators still have not been received, and as a result, reconciliation cannot be performed timely. In such situations, the TimeHeart Group would record revenue based on the information from its computer system with an estimated discount according to past experiences from the reconciliation exercise described above. Such estimation, in the past, has not resulted in significant adjustments when the statements from the mobile phone operators are received and reconciled to the information from the computer system.

Allowances for bad and doubtful debts

The provision policy for bad and doubtful debts of the TimeHeart Group is based on the estimation of the future cash flow with evaluation of collectbility and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate recoverability of these receivables, including the current creditworthiness and the past collection history of each customer.

If the financial conditions of the TimeHeart Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairments may be required.

5. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

The TimeHeart Group's major financial instruments include bank balances and cash, trade receivables and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The TimeHeart Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2003, 2004, 2005 and 31 July 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheets. In order to minimise the credit risk, the management of TimeHeart Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, TimeHeart Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are state owned banks in the PRC.

The TimeHeart Group has no significant concentration of credit risk with exposure spread over a large number of counterparties and customers.

Foreign currency risk

The TimeHeart Group's transactions are mainly denominated in RMB and the TimeHeart Group's foreign currency risk is insignificant.

Fair value interest rate risk

The TimeHeart Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. TimeHeart Group currently does not have a foreign currency hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

6. REVENUE

Revenue, which is stated net of business tax and other sales tax, represents the amounts received and receivables for wireless value-added services provided during the relevant periods.

THE TIMEHEART GROUP

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Wireless value-added services	17,513,128	41,053,625	65,975,515	36,221,586	45,504,674
Other services	–	46,500	257,665	–	–
	17,513,128	41,100,125	66,233,180	36,221,586	45,504,674

7. SEGMENT INFORMATION

The TimeHeart Group is primarily engaged in the provision of value-added telecommunication service in the PRC. All identifiable assets and customers of the TimeHeart Group are located in the PRC. Accordingly no segment analysis is presented.

8. FINANCE COSTS

THE TIMEHEART GROUP

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Interest on bank loans	3,894	33,447	222,066	129,802	-

9. INCOME TAX (CREDIT) EXPENSE

THE TIMEHEART GROUP

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Current income tax	–	–	1,908,582	929,309	1,601,655
Deferred tax charge *(Note 15)*	(3,854)	319,109	159,430	284,506	(30,609)
Income tax (credit) expense for the year/period	(3,854)	319,109	2,068,012	1,213,815	1,571,046

WFOE is a high and new technology enterprise located in Haidian District, Beijing, PRC, and enjoys a preferential tax rate of 15% which is subject to formal approval. WFOE has not generated any taxable profit since incorporation.

Beijing TimeHeart is a high and new technology enterprise located in Beijing New Technology Development Zone and a 15% income tax rate is applicable. In accordance with relevant tax regulations, Beijing TimeHeart is entitled to exemptions from PRC income tax for the three years commencing its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years, and thereafter, entitled to a 50% relief from PRC income tax of 15% for the next three years. As a result from 2002 to 2004, Beijing TimeHeart's income tax rate is 0%, and from 2005 through 2007, Beijing TimeHeart's applicable income tax rate is 7.5%.

THE TIMEHEART GROUP

The tax charge for the year/period can be reconciled to the accounting profit as follows:

	Year ended 31 December						Seven months ended 31 July			
	2003		2004		2005		2005		2006	
	RMB	%	*RMB*	%	*RMB*	%	*RMB* (unaudited)	%	*RMB*	%
Profit before tax	5,786,206		12,685,515		30,329,349		16,631,681		21,563,419	
Tax at the domestic income tax rate of 15%	867,931	15.0%	1,902,827	15.0%	4,549,402	15.0%	2,494,752	15.0%	3,234,513	15.0%
Tax effect of expenses that are not deductible in determining taxable profit	38,502	0.6%	23,472	0.2%	57,019	0.1%	26,734	0.2%	39,316	0.2%
Tax effect of expenses with additional tax deductions *(note)*	–	–	–	–	(188,708)	(0.6%)	–	–	–	–
Tax effect of reduced tax rate during tax relief period	(910,287)	(15.7%)	(1,607,190)	(12.7%)	(2,349,701)	(7.7%)	(1,307,671)	(7.9%)	(1,702,783)	(7.9%)
Tax (credit) expenses and effective tax rate for the period	(3,854)	(0.1%)	319,109	2.5%	2,068,012	6.8%	1,213,815	7.3%	1,571,046	7.3%

note: According to PRC tax regulation, if the increase of research and development expense meets certain requirements, a company can enjoy additional tax deduction.

10. PROFIT FOR THE YEAR/PERIOD

THE TIMEHEART GROUP

	Year ended 31 December			Seven months ended 31 July	
	2003	2004	2005	2005	2006
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Profit before tax has been arrived at after charging (crediting):					
– Directors' emoluments	–	–	–	–	–
– Salaries and other staff costs	1,061,897	3,350,669	3,552,296	2,293,828	2,585,120
– Retirement benefit scheme contributions	21,600	41,904	137,296	71,840	125,421
Total staff costs	1,083,497	3,392,573	3,689,592	2,365,668	2,710,541
– Depreciation	116,626	347,607	680,005	156,563	555,935
– Impairment (reversal) of loss on receivables	–	50,000	(20,000)	–	420,824
– Bank interest income	3,824	23,238	52,970	47,675	36,566
– Audit fee	–	–	350,000	204,167	1,500,000

11. EMPLOYEES' EMOLUMENTS

Employees' emolument

During the years ended 31 December 2003, 2004, 2005 and the seven months ended 31 July 2005 and 2006, the emoluments of the five highest paid individuals during each respective period were as follows:

THE TIMEHEART GROUP

	31 December			31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Salaries and other benefits	387,618	771,275	855,550	447,747	398,590
Retirement benefits scheme contributions	7,200	7,200	20,400	17,500	10,500
Total	394,818	778,475	875,950	465,247	409,090

12. EARNINGS PER SHARE

As there has been only one share in issue by TimeHeart during the Relevant Periods, no earnings per share is presented because the information disclosed is not meaningful.

13. DISTRIBUTION BY THE SPE

During the year ended 31 December 2005, dividend of RMB13,359,797 for the year 2004 was declared and paid to the then investors of Beijing TimeHeart.

During the year ended 31 December 2005, dividends of RMB7,759,376 and RMB12,570,600 were declared for profit distribution for the first half and second half of the year ended 31 December 2005 respectively, RMB7,759,376 was paid to the investors during the year 2005. RMB12,570,600 was payable as at 31 December 2005, and was paid in 2006

During the year ended 31 December 2006, dividend of RMB6,800,000 were declared for profit distribution of the year ended 31 December 2005, and was paid to the then investors of Beijing TimeHeart in June 2006.

14. PROPERTY, PLANT AND EQUIPMENT

THE TIMEHEART GROUP

	Electronic equipment *RMB*	Motor vehicles *RMB*	Total *RMB*
COST			
At 1 January 2003	105,453	–	105,453
Additions	302,154	280,800	582,954
At 31 December 2003	407,607	280,800	688,407
Additions	952,149	–	952,149
At 31 December 2004	1,359,756	280,800	1,640,556
Additions	1,066,588	–	1,066,588
At 31 December 2005	2,426,344	280,800	2,707,144
Additions	515,379	–	515,379
At 31 July 2006	2,941,723	280,800	3,222,523
ACCUMULATED DEPRECIATION			
At 1 January 2003	25,225	–	25,225
Charge for the year	69,826	46,800	116,626
At 31 December 2003	95,051	46,800	141,851
Charge for the year	254,007	93,600	347,607
At 31 December 2004	349,058	140,400	489,458
Charge for the year	586,405	93,600	680,005
At 31 December 2005	935,463	234,000	1,169,463
Charge for the period	509,135	46,800	555,935
At 31 July 2006	1,444,598	280,800	1,725,398
CARRYING AMOUNTS			
At 31 July 2006	1,497,125	–	1,497,125
At 31 December 2005	1,490,881	46,800	1,537,681
At 31 December 2004	1,010,698	140,400	1,151,098
At 31 December 2003	312,556	234,000	546,556

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Electronic equipment	3 years
Motor vehicles	3 years

15. DEFERRED TAX

The followings are the major deferred tax assets (liabilities) recognised by the TimeHeart Group, and the movement thereon, during the years and period.

THE TIMEHEART GROUP

	Difference in accumulated depreciation for tax purpose	Temporary difference on revenue recognition	Total
	RMB	*RMB*	*RMB*
At 1 January 2003	1,126	–	1,126
Credit to reserve for the year	–	–	–
Credit to income for the year	3,854	–	3,854
At 31 December 2003	4,980	–	4,980
Credit (Charge) to income for the year	11,670	(330,779)	(319,109)
At 31 December 2004	16,650	(330,779)	(314,129)
Credit (Charge) to income for the year	36,141	(195,571)	(159,430)
At 31 December 2005	52,791	(526,350)	(473,559)
Credit (Charge) to income for the period	18,028	12,581	30,609
At 31 July 2006	70,819	(513,769)	(442,950)

All of the above deferred tax assets (liabilities) are related to the SPE.

16. OTHER FINANCIAL ASSETS

Trade and other receivables

THE TIMEHEART GROUP

	31 December			31 July
	2003	2004	2005	2006
	RMB	*RMB*	*RMB*	*RMB*
Trade receivables	3,879,987	8,507,244	11,784,248	12,579,163
Other receivables	60,220	–	10,780	1,093,437
	3,940,207	8,507,244	11,795,028	13,672,600

The TimeHeart Group allows an average credit period of 90 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

THE TIMEHEART GROUP

	31 December			31 July
	2003	2004	2005	2006
	RMB	*RMB*	*RMB*	*RMB*
0-90 days	3,850,792	8,507,244	8,484,658	10,742,446
90-365 days	29,195	–	3,299,590	1,836,717
	3,879,987	8,507,244	11,784,248	12,579,163

An impairment allowance of nil, RMB50,000, RMB30,000 and RMB450,824 have been made as at 31 December 2003, 2004, 2005 and 31 July 2006, respectively.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits held by TimeHeart with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value. The average interest rate for the years ended as at 31 December 2003, 2004, 2005, and seven months ended as at 31 July 2006 was 0.72%.

17. DEPOSITS

Deposits represent service quality assurance deposits paid to the Mobile Operators.

18. TRADE AND OTHER PAYABLES

	The TimeHeart Group				**TimeHeart**
	2003	**2004**	**2005**	**31 July 2006**	**31 July 2006**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Trade payables	–	–	–	14,400	–
Other payables	912,952	678,556	563,609	913,457	–
Accrued expenses	304,700	868,464	2,151,418	2,858,586	1,500,000
	1,217,652	1,547,020	2,715,027	3,786,443	1,500,000

Trade payables and accruals principally comprise outstanding amounts for trade purchases and ongoing costs.

THE TIMEHEART GROUP

The following is an aged analysis of the TimeHeart Group's trade payables at the balance sheet date:

	31 December			**31 July**
	2003	**2004**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
0-90 days	–	–	–	–
90-365 days	–	–	–	14,400
	–	–	–	14,400

The directors consider that the carrying amount of trade and other payables approximate their fair value.

19. BANK LOANS

The TimeHeart Group

Beijing TimeHeart had the following bank loans denominated in RMB during the relevant periods:

	31 December			31 July
	2003	**2004**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
Bank loans - secured	500,000	3,000,000	–	–

The effective interest rates were as follows:

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	%	%	%	% (unaudited)	%
Bank loans interest rate	5.841	5.841	6.138	6.138	–

Bank loans comprise:

(a) a loan of RMB500,000: The loan was raised on 3 November 2003 and was due for repayment on 3 November 2004. It was fully repaid on 26 April 2004. The loan was secured by北京中關村科技擔保有限公司("Zhong Guan Cun Guarantee") with a guarantee fee RMB10,500. The directors of Beijing TimeHeart, Wei Zhong Hua and Sun Jiang Tao, and the father of Wei Zhong Hua, Wei Chun Li, provided guarantee to Zhong Guan Cun Guarantee with property and bank deposit. The bank loan carried fixed interest rate at 5.841% per annum.

(b) a loan of RMB1,000,000: The loan was raised on 19 August 2004 and was due for repayment on 19 August 2005. It was fully repaid on 23 December 2004. The loan was guaranteed by Zhong Guan Cun Guarantee with a guarantee fee RMB18,000. Wei Zhong Hua and Sun Jiang Tao, provided guarantee to Zhong Guan Cun Guarantee with bank deposit. The bank loan carried fixed interest rate at 5.841% per annum.

(c) a loan of RMB3,000,000: The loan was raised on 31 December 2004 and was due for repayment and was fully repaid on 30 November 2005. The loan was guaranteed by Zhong Guan Cun Guarantee with a guarantee fee RMB48,750. The bank loan carried fixed interest rate at 6.138% per annum.

(d) a loan of RMB2,000,000: The loan was raised on 18 April 2005 and was due for repayment and was fully repaid on 18 November 2005. The loan was guaranteed by Zhong Guan Cun Guarantee with a guarantee fee RMB22,500. The bank loan carried fixed interest rate at 6.138% per annum.

The directors of the TimeHeart Group consider the carrying amount of bank loans approximates to their corresponding fair value.

20. SHARE CAPITAL

TimeHeart's authorised share capital is of 50,000 shares of a par value of US$1.00 each. As at 31 July 2006, one share was issued and fully paid.

21. STATUTORY RESERVES/DISTRIBUTABLE RESERVE

Statutory reserves

As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), TimeHeart's subsidiaries in the PRC are required to provide appropriation of 10% of their profit after tax each year calculated in accordance with the accounting principles and financial regulations applicable to companies established in the PRC ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the registered paid-in capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into registered capital and expansion of production and operation. For the capitalisation of statutory surplus reserve into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

Pursuant to the PRC Company Law, TimeHeart's subsidiaries in the PRC shall make an allocation from the profit after tax under PRC GAAP at the rate of 5% to 10% to the statutory welfare fund. The statutory welfare fund can only be utilised on capital items for employees' collective welfare. According to Cai Qi [2006] No. 67, TimeHeart's subsidiaries are no longer required to make such allocation effective 2006. The outstanding statutory welfare fund as of 1 January 2006 was reclassified to statutory surplus reserve.

Distributable reserve

At 31 July 2006, TimeHeart had no reserves available for distribution.

22. OPERATING LEASE ARRANGEMENTS

The TimeHeart Group as lessee

	Year ended 31 December			Seven months ended 31 July	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB* (unaudited)	*RMB*
Minimum lease payments under operating leases recognised as an expense in the relevant periods	12,488	253,451	244,241	142,100	248,698

At the balance sheet date, the TimeHeart Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	31 December			31 July
	2003	**2004**	**2005**	**2006**
	RMB	*RMB*	*RMB*	*RMB*
Within one year	–	–	–	170,763

Operating lease payments represent rentals payable by the TimeHeart Group for certain of its office only. Leases are negotiated for an average term of six months.

23. RELATED PARTY TRANSACTIONS

(a) Amount due to parent company

The amount due to Fresh Earn Holdings Limited, the parent company of TimeHeart, is unsecured, interest free and is repayable on demand.

(b) The TimeHeart Group entered into the following related party transaction during year/period.

		Year ended 31 December			Seven months ended 31 July	
Name of related party	Nature of transaction	2003	2004	2005	2005	2006
		RMB	*RMB*	*RMB*	*RMB*	*RMB*
					(unaudited)	
Wei Zhong Hua and Sun Jiang Tao	Office rental	–	–	235,008	36,246	239,064

The office rented by Beijing TimeHeart is jointly owned by Wei Zhong Hua and Sun Jiang Tao, who are the son of Fang Xiu Qin and deputy general manager of Beijing TimeHeart, respectively.

(c) Guarantee by key management/close family member of key management

Wei Zhong Hua, Sun Jiang Tao and Wei Chun Li provided counter guarantees to Zhong Guan Cun Guarantee in 2003 and 2004 for the guarantees provided for Beijing TimeHeart's bank loan, as disclosed in Note 19.

(d) Remuneration of key management

The remuneration of members of key management during the year was disclosed in Note 11.

24. INVESTMENTS IN SUBSIDIARIES

As at 31 July 2006, details of TimeHeart's subsidiaries, all of which private limited liability companies registered and operate in the PRC, are as follows:

Name of subsidiary	Date of incorporation	Issued and fully paid registered capital	Attributable equity interest of the TimeHeart Group %	Principal activity
WFOE	29 April 2006	US$30,000 (equivalent to RMB239,304)	100	Technical consultation
Beijing TimeHeart	13 November 2001	RMB10,000,000	100	Value-added telecom services

As explained in Note 2 to the Financial Information, Beijing TimeHeart is a SPE of the TimeHeart Group and is consolidated according to HKAS-INT-12 as a subsidiary.

25. RETIREMENT BENEFIT SCHEME

TimeHeart's subsidiaries participate in a retirement benefits scheme established by the local PRC Social Insurance Industry Management Centre in the favour of the qualifying employees in the PRC. The assets of the scheme are held separately from the assets of the subsidiaries. Under the scheme, contributions made by the subsidiaries are calculated on the basis of 19% to 20% of the enrolled employees' salaries.

The amounts of such contributions charged to the consolidated income statements for the years ended 31 December 2003, 2004 and 2005, and the seven months period ended 31 July 2005 and 2006 were RMB21,600, RMB41,904, RMB137,296, RMB71,840 and RMB125,421.

At the balance sheet dates, the TimeHeart Group had no significant forfeited contributions available to reduce the contribution payable by the TimeHeart Group in the future years.

26. INFORMATION OF TIMEHEART

TimeHeart was incorporated in the British Virgin Islands on 13 January 2006, with its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(II) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statement of TimeHeart or any of its subsidiaries have been prepared in respect of any period subsequent to 31 July 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1 CONSOLIDATED FINANCIAL INFORMATION OF CHINA.COM

The following table summarises the consolidated income statement and consolidated balance sheet of China.com for the last three years ended 31st December, 2005 and six months ended 30th June, 2006 and 30th June, 2005 respectively, as extracted from the 2004 and 2005 published annual reports and 2006 published interim report of China.com. China.com has adopted the new Hong Kong Financial Reporting Standards in 2005, both the 2004 and 2003 financial information has been restated to conform with the new accounting policies adopted by China.com in 2005.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31st December,			Six months ended 30th June,	
	2005	**2004**	**2003**	**2006**	**2005**
	HK$'000	*HK$'000* (restated)	*HK$'000* (restated)	*HK$'000*	*HK$'000*
Continuing operations					
Revenue	387,315	231,411	181,738	279,796	162,589
Cost of sales	(164,935)	(55,225)	(42,447)	(110,482)	(76,367)
Gross profit	222,380	176,186	139,291	169,314	86,222
Other income	27,313	32,863	51,583	12,973	14,549
Selling and distribution costs	(82,531)	(12,298)	(9,197)	(62,834)	(35,518)
Administrative expenses	(132,094)	(102,603)	(69,059)	(67,673)	(55,872)
Other expenses	(27,624)	(29,401)	(5,095)	(18,691)	(9,086)
Share of profits of associates	–	44	281	–	–
Share of losses of jointly controlled entities	–	(924)	–	–	–
Interest expense on bank borrowings wholly repayable within five years	(3,183)	(2,600)	(5,863)	(723)	(1,605)
Profit (loss) before taxation	4,261	61,267	101,941	32,366	(1,310)
Income tax (charge) credit	(7,662)	95	2,520	(1,800)	(2,578)
(Loss) profit for the year/period from continuing operations	(3,401)	61,362	104,461	30,566	(3,888)
Discontinued operation					
Loss for the year/period from discontinued operation	–	(9,733)	(4,023)	–	–
(Loss) profit for the year/period	(3,401)	51,629	100,438	30,566	(3,888)
Attributable to:					
Equity holders of the Company	9,737	53,594	100,553	26,353	7,673
Minority interests	(13,138)	(1,965)	(115)	4,213	(11,561)
	(3,401)	51,629	100,438	30,566	(3,888)
Earnings per share					
From continuing and discontinued operations					
Basic	0.23 cent	1.30 cents	2.43 cents	0.62 cent	0.19 cent
Diluted	0.23 cent	1.29 cents	2.42 cents	0.62 cent	0.18 cent
From continuing operations					
Basic	0.23 cent	1.52 cents	2.53 cents	0.62 cent	0.19 cent
Diluted	0.23 cent	1.52 cents	2.52 cents	0.62 cent	0.18 cent

CONSOLIDATED BALANCE SHEET

	30th June,	31st December,		
	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(restated)	(restated)
ASSETS				
Non-current Assets				
Plant and equipment	29,870	23,809	18,727	7,117
Interests in associates	–	–	–	809
Goodwill	598,440	521,196	498,311	396,284
Other intangible assets	89,441	80,978	93,873	5,202
Long term investments in securities	–	–	61,776	97,693
Deferred tax assets	–	–	938	531
	717,751	625,983	673,625	507,636
Current Assets				
Accounts receivable	55,749	43,952	49,193	47,986
Prepayments, deposits and other receivables	21,943	17,982	18,145	14,992
Available-for-sale investments	589,720	629,687	–	–
Short term investments in securities	–	–	678,066	1,116,955
Amounts due from fellow subsidiaries	4,125	4,400	5,424	6,193
Amount due from the ultimate holding company	697	697	697	–
Bank balances and cash	364,240	402,937	390,104	137,154
	1,036,474	1,099,655	1,141,629	1,323,280
Total Assets	1,754,225	1,725,638	1,815,254	1,830,916
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	435,194	417,077	414,419	413,523
Reserves	1,216,446	1,098,744	1,077,656	1,022,131
Equity attributable to equity holders of the Company	1,651,640	1,515,821	1,492,075	1,435,654
Minority interests	–	32,249	30,670	5,525
Total Equity	1,651,640	1,548,070	1,522,745	1,441,179
Non-current Liabilities				
Deferred tax liabilities	5,181	6,134	7,606	–
Bank borrowings	–	–	–	31,492
	5,181	6,134	7,606	31,492
Current Liabilities				
Accounts payable	30,999	20,571	13,156	18,457
Other payables and accrued liabilities	36,555	36,603	42,223	14,873
Deferred revenue	21,947	20,348	10,170	3,500
Tax liabilities	1,947	2,276	87	124
Acquisition consideration payable	–	–	97,961	319,800
Amounts due to fellow subsidiaries	5,956	5,836	4,013	1,491
Bank borrowings	–	85,800	117,293	–
	97,404	171,434	284,903	358,245
Total Equity and Liabilities	1,754,225	1,725,638	1,815,254	1,830,916
Total assets less current liabilities	1,656,821	1,554,204	1,530,351	1,472,671

2 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA.COM FOR THE YEAR ENDED 31ST DECEMBER, 2005

Set out below are the audited consolidated financial statements and notes to the consolidated financial statements of China.com for the year ended 31st December, 2005 extracted from the 2005 annual report of China.com.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	Notes	2005 *HK$'000*	2004 *HK$'000* (restated)
Continuing operations			
Revenue	7	387,315	231,411
Cost of sales		(164,935)	(55,225)
Gross profit		222,380	176,186
Other income		27,313	32,863
Selling and distribution costs		(82,531)	(12,298)
Administrative expenses		(132,094)	(102,603)
Other expenses		(27,624)	(29,401)
Share of profits of associates		–	44
Share of losses of jointly controlled entities		–	(924)
Interest expense on bank borrowings wholly repayable within five years		(3,183)	(2,600)
Profit before taxation		4,261	61,267
Income tax (charge) credit	9	(7,662)	95
(Loss) profit for the year from continuing operations		(3,401)	61,362
Discontinued operation			
Loss for the year from discontinued operation	10	–	(9,733)
(Loss) profit for the year	11	(3,401)	51,629
Attributable to:			
Equity holders of the Company		9,737	53,594
Minority interests		(13,138)	(1,965)
		(3,401)	51,629
Earnings per share	14		
From continuing and discontinued operations			
Basic		0.23 cent	1.30 cents
Diluted		0.23 cent	1.29 cents
From continuing operations			
Basic		0.23 cent	1.52 cents
Diluted		0.23 cent	1.52 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (restated)
ASSETS			
Non-current Assets			
Plant and equipment	15	23,809	18,727
Goodwill	16	521,196	498,311
Other intangible assets	17	80,978	93,873
Long term investments in securities	19	–	61,776
Deferred tax assets	25	–	938
		625,983	673,625
Current Assets			
Accounts receivable	20	43,952	49,193
Prepayments, deposits and other receivables	20	17,982	18,145
Available-for-sale investments	21	629,687	–
Short term investments in securities	19	–	678,066
Amounts due from fellow subsidiaries	22	4,400	5,424
Amount due from the ultimate holding company	22	697	697
Bank balances and cash	23	402,937	390,104
		1,099,655	1,141,629
Total Assets		1,725,638	1,815,254
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	24	417,077	414,419
Reserves		1,098,744	1,077,656
Equity attributable to equity holders of the Company		1,515,821	1,492,075
Minority interests		32,249	30,670
Total Equity		1,548,070	1,522,745
Non-current Liabilities			
Deferred tax liabilities	25	6,134	7,606
Current Liabilities			
Accounts payable	26	20,571	13,156
Other payables and accrued liabilities	26	36,603	42,223
Deferred revenue		20,348	10,170
Tax liabilities		2,276	87
Acquisition consideration payable	27	–	97,961
Amounts due to fellow subsidiaries	22	5,836	4,013
Bank borrowings	28	85,800	117,293
		171,434	284,903
Total Equity and Liabilities		1,725,638	1,815,254
Total assets less current liabilities		1,554,204	1,530,351

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company										
	Share capital	Share premium	Goodwill reserve	Investment revaluation reserve	Reserve funds	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004 as originally stated	413,523	914,138	(31,193)	(3,347)	8,415	(243)	–	134,361	1,435,654	5,525	1,441,179
Effects of changes in accounting policies (see note 2)	–	–	–	–	–	–	4,590	(4,590)	–	–	–
At 1st January, 2004 as restated	413,523	914,138	(31,193)	(3,347)	8,415	(243)	4,590	129,771	1,435,654	5,525	1,441,179
Deficit on revaluation of investments in securities	–	–	–	(2,489)	–	–	–	–	(2,489)	–	(2,489)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	477	–	–	477	(30)	447
Net (expense) income recognised directly in equity	–	–	–	(2,489)	–	477	–	–	(2,012)	(30)	(2,042)
Profit (loss) for the year – as restated	–	–	–	–	–	–	–	53,594	53,594	(1,965)	51,629
Investment revaluation reserve released on disposal of investment in securities	–	–	–	(2,666)	–	–	–	–	(2,666)	–	(2,666)
Total recognised income and expense for the year	–	–	–	(5,155)	–	477	–	53,594	48,916	(1,995)	46,921
Recognition of equity-settled share based payments	–	–	–	–	–	–	4,539	–	4,539	–	4,539
Transfer	–	–	–	–	1,418	–	–	(1,418)	–	–	–
Transfer to share premium upon exercises of share options	–	161	–	–	–	–	(161)	–	–	–	–
Shares issued	896	2,094	–	–	–	–	–	–	2,990	–	2,990
Transaction costs attributable to issue of new shares	–	(24)	–	–	–	–	–	–	(24)	–	(24)
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	32,378	32,378
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(5,238)	(5,238)
At 31st December, 2004 and 1st January, 2005 as restated	414,419	916,369	(31,193)	(8,502)	9,833	234	8,968	181,947	1,492,075	30,670	1,522,745

	Attributable to equity holders of the Company										
	Share capital	Share premium	Goodwill reserve	Investment revaluation reserve	Reserve funds	Translation reserve	Share options reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deficit on revaluation of available-for-sale investments	–	–	–	(8,861)	–	–	–	–	(8,861)	–	(8,861)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	5,197	–	–	5,197	(61)	5,136
Net (expense) income recognised directly in equity	–	–	–	(8,861)	–	5,197	–	–	(3,664)	(61)	(3,725)
Profit (loss) for the year	–	–	–	–	–	–	–	9,737	9,737	(13,138)	(3,401)
Investment revaluation reserve released on disposal of available-for-sale investments	–	–	–	266	–	–	–	–	266	–	266
Total recognised income and expense for the year	–	–	–	(8,595)	–	5,197	–	9,737	6,339	(13,199)	(6,860)
Transfer	–	–	–	–	8,650	–	–	(8,650)	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	–	8,508	–	8,508	–	8,508
Transfer to share premium upon exercises of share options	–	1,792	–	–	–	–	(1,792)	–	–	–	–
Shares issued	2,658	6,257	–	–	–	–	–	–	8,915	–	8,915
Transaction costs attributable to issue of new shares	–	(16)	–	–	–	–	–	–	(16)	–	(16)
Acquisition of additional equity interest in subsidiaries	–	–	–	–	–	–	–	–	–	14,778	14,778
At 31st December, 2005	417,077	924,402	(31,193)	(17,097)	18,483	5,431	15,684	183,034	1,515,821	32,249	1,548,070

Note: Pursuant to the relevant laws and regulations for foreign investment enterprises ("FIEs") established in the People's Republic of China excluding Hong Kong (the "PRC"), a certain portion of the FIE's profits are required to be transferred to reserve funds which are not distributable. Transfers to this reserve are made out of the FIE's profits after taxation calculated in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") and shall not be less than 10% of profit after taxation calculated in accordance with PRC GAAP.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31st December, 2005

	2005	2004
	HK$'000	*HK$'000*
		(restated)
OPERATING ACTIVITIES		
Profit before taxation	4,261	61,267
Adjustments for:		
Interest expense	3,183	2,600
Share of losses of jointly-controlled entities	–	924
Share of profits of associates	–	(44)
Loss of discontinued operation	–	(7,114)
Interest income on available-for-sale investments/ investments in securities	(21,992)	(29,490)
Other interest income	(5,482)	(2,397)
Dividend income from an unlisted investment	–	(70)
Loss on disposal of available-for-sale investments/ investments in securities	160	532
Depreciation of plant and equipment	9,243	5,783
Amortisation of other intangible assets	26,246	4,066
Amortisation of goodwill	–	24,613
Share-based payments expense	8,508	4,539
Gain on disposal of an associate	–	(89)
Impairment of goodwill related to discontinued operation	–	4,632
(Gain) loss on disposal of plant and equipment	(156)	501
Allowance for bad and doubtful debts	929	2,378
Operating cash flows before movements in working capital changes	24,900	72,631
Decrease in accounts receivable	6,784	11,643
Decrease in prepayments, deposits and other receivables	798	3,622
Decrease in amounts due from fellow subsidiaries	1,214	769
Increase in amount due from the ultimate holding company	–	(697)
Increase (decrease) in accounts payable	6,624	(16,823)
Decrease in other payables and accrued liabilities	(7,145)	(1,711)
Increase in deferred revenue	9,822	6,670
Increase in amounts due to fellow subsidiaries	1,683	2,500
Cash generated from operations	44,680	78,604
Overseas taxes paid	(4,119)	(94)
NET CASH FROM OPERATING ACTIVITIES	40,561	78,510

	Notes	2005 HK$'000	2004 HK$'000
INVESTING ACTIVITIES			
Interest income on available-for-sale investments/ investments in securities		21,992	29,490
Other interest income		5,482	2,397
Dividend income from an unlisted investment		–	70
Purchases of plant and equipment		(13,949)	(11,444)
Purchases of available-for-sale investments/ investments in securities		–	(272,335)
Acquisition of a jointly-controlled entity		–	(6,240)
Acquisition of subsidiaries	30	(12,385)	(70,851)
Acquisition of additional equity interest in subsidiaries		(7,799)	–
Payment of acquisition consideration		(101,232)	(319,800)
Proceeds from disposal of an associate		–	942
Disposal of subsidiaries	31	–	(5,901)
Proceeds from disposal of plant and equipment		404	44
Proceeds from disposal of available-for-sale investments/investments in securities		101,400	741,454
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(6,087)	87,826
FINANCING ACTIVITIES			
Proceeds from issue of share capital		8,915	2,990
Share issue expenses		(16)	(24)
New bank borrowings		–	319,801
Repayment of bank borrowings		(31,493)	(234,000)
Interest paid		(3,183)	(2,600)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(25,777)	86,167
NET INCREASE IN CASH AND CASH EQUIVALENTS		8,697	252,503
CASH AND CASH EQUIVALENTS AT 1ST JANUARY,		390,104	137,154
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		4,136	447
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by bank balances and cash		402,937	390,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands and its shares are listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company is China M Interactive (BVI) Limited, a company incorporated in the British Virgin Islands and its ultimate holding company is CDC Corporation (formerly known as chinadotcom corporation), a company incorporated in the Cayman Islands with its shares listed on NASDAQ. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of this annual report.

The principal activities of the Company and its subsidiaries (the "Group") are the provision of mobile services and applications; the operation of portal sites; the provision of content and internet services, advertising services through the internet and a travel magazine, event organising services and magazine publication; and distribution of online games. In prior years, the Group was also engaged in the sale of railway ticketing system hardware and software. This operation was discontinued in 2004 (see note 10).

The functional currency of the Company is Hong Kong dollars while the functional currencies of its subsidiaries are Renminbi, Singapore dollars and Hong Kong dollars. The financial statements are presented in Hong Kong dollars for the convenience of the readers.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005 and for goodwill existed on 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated economic life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$31,193,000 as at 1st January, 2005 continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$25,583,000 with a corresponding decrease in the cost of goodwill (see note 16). The Group has discontinued amortising goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Goodwill (Continued)

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31st December, 2005, which has resulted in an increase of HK$337,000 in the balance of the translation reserve at 31st December, 2005.

Share-based payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. Comparative figures have been restated (see note 2A for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Available-for-sale investments

By 31st December, 2004, the Group classified and measured its investments in debt securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt securities are classified as “non-trading securities”. “Non-trading securities” are measured at fair value with unrealised gains or losses reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for that period. From 1st January, 2005 onwards, the Group has classified and measured its investments in debt securities in accordance with HKAS 39. Under HKAS 39, investment in debt securities are classified as “available-for-sale investments” and are carried at fair value, with changes in fair values recognised in equity.

The application of HKAS 39 has had no material effect for the prior accounting periods because non-trading securities were also carried at fair value with fair value movements recognised in equity, which is consistent with the treatment of available-for-sale financial assets.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Financial assets and financial liabilities other than available-for-sale investments

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material effect for the current or prior accounting periods.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 *HK$'000*	**2004** *HK$'000*
Non-amortisation of goodwill (previously included in other expenses)	28,264	–
Recognition of share-based payments as expenses (included in administrative expenses)	(8,508)	(4,539)
Increase (decrease) in profit for the year	19,756	(4,539)

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) *HK$'000*	**Retrospective adjustments** *HK$'000* HKAS 1	 *HK$'000* HKFRS 2	**As at 31st December, 2004 (restated)** *HK$'000*	**Prospective adjustments** *HK$'000* HKAS 39	**As at 1st January, 2005 (restated)** *HK$'000*
Balance sheet items						
Long-term investments in securities	61,776	–	–	61,776	(61,776)	–
Available-for-sale investments – non-current	–	–	–	–	61,776	61,776
Short-term investments in securities	678,066	–	–	678,066	(678,066)	–
Available-for-sale investments – current	–	–	–	–	678,066	678,066
Retained profits	191,076	–	(9,129)	181,947	–	181,947
Share options reserve	–	–	8,968	8,968	–	8,968
Share premium	916,208	–	161	916,369	–	916,369
Minority interests	–	30,670	–	30,670	–	30,670
Minority interests	30,670	(30,670)	–	–	–	–

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated	HKAS 1	HKFRS 2	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Retained profits	134,361	–	(4,590)	129,771
Share options reserve – recognition of equity-settled share-based payments expenses	–	–	4,590	4,590
Minority interests	–	5,525	–	5,525

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group has commenced considering the potential impact of these new HKFRSs. The management anticipates the application of these new HKFRSs will have no material impact on how its results of operations and financial position are prepared and presented except for HKSA 1 (Amendment), HKAS 21 (Amendment), HKAS 39 (Amendment), HKAS 39 & HKFRS 4 (Amendments) and HK(IFRIC) – INT 4 which may have effect on the Group's future results. The management determined that it is not yet in a position to reasonably ascertain how the following amendment may affect the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

3. CHANGES IN PRESENTATION

The Group's subscription revenue from the provision of mobile services and applications was reported in the prior year's financial statements on a "net basis" (excluding from revenue the portion of mobile services and applications revenue paid to the mobile network operators). Significant changes in the operation of the mobile services and applications business in the PRC had taken effect by early 2005. In response to such changes, the management and directors of the Group had reevaluated the arrangements with the mobile operators to determine whether to recognise the Group's revenue from mobile services and applications on a gross basis as a "principal" or net of services charges paid to mobile operators as an "agent". The Group has assessed the contractual relationship with the customer, the ability to set the terms and specifications of the service and the credit risk of the Group to assess whether the Group acts as a principal or agent when providing mobile services and applications. After consideration of these factors, the Group has determined (a) the Group is the primary obligor in the arrangement; (b) the Group controls the selection of the mobile operators and content providers and determines the service specifications; and (c) the Group has latitude in establishing pricing within ranges prescribed by the mobile operators and bears the credit risks.

3. CHANGES IN PRESENTATION *(Continued)*

Taking into account the above factors, the management and directors of the Group considered it is more appropriate to report revenue from the provision of mobile services and applications on a "gross basis" (including in revenue the portion of the mobile services and applications revenue paid to mobile network operators, and reporting such amounts paid to mobile network operators as an additional cost of sales), effective from 1st January, 2005. The management and directors of the Group have also reevaluated these factors in considering the net basis of revenue presentation for 2004 and based on management's assessment, as the changes in the operation of the mobile services and applications business in the PRC had not yet occurred or materialised in 2004, comparative amounts for the corresponding period in 2004 have not been changed, and are presented as previously reported.

The effect of this change in presentation was to increase revenue and cost of sales for the year ended 31st December, 2005 by HK$74,238,000, representing the services charges paid to the mobile operators during the year. Gross profit and profit for the year are not affected by this change in presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

For acquisition of additional equity interest in a subsidiary, goodwill is determined as the difference between the fair value of the consideration and the fair value of the Group's additional interest in the fair value of net assets acquired at the date of acquisition. The revaluation difference is recognised to the assets and liabilities to the proportion of the revaluation difference that is attributable to the increase in the Group's interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be transferred to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from internet and media mainly represents revenue from advertising, which is recognised the period in which the advertisement is displayed, provided that no significant Group obligations remain, on a straight-line basis over the period in which the advertisement is displayed, and when collection of the resulting receivable is probable. Advertising service fees from direct mailings are recognised when each advertisement is sent to a target audience.

Revenue from the distribution of online games is recognised when services are provided.

Service income from subscription of mobile services and applications is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives using the straight-line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January, 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or subsequently enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

Intangible assets

On initial recognition, intangible assets acquired from business combinations are recognised at fair value. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, certain other receivables, amounts due from fellow subsidiaries, amount due from ultimate holding company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale investments are recognised in profit or loss. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. **SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities other then financial liabilities at fair value through profit or loss ("Other financial liabilities"). Other financial liabilities including accounts payable, certain other payables and accrued liabilities, bank borrowings, amounts due to fellow subsidiaries and acquisition consideration payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For sale of financial assets with obligation to repurchase at a fixed price, or sale of financial assets together with a total return swap that transfer the market risk exposure back to the Group, such transaction is treated as collateralised borrowing and the amount borrowed are shown as a liability. The financial assets sold are treated as pledged assets and remain on the balance sheet as an asset.

Financial liabilities

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised as and included in interest expense on bank borrowings wholly repayable within five years in the income statement in the period in which they are incurred.

Share-based payment transactions – Equity-settled share-based payment transactions

Share options granted to employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Revenue recognition – mobile services and applications

The Group generates mobile services and applications revenues from a comprehensive suite of mobile data applications and services to mobile subscribers in the PRC. The Group relies on mobile network operators in the PRC to bill mobile phone users for the subscription fees and has revenue sharing arrangements with the mobile network operators.

Mobile services and applications revenues are recognised in the month in which the services are performed, provided that all other basic criteria for revenue recognition have been met. The mobile network operators provide statements after month-end indicating the amount of fees that were charged to users for mobile services and applications services that the Group provided during that month and the portion of fees that are due to the Group in accordance with the contractual arrangements with the mobile network operators. The Group typically receives these statements within 30 to 90 days following month-end, and the Group typically receives payment within 30 to 90 days following receipt of the statement.

The Group also maintains an internal system that records the number of messages sent to and messages received from mobile users. Generally, there are differences between the expected value of delivered messages based on the Group's system records and the Group's portion of the fees confirmed by the mobile network operators for the delivered messages. These are known in the industry as billing and transmission failures. The Group does not recognise revenues for services which result in billing and transmission failures. Billing and transmission failures can vary significantly from month to month, province to province and between mobile network operators. At the end of each reporting period, where an operator fails to provide the Group with a monthly statement confirming the amount of charges billed to their mobile phone users for that month, the Group uses the information generated from the internal system and historical data to make estimates of the billing and transmission failures and accrue as revenue the estimated amount of collectable mobile services and applications fees. If an actual discrepancy varies significantly from the estimate, it could result in an overstatement or understatement of revenues and costs of sales.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill is HK$552,389,000. Details of the impairment testing on goodwill are disclosed in note 18.

Useful lives and impairment assessment of plant and equipment and other intangible assets

Plant and equipment and other intangible assets are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation and amortisation recorded. Plant and equipment and other intangible assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, accounts receivable, certain other receivables, bank balances and cash, amounts due from fellow subsidiaries, amount due from the ultimate holding company, accounts payable, certain other payables and accrued liabilities, bank borrowings, amounts due to fellow subsidiaries and acquisition consideration payable. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC. The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's available-for-sale financial assets are measured at fair value at each balance sheet date. Therefore, the Group is exposed to debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. REVENUE

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Continuing operations		
Mobile services and applications income	268,237	168,017
Internet and media	70,163	62,970
Online games	48,915	424
	387,315	231,411
Discontinued operation		
Sale of railway ticketing system hardware and software	–	3,890
	387,315	235,301

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – mobile services and applications, internet and media and online games. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Mobile services and applications	–	provision of short messaging services and other mobile value-added services and other related products to mobile phone users;
Internet and media	–	sale of online banner advertising, sponsorships, offline advertising campaigns, direct mailings and online sales; and
Online games	–	distribution of online games.

The Group was also involved in the sale of railway ticketing system hardware and software. That operation was discontinued in 2004 (see note 10).

In 2004, the Group was organised into "Subscription", "Advertising", "e-Commerce" and "Technology" segments. The "Subscription" segment is equivalent to the "Mobile services and applications" segment, whereas, "Advertising" and "e-commerce" have been combined into the "Internet and media" segment as the "e-Commerce" segment no longer meet the reportable segment requirement. The "online games" segment, which was previously included in the "advertising" segment, had been separately disclosed. The comparative segment information has been restated to conform to this year's presentation. The "Technology" segment was discontinued in 2004.

Segment information about these businesses is presented below.

Year ended 31st December, 2005

	Mobile services and applications *HK$'000*	**Internet and media** *HK$'000*	**Online games** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE					
External sales	268,237	70,163	48,915	–	387,315
Inter-segment sales	–	4,694	41	(4,735)	–
Total	268,237	74,857	48,956	(4,735)	387,315
RESULT					
Segment results	36,866	(14,493)	(20,714)	–	1,659
Interest income and unallocated other corporate income					27,313
Interest expense on bank borrowings wholly repayable within five years					(3,183)
Unallocated corporate expenses					(21,528)
Profit before tax					4,261
Income tax charge					(7,662)
Loss for the year					(3,401)

Inter-segment sales are charged at prevailing market rates.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

As at 31st December, 2005

	Mobile services and applications *HK$'000*	**Internet and media** *HK$'000*	**Online games** *HK$'000*	**Consolidated** *HK$'000*
BALANCE SHEET				
ASSETS				
Segment assets	768,739	46,368	113,565	928,672
Available-for-sale investments and unallocated corporate assets				796,966
Total assets				1,725,638
LIABILITIES				
Segment liabilities	14,347	30,278	30,544	75,169
Unallocated corporate liabilities				102,399
Total liabilities				177,568

For the year ended 31st December, 2005

	Mobile services and applications *HK$'000*	**Internet and media** *HK$'000*	**Online games** *HK$'000*	**Unallocated** *HK$'000*	**Consolidated** *HK$'000*
OTHER SEGMENT INFORMATION					
Depreciation and amortisation	12,364	3,073	20,052	–	35,489
Loss on disposal of available-for-sale investments	–	–	–	160	160
Allowance for bad and doubtful debts	334	511	–	84	929
Share based payments expense	–	–	–	8,508	8,508
Gain on disposal of plant and equipment	–	–	–	156	156
Capital expenditure:					
Plant and equipment *(note)*	1,543	2,473	10,006	–	14,022
Other intangible assets *(note)*	76	–	10,139	–	10,215

8. **BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)***

Business segments *(Continued)*

Year ended 31st December, 2004

	Continuing Operations					Discontinued Operation	
	Mobile services and applications *HK$'000*	Internet and media *HK$'000*	Online games *HK$'000*	Eliminations *HK$'000*	Total *HK$'000*	Technology *HK$'000*	Consolidated *HK$'000*
REVENUE							
External sales	168,017	62,970	424	–	231,411	3,890	235,301
Inter-segment sales	–	1,441	–	(1,441)	–	–	–
Total	168,017	64,411	424	(1,441)	231,411	3,890	235,301
RESULT							
Segment results	52,431	(2,663)	(3,182)	–	46,586	(2,581)	44,005
Loss on disposal of discontinued operation					–	(2,619)	(2,619)
Goodwill impairment related to discontinued operation					–	(4,632)	(4,632)
Gain on disposal of an associate					89	–	89
Interest income and unallocated other corporate income					31,545	99	31,644
Unallocated corporate expenses					(13,473)	–	(13,473)
Interest expense on bank borrowings wholly repayable with five years					(2,600)	–	(2,600)
Share of profits and losses of:							
Associates					44	–	44
Jointly-controlled entities					(924)	–	(924)
Profit (loss) before tax					61,267	(9,733)	51,534
Income tax credit					95	–	95
Profit (loss) for the year					61,362	(9,733)	51,629

Inter-segment sales are charged at prevailing market rates.

8. **BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)***

Business segments *(Continued)*

As at 31st December, 2004

	Mobile services and applications *HK$'000*	Internet and media *HK$'000*	Online games *HK$'000*	Consolidated *HK$'000*
BALANCE SHEET				
ASSETS				
Segment assets	702,570	38,483	98,283	839,336
Investment in securities and unallocated assets				975,918
Total assets				1,815,254
LIABILITIES				
Segment liabilities	108,308	19,360	34,668	162,336
Unallocated corporate liabilities				130,173
Total liabilities				292,509

Year ended 31st December, 2004

	Continuing Operations				Discontinued Operation		
	Mobile services and applications *HK$'000*	Internet and media *HK$'000*	Online games *HK$'000*	Total *HK$'000*	Technology *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
OTHER SEGMENT INFORMATION							
Depreciation and amortisation	29,342	2,502	640	32,484	1,978	–	34,462
Loss on disposal of investment in securities	–	–	–	–	–	532	532
Allowance for (reversal of) bad and doubtful debts	2,186	(77)	–	2,109	197	72	2,378
Share based payments expense	–	–	–	–	–	4,539	4,539
Loss on disposal of plant and equipment	166	275	2	443	58	–	501
Impairment of goodwill related to discontinued operation	–	–	–	–	4,632	–	4,632
Capital expenditure:							
Plant and equipment *(note)*	8,452	6,133	3,429	18,014	53	–	18,067
Other intangible assets *(note)*	24,636	–	68,101	92,737	–	–	92,737

Note: Including plant and equipment and other intangible assets acquired through acquisitions of subsidiaries amounting to HK$73,000 (2004: HK$6,623,000) and HK$76,000 (2004: HK$92,737,000), respectively.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located in the PRC, Hong Kong and Singapore.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the services:

	Revenue by geographical market	
	2005	**2004**
	HK$'000	*HK$'000*
PRC	335,848	188,278
Hong Kong	1,557	1,805
Singapore	49,910	45,218
	387,315	235,301

Revenue from the Group's discontinued operation was derived principally from the PRC (2005: Nil, 2004: HK$3,890,000).

The following is an analysis of the carrying amount of segment assets, and additions to plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to plant and equipment and intangible assets	
	At 31.12.2005	**At 31.12.2004**	**Year ended 31.12.2005**	**Year ended 31.12.2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	892,384	817,943	24,058	109,537
Hong Kong	797,651	975,076	111	652
Singapore	35,603	22,235	68	615
	1,725,638	1,815,254	24,237	110,804

9. INCOME TAXES CHARGE (CREDIT)

	2005	**2004**
	HK$'000	*HK$'000*
Current tax – overseas:		
Charge for the year	6,308	133
Overprovision in prior year	–	(76)
	6,308	57
Deferred tax charge (credit) *(note 25)*	1,354	(152)
	7,662	(95)

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are eligible for tax holidays and concession and were exempted from PRC income taxes as follows:

(a) exemption for PRC income tax for two or three years starting from the respective first profit-making year, and

(b) followed by a 50% reduction in the next three years.

9. INCOME TAXES CHARGE (CREDIT) ***(Continued)***

No provision for Hong Kong Profits Tax has been in the financial statements as the Group has no significant assessable profits in Hong Kong for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The income tax charge (credit) for the year can be reconciled to the profit before taxation per the income statement as follows:

Year ended 31st December, 2005

	PRC	**Hong Kong**	**Singapore**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) before tax	7,135	(7,123)	4,249	4,261
Statutory tax rate	33%	17.5%	20%	
Tax at the statutory tax rate	2,354	(1,246)	850	1,958
Tax effect of different tax rates of subsidiaries operating in PRC	(18,372)	–	–	(18,372)
Tax concession	(679)	–	–	(679)
Tax effect of income not taxable for tax purpose	(19)	(4,352)	(207)	(4,578)
Tax effect of expenses not deductible for tax purpose	11,340	1,908	207	13,455
Tax effect of tax losses not recognised	12,188	3,690	–	15,878
Tax expense	6,812	–	850	7,662

Year ended 31st December, 2004

	PRC	**Hong Kong**	**Singapore**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before tax (restated)	44,980	13,379	2,908	61,267
Statutory tax rate	33%	17.5%	22%	
Tax at the statutory tax rate	14,843	2,341	640	17,824
Effect on opening deferred tax of decrease in rates	–	–	(79)	(79)
Overprovision in prior years	(76)	–	–	(76)
Tax concession	(28,867)	–	–	(28,867)
Tax effect of income not taxable for tax purpose	(325)	(5,502)	(39)	(5,866)
Tax effect of expenses not deductible for tax purpose	12,452	1,825	97	14,374
Utilisation of tax losses not previously recognised	–	–	(619)	(619)
Tax effect of tax losses not recognised	1,878	1,336	–	3,214
Tax credit	(95)	–	–	(95)

10. DISCONTINUED OPERATION

In view of the Group's strategy to focus its effort and concentrate its resources to develop its mobile services and applications business and internet and media business, the Group discontinued the operation of Beijing China-Railway Times Science & Technology Company Ltd., a subsidiary established in the PRC, and its related affiliates (collectively "Times Software") in December 2004. Times Software was principally engaged in the sale of railway ticketing system hardware and software in the PRC.

The Group disposed of its entire shareholding in Times Software for a net proceed of approximately HK$5,830,000 in December 2004, with a carrying amount of approximately HK$8,449,000 at the date of disposal. The loss on disposal of the discontinued operation amounted to HK$2,619,000. There was no tax arising from the disposal.

The loss for the year from the discontinued operation is analysed as follows:

	2004
	HK$'000
Loss of discontinued operation	(7,114)
Loss on disposal of discontinued operation *(see note 31)*	(2,619)
	(9,733)
Attributable to:	
Equity holders of the Company	(9,465)
Minority interests	(268)
	(9,733)

The results of the discontinued operation for the period from 1st January, 2004 to date of disposal, which have been included in the consolidated income statement, were as follows:

	HK$'000
Revenue	3,890
Cost of sales	(2,520)
Gross profit	1,370
Other income	99
Administrative expenses	(1,883)
Other expenses (included impairment loss on goodwill of HK$4,632,000)	(6,700)
Loss before tax	(7,114)
Income tax expense	–
Loss for the period	(7,114)

During 2004, the discontinued operation used HK$133,000 of the Group's net operating cash flows and received HK$99,000 in respect of investing activities.

The carrying amounts of the assets and liabilities of the discontinued operation at the date of disposal are disclosed in note 31.

11. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)
(Loss) profit for the year has been arrived at after charging (crediting):						
Depreciation of plant and equipment	9,243	5,617	–	166	9,243	5,783
Amortisation of goodwill (included in other expenses)	–	22,800	–	1,813	–	24,613
Amortisation of other intangible assets (included in other expenses)	26,246	4,066	–	–	26,246	4,066
Total depreciation and amortisation	35,489	32,483	–	1,979	35,489	34,462
Staff costs (including directors' emolument)	100,655	57,579	–	970	100,655	58,549
Retirement benefits scheme contributions	4,659	2,930	–	–	4,659	2,930
Total staff costs	105,314	60,509	–	970	105,314	61,479
Auditors' remuneration	4,452	1,142	–	13	4,452	1,155
Net foreign exchange losses	459	1,319	–	–	459	1,319
(Gain) loss on disposal of plant and equipment	(156)	443	–	58	(156)	501
Impairment loss on goodwill	–	–	–	4,632	–	4,632
Marketing and promotion expenses	49,046	12,298	–	–	49,046	12,298
Cost of inventories recognised as an expense	–	–	–	2,520	–	2,520
Loss on disposal of available-for-sale investments/ investments in securities	160	532	–	–	160	532
Allowance for bad and doubtful debts	929	2,181	–	197	929	2,378
Interest income on available-for-sale investments/ investments in securities	(21,992)	(29,490)	–	–	(21,992)	(29,490)
Other interest income	(5,482)	(2,369)	–	(28)	(5,482)	(2,397)
Dividend income from an unlisted investment	–	–	–	(70)	–	(70)

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 13 (2004: 12) directors were as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total emoluments *HK$'000*
Year ended 31st December, 2005				
Executive directors:				
Mr. Chan Kai Yu, Rudy *(note a)*	–	2,457	12	2,469
Mr. Lam Wai Qun, Albert *(note b)*	–	517	1	518
Mr. Wang Xiao Hui *(note a)*	–	–	–	–
Mr. Zhou Shun Ao *(note a)*	–	–	–	–
Mr. Lam Kwok Tai, Anthony *(note c)*	–	–	–	–
Mr. Keith Geoffrey Oliver *(note a)*	–	–	–	–
	–	2,974	13	2,987
Independent non-executive directors:				
Mr. Chou Kei Fong, Silas *(note a)*	117	131	–	248
Mr. Wong Sin Just	195	50	–	245
Mr. Wang Cheung Yue, Fred	156	362	–	518
Mr. Chia Kok Onn	176	126	–	302
	644	669	–	1,313
Non-executive directors:				
Dr. Ch'ien Kuo Fung, Raymond *(note d)*	–	507	–	507
Mr. Yip Hak Yung, Peter *(note d)*	76	507	–	583
Mr. Fang Xin *(note b)*	–	46	–	46
	76	1,060	–	1,136
	720	4,703	13	5,436

Notes:

a. Resigned as directors during the year ended 31st December, 2005.

b. Appointed as directors during the year ended 31st December, 2005.

c. Appointed and resigned as director during the year ended 31st December, 2005.

d. Re-designated as non-executive directors during the year ended 31st December, 2005.

12. DIRECTORS' EMOLUMENTS *(Continued)*

	Fees *HK$'000* *(Note a)*	Salaries, allowances and benefits in kind *HK$'000* (restated)	Retirement benefits scheme contributions *HK$'000*	Total emoluments *HK$'000* (restated)
Year ended 31st December, 2004				
Executive directors:				
Dr. Ch'ien Kuo Fung, Raymond	82	608	–	690
Mr. Chan Kai Yu, Rudy	–	735	1	736
Mr. Xiao Xiangyang, John *(note b)*	–	1,058	6	1,064
Mr. Yip Hak Yung, Peter	–	608	–	608
Mr. Zhou Shun Ao	–	–	–	–
Mr. Keith Geoffrey Oliver	–	–	–	–
Mr. Wang Xiao Hui	–	–	–	–
Ms. Kwok Yee Leen, Elaine *(note b)*	–	–	–	–
	82	3,009	7	3,098
Independent non-executive directors:				
Mr. Chou Kei Fong, Silas	–	152	–	152
Mr. Wong Sin Just	78	–	–	78
Mr. Wang Cheung Yue, Fred	117	304	–	421
Mr. Chia Kok Onn	98	–	–	98
	293	456	–	749
	375	3,465	7	3,847

Notes:

a. For the year ended 31st December, 2004, all the executive directors received fees of HK$1 each save for an executive director who received fees of HK$82,000 as detailed above.

b. Resigned as directors during the year ended 31st December, 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year ended 31st December, 2005, 21,500,000 (2004: Nil) share options of the Company were granted to certain directors in respect of their services provided to the Group under a share option scheme of the Company, further details of which are set out in note 29 to the financial statements.

During the year ended 31st December, 2005, 740,000 (2004: 1,529,000) share options to subscribe for Class A common shares in CDC Corporation (the "CDC Share Option") were granted by CDC Corporation to certain directors of the Company under a stock option plan of CDC Corporation in respect of the services of the directors to the CDC Corporation group at nil consideration, which entitle the holders of the CDC Share Options to subscribe for shares of CDC Corporation, subject to certain vesting provisions. Out of the CDC Share Options held by the directors, 145,000 CDC Share Options were held by Asia Pacific Online Limited, a company owned by the spouse of Mr. Yip Hak Yung, Peter, and a trust established for the benefit of Mr. Yip's children. No value in respect of the CDC Share Options granted during the year has been charged to the Group's income statement, or is otherwise included in the above directors' remuneration disclosures (2004: Nil).

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2004: one) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining three (2004: four) individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	2,838	4,102
Retirement benefits scheme contributions	231	75
Performance related incentive payments	12	42
	3,081	4,219

Their emoluments were within the following bands:

	2005 Number of employees	2004 Number of employees
HK$Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	–	1
	3	4

14. EARNINGS PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000* (restated)
Earnings		
Profit for the year attributable to equity holders of the Company	9,737	53,594

Number of shares

	2005	2004
	'000	*'000* (restated)
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,152,551	4,137,426
Effect of dilutive potential ordinary shares: Options	6,713	18,144
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,159,264	4,155,570

14. EARNINGS PER SHARE ***(Continued)***

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Earnings		
Profit for the year attributable to equity holders of the Company	9,737	53,594
Add: Loss for the year from discontinued operations attributable to equity holders of the Company	–	9,465
Earnings for the purposes of basic earnings per share from continuing operations	9,737	63,059

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic loss per share for the discontinued operation is nil (2004: 0.22 cent loss per share) and diluted loss per share for the discontinued operation is nil cents per share (2004: 0.23 cents loss per share), based on the loss for the year from the discontinued operations attributable to equity holders of the Company of nil (2004: HK$9,465,000) and the denominators detailed above for both basic and diluted earnings per share.

The following table summarises the impact on both basic and diluted earnings (loss) per share as a result of changes in accounting policies:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	Year ended 31.12.2005	Year ended 31.12.2004	Year ended 31.12.2005	Year ended 31.12.2004
	HK cent	*HK cent*	*HK cent*	*HK cent*
Adjustments arising from changes in accounting policies *(see note 2A)*	0.47	(0.11)	0.47	(0.11)

15. PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Computer equipment and software *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST						
At 1st January, 2004	1,799	205	4,749	38,442	1,530	46,725
Exchange realignments	9	8	(10)	1	–	8
Acquisitions of subsidiaries *(note 30)*	–	191	2,788	3,486	158	6,623
Additions	2,625	508	3,249	5,062	–	11,444
Disposals	(310)	–	(239)	(863)	–	(1,412)
Disposals of subsidiaries *(note 31)*	(205)	(134)	(431)	(1,280)	(244)	(2,294)
At 31st December, 2004 and 1st January, 2005	3,918	778	10,106	44,848	1,444	61,094
Exchange realignments	99	73	286	470	35	963
Acquisition of subsidiaries *(note 30)*	–	–	–	73	–	73
Additions	204	177	1,298	12,270	–	13,949
Disposals	(1,019)	–	(132)	(419)	–	(1,570)
At 31st December, 2005	3,202	1,028	11,558	57,242	1,479	74,509
ACCUMULATED DEPRECIATION						
At 1st January, 2004	912	154	1,774	36,433	335	39,608
Exchange realignments	9	8	(10)	1	–	8
Provided during the year	900	26	1,975	2,381	501	5,783
Disposals	(170)	–	(15)	(682)	–	(867)
Disposal of subsidiaries *(note 31)*	(205)	(131)	(343)	(1,276)	(210)	(2,165)
At 31st December, 2004 and 1st January, 2005	1,446	57	3,381	36,857	626	42,367
Exchange realignments	30	39	186	142	15	412
Provided during the year	1,478	190	3,069	4,078	428	9,243
Disposals	(1,019)	–	(56)	(247)	–	(1,322)
At 31st December, 2005	1,935	286	6,580	40,830	1,069	50,700
CARRYING VALUES						
At 31st December, 2005	1,267	742	4,978	16,412	410	23,809
At 31st December, 2004	2,472	721	6,725	7,991	818	18,727

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the shorter of the term of the lease, or $33^1/_3$% – 50%
Furniture and fixtures	20% – $33^1/_3$%
Office equipment	20% – $33^1/_3$%
Computer equipment and software	$33^1/_3$%
Motor vehicles	20% – $33^1/_3$%

16. GOODWILL

	HK$'000
COST	
At 1st January, 2004	404,707
Arising on acquisitions of subsidiaries *(note 30)*	131,272
Eliminated on disposal of subsidiaries	(12,085)
At 31st December, 2004	523,894
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 2)*	(25,583)
At 1st January, 2005	498,311
Exchange adjustments	337
Additional acquisition consideration *(note 27)*	3,271
Arising on acquisition of subsidiaries *(note 30)*	11,863
Arising on acquisition of additional equity interest in subsidiaries *(note 30)*	5,917
Adjustment *(note)*	1,497
At 31st December, 2005	521,196
AMORTISATION	
At 1st January, 2004	8,423
Charge for the year	24,613
Eliminated on disposal of subsidiaries	(7,453)
At 31st December, 2004	25,583
Elimination of accumulated amortisation upon the application of HKFRS 3	(25,583)
At 1st January, 2005 and 31st December, 2005	–
IMPAIRMENT	
At 1st January, 2004	–
Impairment loss recognised for the year	4,632
Eliminated on disposal of subsidiaries	(4,632)
At 31st December, 2004, 1st January, 2005 and 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	521,196
At 31st December, 2004	498,311

Note: The allocation of the cost of acquisition of a subsidiary acquired in 2004 was not completed as at 31st December, 2004 and was pending for the completion of the appraisal of certain other intangible assets acquired. During the year ended 31st December, 2005, the appraisal of the other intangible assets was completed, resulting in an adjustment, as permitted by HKFRS 3, to the fair values of the underlying other intangible assets acquired and the corresponding goodwill.

Particulars regarding impairment testing on goodwill are disclosed in note 18.

Goodwill had been amortised over its estimated useful life, ranging from five to twenty years up to 31st December, 2004.

17. OTHER INTANGIBLE ASSETS

	Completed technologies HK$'000	Customer base HK$'000	Licenses HK$'000	Partnership agreements HK$'000	Distribution networks HK$'000	Total HK$'000
COST						
At 1st January, 2004	814	–	1,630	3,468	–	5,912
Acquisition of subsidiaries *(note 30)*	582	–	67,260	23,556	1,339	92,737
At 31st December, 2004 and 1st January, 2005	1,396	–	68,890	27,024	1,339	98,649
Adjustment *(note)*	–	–	(4,103)	–	–	(4,103)
Acquisition of subsidiaries *(note 30)*	–	30	36	10	–	76
Arising on acquisition of additional equity interest in subsidiaries	(39)	11,980	(1,088)	–	(714)	10,139
At 31st December, 2005	1,357	12,010	63,735	27,034	625	104,761
ACCUMULATED AMORTISATION						
At 1st January, 2004	102	–	175	433	–	710
Amortisation provided during the year	174	–	486	3,258	148	4,066
At 31st December, 2004 and 1st January, 2005	276	–	661	3,691	148	4,776
Arising on acquisition of additional equity interest in subsidiaries	(26)	–	(6,284)	–	(929)	(7,239)
Amortisation provided during the year	268	5,009	12,613	6,950	1,406	26,246
At 31st December, 2005	518	5,009	6,990	10,641	625	23,783
CARRYING VALUES						
At 31st December, 2005	839	7,001	56,745	16,393	–	80,978
At 31st December, 2004	1,120	–	68,229	23,333	1,191	93,873

Note: The allocation of the cost of acquisition of a subsidiary acquired in 2004 was not completed as at 31st December, 2004 and was pending for the completion of the appraisal of certain other intangible assets acquired. During the year ended 31st December, 2005, the appraisal of the other intangible assets was completed, resulting in an adjustment, as permitted by HKFRS 3, to the fair values of the underlying other intangible assets acquired and the corresponding goodwill.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Completed technologies	$4^1/_2$ – 6 years
Customer base	1 year
Licenses	1 – 7 years
Partnership agreements	1 – 6 years
Distribution networks	1 – 4 years

All of the Group's intangible assets were purchased through business combinations.

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill have been allocated to three individual cash-generating units ("CGUs"). The carrying amounts of goodwill as at 31st December, 2005 allocated to these units are as follows:

	HK$'000
Mobile services and applications	501,901
Internet and media	31,643
Online games	18,845
	552,389
Included in:	
Assets	521,196
Reserves	31,193
	552,389

During the year ended 31st December, 2005, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Mobile services and applications

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 15.8%. Cash flows beyond the one-year period are extrapolated using growth rates of 23.5% to 38.9% over the projected period of five years. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Another key assumption for the value in use calculation is the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of this CGU.

Internet and media

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 5%. Cash flows beyond the one-year period are extrapolated using growth rates of 3% to 25% over the projected period of five years. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Another key assumption for the value in use calculation is the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of this CGU.

Online games

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 20%. Cash flows beyond the one-year period are extrapolated using growth rates of 17.1% to 25.4% over the projected period of five years. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Another key assumption for the value in use calculation is the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of this CGU.

19. INVESTMENTS IN SECURITIES

Investments in securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investments in securities were reclassified to available-for-sale investments under HKAS 39 (see note 21).

	Investment in securities
	HK$'000
Overseas unlisted debt securities, at fair value	61,776
Overseas publicly traded debt securities, at fair value	678,066
	739,842
Carrying amount analysed for reporting purposes as:	
Current	678,066
Non-current	61,776
	739,842

At 31st December, 2004, certain overseas publicly traded debt securities of the Group of approximately HK$137,461,000 were pledged to banks as collaterals under the repurchase agreement and the total return swap agreement, as discussed in more detail in notes 21 and 28.

20. ACCOUNTS RECEIVABLE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2005	**2004**
	HK$'000	*HK$'000*
Accounts receivable	49,533	54,258
Less: Accumulated impairment	(5,581)	(5,065)
	43,952	49,193

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of accounts receivable as at the balance sheet date, based on invoice date, and net of impairment losses, is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within 90 days	40,254	47,675
91 – 120 days	1,196	963
121 – 180 days	1,654	555
Over 180 days	848	–
	43,952	49,193

The fair value of the Group's accounts receivable and certain other receivables at 31st December, 2005 approximated to the corresponding carrying amounts because of their short maturity period.

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st December, 2005 represent overseas publicly traded debt securities and are stated at fair value. Fair values of these investments have been determined by reference to bid prices quoted in active markets.

During the year ended 31st December, 2005, the Group entered into a repurchase agreement with a bank, and during the year ended 31st December, 2004, the Group entered into a repurchase agreement and a total return swap agreement with certain banks. Pursuant to these agreements, the Group pledged certain debt securities to the banks at a discounted price (the "Purchase Price") and the banks agreed to advance borrowings to the Group in the amounts equivalent to the Purchase Price (note 28). The Group is still entitled to the interest income from the debt securities, and at the same time the Group is required to pay interest on the amounts advanced by the banks.

As at 31st December, 2005, certain overseas publicly traded debt securities of the Group of approximately HK$99,184,000 were pledged to banks as collaterals under the repurchase agreement for securing short term bank borrowings of approximately HK$85,800,000 (note 28).

22. BALANCES WITH FELLOW SUBSIDIARIES AND ULTIMATE HOLDING COMPANY

The amounts due from fellow subsidiaries and ultimate holding company are unsecured, interest-free and repayable within one year. The amounts due to fellow subsidiaries are unsecured, interest-free and repayable on demand. The fair value of these balances at 31st December, 2005 approximated to the corresponding carrying amounts because of their short maturity period.

23. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits with an original maturity of three months or less and carried interest at prevailing market interest rates. The fair value of these assets approximated to the corresponding carrying amounts.

24. SHARE CAPITAL

	Number of shares		**Share capital**	
	2005	**2004**	**2005**	**2004**
			HK$'000	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised	10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of year	4,144,186,053	4,135,226,833	414,419	413,523
Exercise of share options	26,579,592	8,959,220	2,658	896
At end of year	4,170,765,645	4,144,186,053	417,077	414,419

25. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Fair value adjustments arising from acquisition of subsidiaries	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004	374	(1,716)	1,873	531
Credit to profit for the year	12	57	83	152
Acquisitions of subsidiaries	–	(7,351)	–	(7,351)
At 31st December, 2004 and 1st January, 2005	386	(9,010)	1,956	(6,668)
(Charge) credit to profit for the year	(146)	312	(1,520)	(1,354)
Arising from acquisition of additional equity interest in subsidiaries	–	1,888	–	1,888
At 31st December, 2005	240	(6,810)	436	(6,134)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	–	938
Deferred tax liabilities	(6,134)	(7,606)
	(6,134)	(6,668)

The Group had tax losses arising in Hong Kong of HK$150,138,000 (2004: HK$143,455,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of their future taxable profit streams.

At 31st December, 2005, there is no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted under the relevant tax laws due to the availability of double tax relief.

26. ACCOUNTS PAYABLE/OTHER PAYABLES AND ACCRUED LIABILITIES

An aged analysis of accounts payable as at the balance sheet date, based on invoice dates is as follows:

	2005	2004
	HK$'000	*HK$'000*
Within 90 days	15,573	9,599
91 – 120 days	552	1,431
121 – 180 days	2,267	1,691
Over 180 days	2,179	435
	20,571	13,156

The fair value of the Group's accounts payable and certain other payables and accrued liabilities at 31st December, 2005 approximated to the corresponding carrying amounts because of their short maturity period.

27. ACQUISITION CONSIDERATION PAYABLE

On 5th July, 2004, CDC Mobile IVR Corporation, an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with CDC International Limited, a fellow subsidiary of the Company, for the acquisition of Beijing He He (the "Acquisition"), which is primarily engaged in the provision of mobile services and applications in the PRC, through the purchase of the entire issued share capital of Group Team Investment Limited ("Group Team") for a total consideration of no more than US$60,000,000 (approximately HK$468,000,000) (the "Acquisition Consideration"). The Acquisition was completed in August 2004. Further details of the Acquisition and the terms of the Agreement are set out in a circular of the Company dated 29th July, 2004.

The Acquisition Consideration was to be paid in three instalments. The first instalment was for a fixed amount of US$9,600,000 (approximately HK$74,880,000) and was paid during the year ended 31st December, 2004. The amounts of the second and third instalments were to be determined with reference to the earnings of Group Team and its subsidiaries (collectively the "Group Team Group") for the years ended 31st December, 2004 and 2005, respectively, in accordance with the terms of Agreement.

Based on the estimated earnings of the Group Team Group for the year ended 31st December, 2004, the Group recorded an acquisition consideration payable of approximately HK$97,961,000 as at 31st December, 2004, in respect of the second instalment. The fair value at 31st December, 2004 approximated to the carrying amount.

Subsequent to 31st December, 2004, the actual earnings of the Group Team Group was determined and the second instalment of the acquisition consideration payable was revised to HK$101,232,000, representing an increase of HK$3,271,000. This amount was settled during the year ended 31st December, 2005.

As the Group Team Group incurred a loss for the year ended 31st December, 2005, the Group was not obligated to pay the third instalment.

The Acquisition constituted a connected transaction as defined in Chapter 20 of the GEM Listing Rules.

28. BANK BORROWINGS

The Group's bank borrowings are secured by the pledge of certain debt securities of the Group (notes 19 and 21). During the years ended 31st December, 2005 and 2004, the Group entered into a repurchase agreement with a bank and during the year ended 31st December, 2004, the Group also entered into a total return swap agreement with certain banks. Pursuant to these agreements, the Group pledged certain debt securities to the banks at the Purchase Price and the banks agreed to advance borrowings to the Group in the amounts equivalent to the purchase price, which will mature on the repurchase date (the "Repurchase Date"). During the period between the date that the Group pledged the debt securities to the banks (the "Purchase Date") and the Repurchase Date, the Group is entitled to income in respect of the debt securities and the Company would pay to the banks interest calculated based on the Purchase Price and the number of days between the Purchase Date and the Repurchase Date at LIBOR plus 0.2% per annum or three months LIBOR plus 0.35% per annum.

The fair value of the Group's bank borrowings at 31st December, 2005 approximated to the corresponding carrying amounts because of the variable nature of the interest calculations.

29. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Scheme") and post-IPO share option scheme (the "Post-IPO Scheme") on 25th February, 2000 which will remain in force for 10 years. On 30th April, 2002, the Company adopted a 2002 share option scheme (the "2002 Scheme") which has an option life of 10 years. The Pre-IPO Scheme and the Post-IPO Scheme were operated for the purpose of recognising the contributions of certain directors, employees, consultants and advisors of the Group to the growth of the Group and/or the listing of shares of the Company on the GEM, while the 2002 Scheme was operated for providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Pre-IPO Scheme and the Post-IPO Scheme include the Company's directors, employees, consultants and advisors of the Group. The eligible participants of the 2002 Scheme include the Company's directors, full-time and part-time employees, advisors, consultants, vendors and suppliers of the Group (as defined in the 2002 Scheme).

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The maximum number of shares which can be granted under the Pre-IPO Scheme and the Post-IPO Scheme must not exceed 10% of the issued share capital of the Company as at the date of listing of the shares on the GEM. For the 2002 Scheme, the maximum number of shares which can be granted must not exceed 10% of the issued share of the Company at the date of approval of such scheme. At 31st December, 2005, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme was 85,057,500, 12,844,722 and 129,437,448, respectively, which represented approximately 5.45% in aggregate of the Company's shares in issue at that date. Pursuant to the Pre-IPO Scheme and the Post-IPO Scheme (the "Schemes"), no participant shall be granted an option which, if accepted and exercised in full, would result in such participant's maximum entitlement exceeding 25% of the aggregate number of shares of the Company subject to the Schemes. The maximum number of shares issuable as share options to each eligible participant in the 2002 Scheme in any 12-month period up to and including the date of the grant to such participant shall not exceed 1% of the issued share capital of the Company from time to time. Any further grant of options in excess of this 1% limit must be subject to shareholders' approval with that participant and his associates abstaining from voting.

Share options granted to a director, chief executive, management shareholder or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the Schemes must be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. For the 2002 Scheme, the offer of a grant of share options must be accepted with 7 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors. However, for the Schemes, each of the grantees of the options is not allowed to exercise in aggregate in excess of 25%, 50% and 75% of shares comprised in the options granted within the first, second and third years from one year after the date of grant of options, respectively. No Pre-IPO or Post-IPO share options can be exercised prior to 9th March, 2001. All option shares must be exercised within 10 years from the date of grant of options.

For the 2002 Scheme, there is no general requirement on the minimum period for which option must be held or the performance targets which must be achieved before an option can be exercised. All option shares must be exercised within 10 years from the date of grant of options.

The exercise price for the Pre-IPO Scheme is determined by the final Hong Kong dollar price per share at which the shares are subscribed pursuant to the placing of 640,000,000 shares by the Company to professional and institutional investors and other persons made on the terms of the prospectus issued by the Company on 28th February, 2000 (HK$1.88 per share).

The exercise price of the Post-IPO Scheme and the 2002 Scheme share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant of the share options; and (iii) the nominal value of the share.

The share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 31st December, 2005, the remaining life of the Schemes is four years and two months and the remaining life of the 2002 Scheme is six years and four months.

29. **SHARE-BASED PAYMENT TRANSACTIONS *(Continued)***

(i) **Pre-IPO Scheme**

Year ended 31st December, 2005

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2005	Transferred during the year *(note c)*	Lapsed during year	At 31st December, 2005
Directors						
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000	–	–	10,000,000
Chan Kai Yu, Rudy (resigned on 28th November, 2005)	9th March, 2000	1.880	60,000,000	(60,000,000)	–	–
Chou Kei Fong, Silas (resigned on 3rd October, 2005)	9th March, 2000	1.880	1,000,000	(1,000,000)	–	–
Lam Kwok Tai, Anthony (appointed on 28th July, 2005) *(note e)*	9th March, 2000	1.880	–	180,000	–	–
Lam Kwok Tai, Anthony (resigned on 29th August, 2005) *(note e)*	9th March, 2000	1.880	–	(180,000)	–	–
Wong Sin Just	9th March, 2000	1.880	1,000,000	–	–	1,000,000
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000	–	–	6,000,000
Zhou Shun Ao (resigned on 28th July, 2005)	9th March, 2000	1.880	6,000,000	(6,000,000)	–	–
Employees						
In aggregate	9th March, 2000	1.880	12,920	60,045,200	–	60,058,120
Other Eligible Persons						
In aggregate	9th March, 2000	1.880	11,040,540	6,954,800	(9,995,960)	7,999,380
			95,053,460	–	(9,995,960)	85,057,500

Year ended 31st December, 2004

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2004	Transferred during the year *(note c)*	Lapsed during year	At 31st December, 2004
Directors						
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000	–	–	10,000,000
Chan Kai Yu, Rudy	9th March, 2000	1.880	60,000,000	–	–	60,000,000
Chou Kei Fong, Silas	9th March, 2000	1.880	1,000,000	–	–	1,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000	–	–	1,000,000
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000	–	–	6,000,000
Zhou Shun Ao	9th March, 2000	1.880	6,000,000	–	–	6,000,000
Employees						
In aggregate	9th March, 2000	1.880	771,080	(3,180)	(754,980)	12,920
Other Eligible Persons						
In aggregate	9th March, 2000	1.880	11,367,360	3,180	(330,000)	11,040,540
			96,138,440	–	(1,084,980)	95,053,460

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(ii) Post-IPO Scheme

Year ended 31 December, 2005

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2005	Transferred during the year *(note c)*	Exercised during year	Lapsed during year	At 31st December, 2005	Price of Company's share at exercise date of options *(note d)* HK$
Directors								
Ch'ien Kuo Fung, Raymond	10th April, 2001	0.286	3,000,000	–	(3,000,000)	–	–	0.526
Chan Kai Yu, Rudy	5th October, 2000	0.582	10,000,000	(10,000,000)	–	–	–	
(resigned on 28th November, 2005)	10th April, 2001	0.286	15,000,000	–	(15,000,000)	–	–	0.526
Chou Kei Fong, Silas (resigned on 3rd October, 2005)	10th April, 2001	0.286	600,000	(600,000)	–	–	–	
Wong Sin Just	10th April, 2001	0.286	600,000	–	–	–	600,000	
Yip Hak Yung, Peter	10th April, 2001	0.286	2,400,000	–	(2,400,000)	–	–	0.526
Zhou Shun Ao (resigned on 28th July, 2005)	10th April, 2001	0.286	600,000	–	(600,000)	–	–	0.526
Other Employees								
In aggregate	18th August, 2000 – 10th April, 2001	0.286 – 0.870	1,899,108	10,000,000	(248,657)	(67,809)	11,582,642	0.440 – 0.701
Other Eligible Persons								
In aggregate	29th June 2000	1.176	129,160	–	–	(129,160)	–	
	10th April, 2001	0.286	–	600,000	–	–	600,000	
	28th February, 2002	0.347	219,580	–	(80,000)	(77,500)	62,080	0.700
			34,447,848	–	(21,328,657)	(274,469)	12,844,722	

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(ii) Post-IPO Scheme *(Continued)*

Year ended 31 December, 2004

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2004	Transferred during the year *(note c)*	Exercised during year	Lapsed during year	At 31st December, 2004	Price of Company's share at exercise date of options *(note d)* HK$
Directors								
Ch'ien Kuo Fung, Raymond	10th April, 2001	0.286	3,000,000	–	–	–	3,000,000	–
Chan Kai Yu, Rudy	5th October, 2000	0.582	10,000,000	–	–	–	10,000,000	–
	10th April, 2001	0.286	20,000,000	–	(5,000,000)	–	15,000,000	0.55
Chou Kei Fong, Silas	10th April, 2001	0.286	600,000	–	–	–	600,000	–
Wong Sin Just	10th April, 2001	0.286	600,000	–	–	–	600,000	–
Yip Hak Yung, Peter	10th April, 2001	0.286	2,400,000	–	–	–	2,400,000	–
Zhou Shun Ao	10th April, 2001	0.286	2,400,000	–	(1,800,000)	–	600,000	0.53
Employees								
In aggregate	7th April, 2000 – 19th June, 2000	1.310 – 1.977	629,160	(500,000)	–	(129,160)	–	–
	14th August, 2000 – 28th March, 2002	0.286 – 0.876	4,836,798	(1,297,080)	(995,687)	(644,923)	1,899,108	0.56 – 0.96
Other Eligible Persons								
In aggregate	19th June, 2000	1.310	–	500,000	–	(500,000)	–	–
	29th June 2000	1.176	129,160	–	–	–	129,160	–
	14th August, 2000 – 28th March, 2002	0.286 – 0.876	–	1,297,080	(601,250)	(476,250)	219,580	0.56 – 0.96
			44,595,118	–	(8,396,937)	(1,750,333)	34,447,848	

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(iii) 2002 Scheme

Year ended 31 December, 2005

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2005	Transferred during the year *(note c)*	Granted during year	Exercised during year	Lapsed during year	At 31st December, 2005	Price of Company's share at exercise date of options *(note d)*: At grant date of options HK$	At exercise date of options HK$
Directors										
Ch'ien Kuo Fung, Raymond	5th June, 2003	0.626	4,000,000	–	–	–	–	4,000,000		
	10th October, 2005	0.630	–	–	4,000,000	–	–	4,000,000	0.630	
Chan Kai Yu, Rudy	5th June, 2003	0.626	4,000,000	(4,000,000)	–	–	–	–		
(resigned on 28th November, 2005)	10th October, 2005	0.630	–	(4,000,000)	4,000,000	–	–	–	0.630	
Chou Kei Fong, Silas	5th June, 2003	0.626	1,000,000	(1,000,000)	–	–	–	–		
(resigned on 3rd October, 2005)	15th September, 2005	0.560	–	(1,000,000)	1,000,000	–	–	–	0.560	
Lam Kwok Tai, Anthony (appointed on 28th July, 2005) *(note e)*	5th June, 2003	0.626	–	1,500,000	–	–	–	–		
Lam Kwok Tai, Anthony (resigned on 29th August, 2005) *(note e)*	5th June, 2003	0.626	–	(1,500,000)	–	–	–	–		
Wong Sin Just	5th June, 2003	0.626	2,500,000	–	–	–	–	2,500,000		
	15th September, 2005	0.560	–	–	1,000,000	–	–	1,000,000	0.560	
Yip Hak Yung, Peter	5th June, 2003	0.626	4,000,000	–	–	–	–	4,000,000		
	10th October, 2005	0.630	–	–	4,000,000	–	–	4,000,000	0.630	
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000	–	–	–	–	2,000,000		
	15th September, 2005	0.560	–	–	4,000,000	–	–	4,000,000	0.560	
Chia Kok Onn	15th September, 2005	0.560	–	–	2,500,000	–	–	2,500,000	0.560	
Fang Xin	10th October, 2005	0.630	–	–	1,000,000	–	–	1,000,000	0.630	
Lam Wai-Qun, Albert	7th September, 2004	0.510	–	17,000,000	–	–	–	17,000,000		
(appointed on 22nd December, 2005)	23rd November, 2005	0.570	–	20,000,000	–	–	–	20,000,000		
Other employees										
In aggregate	19th August, 2002	0.200	129,156	–	–	–	(51,660)	77,496		
	24th February, 2003	0.171	145,305	–	–	(48,435)	(64,580)	32,290		0.547
	29th May, 2003	0.716	322,900	–	–	–	(51,660)	271,240		
	5th June, 2003	0.626	300,000	4,300,000	–	(150,000)	–	4,450,000		0.721
	22nd December, 2003	0.634	219,560	–	–	–	–	219,560		
	7th September, 2004	0.510	24,490,820	(17,000,000)	–	(4,077,500)	(58,125)	3,355,195		0.685
	26th November, 2004	0.528	671,660	–	–	–	(297,080)	374,580		
	15th September, 2005	0.560	–	–	37,166,667	–	(1,000,000)	36,166,667	0.560	
	10th October, 2005	0.630	–	4,000,000	–	–	–	4,000,000		
	23rd November, 2005	0.570	–	(20,000,000)	20,000,000	–	–	–	0.570	
Other Eligible Persons										
In aggregate	29th May, 2003	0.716	90,420	–	–	–	–	90,420		
	5th June, 2003	0.626	9,950,000	700,000	–	(975,000)	(4,275,000)	5,400,000		0.721
	15th September, 2005	0.560	–	1,000,000	8,000,000	–	–	9,000,000	0.560	
			53,819,821	–	86,666,667	(5,250,935)	(5,798,105)	129,437,448		

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(iii) 2002 Scheme *(Continued)*

Year ended 31 December, 2004

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	Number of share options: At 1st January, 2004	Transferred during the year *(note c)*	Granted during year	Exercised during year	Lapsed during year	At 31st December, 2004	Price of Company's share at exercise date of options *(note d)*: At grant date of options HK$	At exercise date of options HK$
Directors										
Ch'ien Kuo Fung, Raymond	5th June, 2003	0.626	4,000,000	–	–	–	–	4,000,000	–	–
Chan Kai Yu, Rudy	5th June, 2003	0.626	4,000,000	–	–	–	–	4,000,000	–	–
Chou Kei Fong, Silas	5th June, 2003	0.626	1,000,000	–	–	–	–	1,000,000	–	–
Wong Sin Just	5th June, 2003	0.626	2,500,000	–	–	–	–	2,500,000	–	–
Yip Hak Yung, Peter	5th June, 2003	0.626	4,000,000	–	–	–	–	4,000,000	–	–
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000	–	–	–	–	2,000,000	–	–
Directors resigned during the year										
Xiao Xiangyang, John	5th June, 2003	0.626	4,000,000	–	–	–	(4,000,000)	–	–	–
Kwok Yee Leen, Elaine	5th June, 2003	0.626	1,500,000	(1,500,000)	–	–	–	–	–	–
Employees										
In aggregate	19th August, 2002	0.200	284,144	–	–	(83,953)	(71,035)	129,156	–	0.69
	2nd December, 2002	0.208	103,340	–	–	(25,835)	(77,505)	–	–	1.00
	24th February, 2003	0.171	309,980	–	–	(77,495)	(87,180)	145,305	–	1.02
	29th May, 2003	0.716	645,820	(180,840)	–	–	(142,080)	322,900	–	–
	5th June, 2003	0.626	1,500,000	(1,200,000)	–	–	–	300,000	–	–
	22nd December, 2003	0.634	426,220	–	–	–	(206,660)	219,560	–	–
	1st April, 2004	0.712	–	–	219,580	–	(219,580)	–	0.71	–
	7th September, 2004	0.510	–	–	24,607,060	–	(116,240)	24,490,820	0.51	–
	26th November, 2004	0.528	–	–	671,660	–	–	671,660	0.53	–
Others Eligible Persons										
In aggregate	29th May, 2003	0.716	–	180,840	–	–	(90,420)	90,420	–	–
	5th June, 2003	0.626	13,150,000	2,700,000	–	(375,000)	(5,525,000)	9,950,000	–	0.68
			39,419,504	–	25,498,300	(562,283)	(10,535,700)	53,819,821		

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Notes:

(a) During the first 12 months from the date of grant, no options granted to the directors, employees and/or other eligible persons shall be vested.

During the second 12 months from the date of grant, a cumulative maximum of 25% of the share options granted to the directors, employees and/or other eligible persons shall be vested.

During the third 12 months from the date of grant, a cumulative maximum of 50% of the share options granted to the directors, employees and/or other eligible persons shall be vested.

During the fourth 12 months from the date of grant, a cumulative maximum of 75% of the share options granted to the directors, employees and/or other eligible persons shall be vested.

During remaining option period, a cumulative of 100% of the share options granted to the directors, employees and/or other eligible persons shall be vested.

(b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

(c) This represents options held by option holders who have been transferred between the Group and the CDC Corporation group during the year.

(d) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

(e) This director was appointed and resigned as a director during the year. He was granted 180,000 share options under the Pre-IPO Share Option Scheme with an exercise price of HK$1.880 and 1,500,000 share options under the 2002 Scheme with an exercise price of HK$0.626 each. All these share options lapsed in November 2005.

Details of specific categorised options are as follows:

Pre-IPO Scheme

Date of grant	**Exercise period**	**Exercise price** *HK$*
9th March, 2000	9th March, 2001 to 8th March, 2010	1.880

Post-IPO Scheme

Date of grant	**Exercise period**	**Exercise price** *HK$*
18th August, 2000 – 10th April, 2001	18th August, 2001 to 9th April, 2011	0.286 – 0.870
29th June, 2000	29th June, 2001 to 28th June, 2010	1.176
10th April, 2001	10th April, 2002 to 9th April, 2011	0.286
28th February, 2002	28th February, 2003 to 27th February, 2012	0.347

29. **SHARE-BASED PAYMENT TRANSACTIONS *(Continued)***

2002 Scheme

Date of grant	**Exercise period**	**Exercise price** *HK$*
19th August, 2002	19th August, 2003 to 18th August, 2012	0.200
24th February, 2003	24th February, 2004 to 23rd February, 2013	0.171
29th May, 2003	29th May, 2004 to 28th May, 2013	0.716
5th June, 2003	5th June, 2004 to 4th June, 2013	0.626
15th September, 2003	15th September, 2004 to 14th September, 2013	0.560
22nd December, 2003	22nd December, 2004 to 21st December, 2013	0.634
7th September, 2004	7th September, 2005 to 6th September, 2014	0.510
26th November, 2004	26th November, 2005 to 25th November, 2014	0.528
15th September, 2005	15th September, 2006 to 14th September, 2015	0.560
10th October, 2005	10th October, 2006 to 9th October, 2015	0.630
23rd November, 2005	23rd November, 2006 to 22nd November, 2015	0.570

The 26,579,592 share options exercised during the year resulted in the issue of 26,579,592 ordinary shares of the Company and new share capital of HK$2,658,000 and share premium of HK$8,049,000 (before issue expenses).

As at 31st December, 2005, the Company had in aggregate 227,339,670 share options outstanding under the Schemes, which represented approximately 5.45% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 227,339,670 additional ordinary shares of the Company and additional share capital of approximately HK$22,734,000 and share premium of approximately HK$263,847,000 (before issue expenses).

During the year ended 31st December, 2005, options were granted on 15th September, 2005, 10th October, 2005 and 23rd November, 2005. The estimated fair values of the options granted on those dates are HK$0.3307, HK$0.4000 and HK$0.3500 respectively. During the year ended 31st December, 2004, options were granted on 1st April, 2004, 7th September, 2004 and 26th November, 2004. All of the options granted on 1st April, 2004 lapsed during the year ended 31st December, 2004. The estimated fair values of the options granted on 7th September, 2004 and 26th November, 2004 are HK$0.3274 and HK$0.3268 respectively.

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005	**2004**
Weighted average share price	HK$0.560 – HK$0.630	HK$0.510 – HK$0.520
Exercise price	HK$0.560 – HK$0.630	HK$0.510 – HK$0.528
Expected volatility	67.78% – 73.29%	76.05% – 76.73%
Expected life	5 years	5 years
Risk-free rate	3.53% – 4.24%	2.73% – 3.42%
Expected dividend yield	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$8,508,000 for the year ended 31st December, 2005 (2004: HK$4,539,000) in relation to share options granted by the Company.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

Equity-settled share option scheme of CDC Corporation

Pursuant to the CDC Corporation's 1999 stock option plan, as amended, CDC Share Options may be granted to directors, executive officers, employees and consultants of CDC Corporation and its subsidiaries for the purchase of up to an aggregate of 20,000,000 Class A common shares. These options are generally exercisable for a period of five to ten years. The options granted under this plan vest on a quarterly basis upon the lapse of twelve months from the date of grant. Except for the CDC Share Options granted to certain directors as disclosed in note 12, no CDC Share Options were granted to the employees of the Group during the years ended 31st December, 2004 and 2005.

30. ACQUISITION OF SUBSIDIARIES

In June 2005, the Group acquired 100% of the issued share capital of Unitedcrest Investments Limited and its subsidiary (the "Unitedcrest Group") for a consideration of HK$22,875,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$11,863,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired:			
Plant and equipment	73	–	73
Intangible assets	–	76	76
Accounts receivable	751	–	751
Bank balances and cash	10,443	–	10,443
Other payables and accrued liabilities	(331)	–	(331)
	10,936	76	11,012
Goodwill			11,863
Total consideration			22,875
Satisfied by:			
Cash			22,828
Other payable			47
Total consideration			22,875
Net cash outflow arising on acquisition:			
Cash consideration paid			(22,828)
Cash and cash equivalents acquired			10,443
			(12,385)

The goodwill arising on the acquisition of Unitedcrest Group is attributable to the anticipated profitability of the Unitedcrest Group and the anticipated future operating synergies from the combination.

Unitedcrest Group contributed HK$1,178,000 to the Group's revenue and HK$103,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total revenue of the Group for the year would have been HK$390,065,000, and loss for the year would have been HK$1,861,509. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

In August 2004, the Group completed the acquisition of 100% equity interest in Group Team, details of which are set out in note 27.

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

In August 2004, the Group entered into an acquisition agreement to acquire 11.11% equity interest in Equity Pacific Limited ("Equity Pacific"), for a consideration of approximately US$800,000 (approximately HK$6,240,000). Equity Pacific, through its subsidiaries, including Beijing 17game Network Technology Co. Ltd. , (collectively the "17game Group") are principally engaged in the distribution of online game in the PRC. During August to November 2004, the Group had accounted for its 11.11% equity interest in Equity Pacific as an interest in a jointly-controlled entity, as none of the Equity Pacific's shareholders had unilateral control over the economic activities of Equity Pacific due to certain supermajority voting provisions. In November 2004, the Group through the conversion of certain convertible loans to Equity Pacific, further increased its equity interest in Equity Pacific to 36.5% and pursuant to a call option agreement entered into with various shareholders of Equity Pacific (the "Call Option"), the Group could exercise certain call options to purchase some or all of the issued shares of Equity Pacific. In accordance with Interpretation 18 *Consolidation and Equity Method-Potential Voting Rights and Allocation of Ownership Interests* issued by the HKICPA (which has been replaced by HKAS 27 *Consolidated and Separate Financial Statements* with effect from 1st January, 2005) and taking into account the existence and effect of the Call Option, which contain potential voting rights granting the Group the right to have the other shareholders of Equity Pacific voting at the direction of the Group, and after examining all the facts and circumstances that affect the potential voting rights, the Group commenced consolidating the 17game Group from the date when the call options became exercisable in November 2004.

These acquisitions in 2004 have been accounted for using the purchase method. The total amount of goodwill arising as a result of the acquisitions was HK$131,272,000.

In August 2005, the Group acquired additional 11.5% equity interest in Equity Pacific through the purchase of shares from other shareholders and subscription of new shares, increasing its equity interest in 17game Group to 48%. This acquisition has been accounted for using the purchase method. The total goodwill arising as a result of this acquisition was HK$5,917,000.

The net assets acquired in the transactions involving Group Team Group and Equity Pacific in 2004, and the goodwill arising, are as follows:

	HK$'000
Net assets acquired:	
Plant and equipment	6,623
Intangible assets	92,737
Accounts receivable	15,951
Prepayments, deposits and other receivables	9,489
Bank balances and cash	28,989
Amounts due to fellow subsidiaries	(22)
Accounts payable	(11,522)
Other payables and accrued liabilities	(30,671)
Deferred tax liabilities	(7,351)
Minority interests	(32,378)
	71,845
Goodwill	131,272
Total consideration	203,117
Satisfied by:	
Cash	99,840
Acquisition consideration payable	97,961
Reclassification from interest in a jointly controlled entity	5,316
	203,117
Net cash outflow arising on acquisition:	
Cash consideration paid	(99,840)
Cash and cash equivalents acquired	28,989
	(70,851)

30. ACQUISITION OF SUBSIDIARIES ***(Continued)***

The goodwill arising on the acquisitions of Group Team and Equity Pacific is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

These companies and their subsidiaries contributed HK$15,461,000 and HK$791,000 to the Group's revenue and profit before tax, respectively, for the year between the respective dates of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2004, total revenue of the Group for the year would have been HK$280,490,000, and profit for the year would have been HK$49,340,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2004, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

As explained in note 10, the Group disposed of Times Software in the last quarter of 2004. The net assets of Times Software at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Plant and equipment	129
Accounts receivable	723
Prepayments, deposits and other receivables	2,714
Bank balances and cash	11,731
Other payables and accrued liabilities	(1,610)
Minority interests	(5,238)
	8,449
Loss on disposal of subsidiaries	(2,619)
Total consideration	5,830
Satisfied by:	
Cash, net of incidental costs on disposal	5,830
Net cash outflow arising on disposal:	
Cash consideration	5,830
Bank balances and cash disposed of	(11,731)
	(5,901)

The impact of Times Software on the Group's results and cash flows in the year ended 31st December, 2004 is disclosed in note 10.

32. CONTINGENT LIABILITIES

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a fellow subsidiary, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong. com URL and the related intellectual property rights from CIC. CSI has informed the Group that it reserves its right to levy additional charges on the Group for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

33. OPERATING LEASES

The Group as lessee

	2005	**2004**
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of office premises	9,976	7,371

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	6,060	5,108
In the second to fifth years, inclusive	3,613	4,158
	9,673	9,266

Leases are negotiated for an average term of two years.

34. CAPITAL COMMITMENTS

	2005	**2004**
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the financial statements	131	–

As at 31st December, 2004, the Group had a capital commitment contracted for, but not provided for in respect of the balance of the Acquisition Consideration up to a maximum of approximately HK$295,000,000, as further detailed in note 27.

35. RETIREMENT BENEFITS PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in certain pension schemes operated by local municipal governments. The subsidiaries are required to contribute a certain percentage of their payroll costs to the pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the pension schemes.

Retirement benefits are also paid by an overseas subsidiary to its employees who, at their own discretion, contribute to certain retirement benefits plans managed by relevant government authorities. The retirement benefits paid by the overseas subsidiary are based on a certain percentage of its employees' basic salaries in accordance with the relevant regulations and are charged to the income statement as incurred. The subsidiary discharges its retirement obligations upon payment of the retirement benefits to its employees.

36. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005	2004
	HK$'000	*HK$'000*
Operating lease rentals in respect of office premises charged by a fellow subsidiary	785	719
Management fee charged by a fellow subsidiary	1,264	–
Service fee income from a fellow subsidiary	–	1,702

In addition to the above transactions, the Group also entered into the following related party transactions:

(a) On 7th May, 2004, the Group entered into a co-operative agreement with Beijing He He, a then fellow subsidiary of the Company, which was subsequently replaced by another agreement dated 23rd June, 2004 (the "Co-operative Agreement"), in connection with the provision of entertainment related mobile services and applications services ("MVAS Services") on the interactive voice response service platform established by Beijing He He. Subject to the terms and conditions of the Co-operative Agreement, the Group would provide Beijing He He certain product development services and related technical services in connection with the MVAS Services (the "Transaction"). In return, the Group would be entitled to share 60% of the revenue derived by Beijing He He from the MVAS Services, after deducting relevant charges by a mobile operator, which is subject to a proposed annual cap, which amounted to HK$4 million for the contracting year ended 31st May, 2005. Such Transaction ceased to be a related party transaction/connected transaction after the acquisition of Group Team by the Group in August 2004, as further detailed in note 27 to the financial statements.

(b) During the year ended 31st December, 2004, the Group entered into an agreement to acquire certain plant and equipment from CIC (Shanghai) Company Limited, a fellow subsidiary of the Group, at an aggregate consideration of HK$2,511,000, based on mutually agreed terms, with reference to the open market value. The plant and equipment were delivered to the Group during the year ended 31st December, 2004.

(c) During the years ended 31st December, 2005 and 2004, the Group was licensed the right to use the URL of hongkong. com and china. com by CSI at nil (2004: nil) consideration and at an annual license fee of US$1 (equivalent to HK$7.8) (2004: HK$7.8), respectively. Further details of the licensing arrangements for the URL of hongkong. com are set out in note 32.

(d) During the year ended 31st December, 2004, the Group acquired Beijing He He from a fellow subsidiaries (see note 27).

Details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 22.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	2,820	1,567
Post-employment benefits	–	–
Other long-term benefits	–	–
Share-based payments	2,616	2,280
	5,436	3,847

The remuneration of directors and other members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. POST BALANCE SHEET EVENT

Subsequent to 31st December, 2005, a subsidiary of the Company entered into a share purchase agreement for the acquisition of 24,569 ordinary shares, representing 52% of the total issued and outstanding shares in Equity Pacific for an aggregated total consideration of US$18,000,000 (equivalent to approximately HK$140,400,000). As a result of this acquisition, the Group's equity interest in Equity Pacific increased from 48% to 100%. The consideration is to be settled by cash of US$4,833,090 and the issue of US$13,166,910 restricted shares in the Company.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued ordinary share capital/registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
hongkong.com Limited (subsequently changed its name to China.com Corp. Limited)	Hong Kong	HK$1,000	100	–	Operation of a portal site, provision of content and Internet advertising services
TTG Asia Media Pte. Limited	Singapore	S$100,000	–	100	Provision of advertising and event organising services and magazine publication
Palmweb Inc.	Cayman Islands	US$382,253	–	100	Investment holding
Newpalm (China) Information Technology Co., Ltd *(note a)*	PRC	US$6,000,000	–	100	Provision of short messaging services and other mobile value-added services and applications
Beijing Newplam Information Technology Co., Ltd. *(note b)*	PRC	RMB10,000,000	–	100	Provision of short messaging services and other mobile valued-added services and applications
Beijing Wisecom Information Technology Co., Ltd. (note b)	PRC	RMB10,000,000	–	100	Provision of short messaging services and other mobile valued-added services and applications
Beijing China Net Communication Technology Services Limited *(note b)*	PRC	RMB10,000,000	–	100	Operation of a portal site, provision of content and Internet advertising services

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Paid up issued ordinary share capital/registered capital	Proportion ownership interest held by the Company Directly %	Proportion ownership interest held by the Company Indirectly %	Principal activities
Beijing He He Technology Co. Ltd. (note b)	PRC	RMB10,000,000	–	100	Provision of mobile value-added services and applications
Shenzhen KK Technology Ltd. *(note b)*	PRC	RMB10,000,000	–	100	Provision of mobile value-added services and applications
chinadotcom Communications Technology Development (Beijing) Limited *(note a)*	PRC	US$850,000	–	100	Operation of a portal site, provision of content and Internet advertising services
Equity Pacific Limited *(note c)*	British Virgin Islands	US$47,248	–	48	Investment holding
Beijing 17game Network Technology Co., Ltd. *(notes a and c)*	PRC	US$150,000	–	48	Provision of online game services

Notes:

(a) These companies are registered as a wholly-foreign owned enterprise under the PRC law.

(b) These companies are registered as limited liability companies under the PRC law. These companies are accounted for as subsidiaries by virtue of the Group's control over their financial and operating policies, directly or indirectly, so as to obtain benefits from their activities.

(c) Pursuant to an option agreement, the Group was granted a call option to acquire part or all of the issued share capital of Equity Pacific Limited. In view of the potential voting right, which is presently exercisable, notwithstanding the Group only has 48% equity interest therein, the directors consider it is appropriate to consolidate the results of Equity Pacific and its subsidiaries, including Beijing 17game Network Technology Co. , Ltd.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at 31st December, 2005.

3 UNAUDITED CONSOLIDATED INTERIM RESULTS OF CHINA.COM FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

Set out below are the unaudited consolidated results of China.com for the six months ended 30th June, 2006 extracted from the 2006 interim report of China.com.

UNAUDITED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Three months ended 30th June,		**(Unaudited) Six months ended 30th June,**	
		2006	**2005**	**2006**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	2	149,929	87,294	279,796	162,589
Cost of sales		(59,081)	(42,559)	(110,482)	(76,367)
Gross profit		90,848	44,735	169,314	86,222
Other income		6,070	7,114	12,973	14,549
Selling and distribution costs		(33,166)	(23,482)	(62,834)	(35,518)
Administrative expenses		(34,855)	(28,982)	(67,673)	(55,872)
Other expenses		(10,372)	(3,028)	(18,691)	(9,086)
Interest expense on bank borrowings wholly repayable within five years		(10)	(761)	(723)	(1,605)
Profit (loss) before taxation		18,515	(4,404)	32,366	(1,310)
Income tax charge	5	(668)	(1,362)	(1,800)	(2,578)
Profit (loss) for the period	4	17,847	(5,766)	30,566	(3,888)
Profit (loss) attributable to:					
Equity holders of the Company		17,847	2,046	26,353	7,673
Minority interests		–	(7,812)	4,213	(11,561)
		17,847	(5,766)	30,566	(3,888)
Earnings per share	6				
Basic		0.41 cent	0.05 cent	0.62 cent	0.19 cent
Diluted		0.41 cent	0.05 cent	0.62 cent	0.18 cent

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 30th June, 2006

	Notes	(Unaudited) 30th June, 2006 HK$'000	(Audited) 31st December, 2005 HK$'000
ASSETS			
Non-current Assets			
Plant and equipment		29,870	23,809
Goodwill		598,440	521,196
Other intangible assets		89,441	80,978
		717,751	625,983
Current Assets			
Accounts receivable	8	55,749	43,952
Prepayments, deposits and other receivables		21,943	17,982
Available-for-sale investments		589,720	629,687
Amounts due from fellow subsidiaries		4,125	4,400
Amount due from the ultimate holding company		697	697
Bank balances and cash		364,240	402,937
		1,036,474	1,099,655
Total Assets		1,754,225	1,725,638
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	10	435,194	417,077
Reserves		1,216,446	1,098,744
Equity attributable to equity holders of the Company		1,651,640	1,515,821
Minority interests		–	32,249
Total Equity		1,651,640	1,548,070
Non-current Liabilities			
Deferred tax liabilities		5,181	6,134
Current Liabilities			
Accounts payable	9	30,999	20,571
Other payables and accrued liabilities		36,555	36,603
Deferred revenue		21,947	20,348
Tax liabilities		1,947	2,276
Amounts due to fellow subsidiaries		5,956	5,836
Bank borrowings		–	85,800
		97,404	171,434
Total Equity and Liabilities		1,754,225	1,725,638
Total assets less current liabilities		1,656,821	1,554,204

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	(Unaudited) Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Goodwill reserve HK$'000	Investment revaluation reserve HK$'000	Reserve funds HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2005 as reported in 2005 annual report	414,419	916,369	(31,193)	(8,502)	9,833	234	8,968	181,947	1,492,075	30,670	1,522,745
Deficit on revaluation of available-for-sale investments	–	–	–	(2,391)	–	–	–	–	(2,391)	–	(2,391)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(7)	–	–	(7)	–	(7)
Net (expense) income recognised directly in equity	–	–	–	(2,391)	–	(7)	–	–	(2,398)	–	(2,398)
Profit (loss) for the period	–	–	–	–	–	–	–	7,673	7,673	(11,561)	(3,888)
Total recognised income and expense for the period	–	–	–	(2,391)	–	(7)	–	7,673	5,275	(11,561)	(6,286)
Recognition of equity-settled share based payments	–	–	–	–	–	–	3,138	–	3,138	–	3,138
Shares issued	66	121	–	–	–	–	–	–	187	–	187
Transaction costs attributable to issue of new shares	–	(13)	–	–	–	–	–	–	(13)	–	(13)
Acquisitions of additional entity interest in subsidiaries	–	–	–	–	–	–	–	–	–	(2,606)	(2,606)
At 30th June, 2005	414,485	916,477	(31,193)	(10,893)	9,833	227	12,106	189,620	1,500,662	16,503	1,517,165
At 1st January, 2006 as reported in 2005 annual report	417,077	924,402	(31,193)	(17,097)	18,483	5,431	15,684	183,034	1,515,821	32,249	1,548,070
Deficit on revaluation of available-for-sale investments	–	–	–	(1,204)	–	–	–	–	(1,204)	–	(1,204)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	985	–	–	985	–	985
Net (expense) income recognised directly in equity	–	–	–	(1,204)	–	985	–	–	(219)	–	(219)
Profit for the period	–	–	–	–	–	–	–	26,353	26,353	4,213	30,566
Investment revaluation reserve released on disposal of available-for-sale investments	–	–	–	(136)	–	-	–	-	(136)	–	(136)
Total recognised income and expense for the period	–	–	–	(1,340)	–	985	–	26,353	25,998	4,213	30,211
Recognition of equity-settled share based payments	–	–	–	–	–	–	7,123	–	7,123	–	7,123
Shares issued	4	4	–	–	–	–	–	–	8	–	8
Transaction costs attributable to issue of new shares	–	(12)	–	–	–	–	–	–	(12)	–	(12)
Acquisition of subsidiaries	18,113	84,589	–	–	–	–	–	–	102,702	(36,462)	66,240
At 30th June, 2006	435,194	1,008,983	(31,193)	(18,437)	18,483	6,416	22,807	209,387	1,651,640	–	1,651,640

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash from operating activities	46,803	5,337
Net cash from (used in) investing activities	1,027	(95,581)
Net cash used in financing activities	(86,527)	(31,708)
Net decrease in cash and cash equivalents	(38,697)	(121,952)
Cash and cash equivalents at 1st January,	402,937	390,104
Effect of foreign exchange rate changes, net	–	(28)
Cash and cash equivalents at 30th June, represented by bank balances and cash	364,240	268,124

Notes:

1. **Basis of preparation**

The unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited.

The Unaudited Interim Results of the Group have not been reviewed by the Company's auditors. Adjustments may be identified during the course of annual audit to be performed by the Company's auditors.

The Unaudited Interim Results of the Group have been prepared under historical cost convention, except for certain financial instruments, which are measured at fair value. The principal accounting policies used in the preparation of the unaudited interim consolidated financial statements are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 31st December, 2005.

2. **Revenue**

Revenue represents: (1) subscription revenue from the provision of mobile services and applications including short messaging services and other related products to mobile phone users; (2) internet and media revenue from online banner advertising, sponsorships, offline advertising campaigns, direct mailings and online sales; and (3) revenue from distribution of online games, net of business tax, where applicable.

An analysis of the Group's revenue is as follows:

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
Mobile services and applications revenue	141,717	123,901
Internet and media	37,689	30,449
Online games	100,390	8,239
	279,796	162,589

3. **Business and geographical segments**

Business segments

For management purposes, the Group is currently organised into three operating divisions – mobile services and applications, internet and media and online games. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Mobile services and applications	–	provision of short messaging services and other mobile applications value-added services and other related products to mobile phone users;
Internet and media	–	sale of online banner advertising, sponsorships, offline advertising campaigns, direct mailings and online sales; and
Online games	–	distribution of online games.

In the 2005 interim results, the Group was organised into "Subscription", "Advertising", "e-Commerce" and "Online games" segments. The "Subscription" segment is equivalent to the "Mobile services and applications" segment, whereas, "Advertising" and "e– Commerce" have been combined into the "Internet and media" segment as the "e– Commerce" segment no longer meet the reportable segment requirement.

Segment information about these businesses is presented below:

Six months ended 30th June, 2006

	Mobile services and applications	**Internet and media**	**Online games**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	141,717	37,689	100,390	–	279,796
Inter-segment sales	–	4,044	–	(4,044)	–
Total	141,717	41,733	100,390	(4,044)	279,796
RESULT					
Segment results	11,956	(4,804)	27,871	–	35,023
Interest income and unallocated other corporate income					12,973
Interest expense on bank borrowings wholly repayable within five years					(723)
Unallocated corporate expenses					(14,907)
Profit before tax					32,366
Income tax charge					(1,800)
Profit for the period					30,566

Inter-segment sales are charged at prevailing market rates.

As at 30th June, 2006

	Mobile services and applications	**Internet and media**	**Online games**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
BALANCE SHEET				
ASSETS				
Segment assets	777,972	45,994	262,051	1,086,017
Available-for-sale investments and unallocated corporate assets	–	–	–	668,208
Total assets				1,754,225
LIABILITIES				
Segment liabilities	19,311	26,822	49,095	95,228
Unallocated corporate liabilities	–	–	–	7,357
Total liabilities				102,585

Six months ended 30th June, 2005

	Mobile services and applications *HK$'000*	**Internet and media** *HK$'000*	**Online games** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
REVENUE					
External sales	123,901	30,449	8,239	–	162,589
Inter-segment sales	–	657	–	(657)	–
Total	123,901	31,106	8,239	(657)	162,589
RESULT					
Segment results	18,285	(6,968)	(18,868)	–	(7,551)
Interest income and unallocated other corporate income					14,549
Interest expense on bank borrowings wholly repayable within five years					(1,605)
Unallocated corporate expenses					(6,703)
Loss before tax					(1,310)
Income tax charge					(2,578)
Loss for the period					(3,888)

Inter-segment sales are charged at prevailing market rates.

As at 30th June, 2005

	Mobile services and applications *HK$'000*	**Internet and media** *HK$'000*	**Online games** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
BALANCE SHEET					
ASSETS					
Segment assets	758,331	42,922	79,980	(13,718)	867,515
Available-for-sale investments and unallocated corporate assets	–	–	–	–	833,488
Total assets					1,701,003
LIABILITIES					
Segment liabilities	605,952	94,581	73,145	(680,720)	92,958
Unallocated corporate liabilities	–	–	–	–	90,880
Total liabilities					183,838

Geographical segments

The Group's operations are located in the PRC, Hong Kong and Singapore.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the services:

	Six months ended 30th June, 2006	2005
	HK$'000	*HK$'000*
PRC	248,985	141,354
Hong Kong	280	1,001
Singapore	30,531	20,234
	279,796	162,589

4. Profit (loss) for the period

The Group's profit (loss) for the period is arrived at after charging (crediting):

	Six months ended 30th June, 2006	2005
	HK$'000	*HK$'000*
Depreciation of plant and equipment	5,914	4,219
Selling and distribution costs	62,834	35,518
Amortisation of other intangible assets (included in other expenses)	19,005	9,299
Share option benefits	7,123	3,138
Interest income on available-for-sale investments	(9,343)	(11,788)
Gain on disposal of available-for-sale investments	(373)	–
Other interest income	(3,257)	(2,761)
	(12,973)	(14,549)

5. Income tax

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the Half-Yearly Period (six months ended 30th June, 2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

6. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the three months ended and six months ended 30th June, 2006 and 2005 is based on:

	Three months ended 30th June, 2006	2005	Six months ended 30th June, 2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Earnings				
Profit for the period attributable to equity holders of the Company	17,847	2,046	26,353	7,673

	Three months ended 30th June, 2006	2005	Six months ended 30th June, 2006	2005
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,351,936,488	4,144,373,894	4,264,865,074	4,144,285,665
Effect of dilutive potential ordinary shares: Options	399,222	7,989,327	549,729	8,426,235
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,352,335,710	4,152,363,221	4,265,414,803	4,152,711,900

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the Half-Yearly Period (six months ended 30th June, 2005: Nil).

8. Accounts receivable

An aged analysis of accounts receivable as at the balance sheet date, based on invoice date, and net of impairment losses, is as follows:

	(Unaudited) 30th June, 2006 *HK$'000*	(Audited) 31st December, 2005 *HK$'000*
Within 90 days	46,681	40,254
91-120 days	1,702	1,196
121-180 days	3,329	1,654
Over 180 days	4,037	848
	55,749	43,952

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management.

9. Accounts payable

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	(Unaudited) 30th June, 2006 *HK$'000*	(Audited) 31st December, 2005 *HK$'000*
Within 90 days	24,633	15,573
91-120 days	921	552
121-180 days	2,513	2,267
Over 180 days	2,932	2,179
	30,999	20,571

10. Issued capital

	Six months ended 30th June, 2006		Twelve months ended 31st December, 2005	
	No. of shares	*HK$'000*	*No. of shares* (Audited)	*HK$'000* (Audited)
Ordinary shares of HK$0.10 each				
Authorised	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid:				
At beginning of period/year	4,170,765,645	417,077	4,144,186,053	414,419
Exercise of share options	38,748	4	26,579,592	2,658
Issue new shares for acquisition	181,132,095	18,113	–	–
At end of period/year	4,351,936,488	435,194	4,170,765,645	417,077

11. Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

12. Post balance sheet events

Subsequent to the end of the Half-Yearly Period, the Group announced the proposed acquisition of Beijing TimeHeart Information Technology Limited, a PRC company engaged in the mobile services and applications business through its personal digital assistant ("PDA"), wireless application protocol ("WAP"), short message services ("SMS"), multi media service ("MMS"), interactive voice response service ("IVR") and media stream ("Media Stream") platforms connected to the networks of China Mobile, China Unicom, China Telecom and China Netcom, for a total consideration of up to HK$198,246,000. The transaction is subject to, among other things, the reporting, announcement and the independent shareholders' approval requirements of the GEM Listing Rules. Details of the transaction has been disclosed in the announcement dated 4th August, 2006 made by the Company.

4 WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseen circumstances and based on the expected cash flows and internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this circular.

5 INDEBTEDNESS

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed China.com and its subsidiaries that it reserves its right to levy additional charges on China.com and its subsidiarties for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness (including those authorised or otherwise created but unissued), finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits, or any guarantees or other contingent liabilities outstanding as at close of business on 31st August, 2006.

6 MATERIAL CHANGES

The Directors are not aware of any material change in the financial and trading position of China.com since 31st December, 2005, which is the date to which the latest audited consolidated financial statements of China.com have been made up.

7 FINANCIAL AND TRADING PROSPECTS

China.com is committed to achieve continual profitability and steady performance. Leveraging on the strong balance sheet and a sound management team, the Directors would hope to achieve on-going expansion of the Company's core businesses.

Our online game business keeps on achieving new milestones and continues growth momentum. We target to be the market leader of online and mobile games in China. We plan to widen our market coverage with our extensive marketing and distribution networks in China, to build a broader portfolio of games and to selectively acquire synergistic and earning accretive gaming companies in China.

In early of July, China Mobile, as well as other mobile operators, announced new policies related to mobile services and application industry, under the policy directives of China's Ministry of Information Industry, with an aim to reduce customer complaints and increase customer satisfaction. We expect the new policies will have negative impact on the revenues and profits of our mobile services and application business. The effects will be reflected started from Q3 of 2006. However, the Company has been proactively adjusting the Company's operating strategy to better suit the new operating environment, and has sought to improve the attractiveness of our MVAS services by offering a richer user experience and delivering higher value to end-users. The Company has also explored new cross-channel opportunities between the Company's portal, mobile and game businesses which can provide users a multi -level entertainment experience, and offer advertisers and business partners an improved marketing platform to leverage upon. We believe our integration with Time Heart will further strengthen our competitiveness. The new regulations would ultimately create a better environment for both customers and service providers in the long run. After the introduction of the new policies, customers of mobile value added service will be to understand clearly and accurately the pricing and the contents of the services subscribed. Customer satisfaction will therefore be enhanced. Against this background, in the long run the number of service providers is expected to decline, with only reputable service providers remaining, and it is expected that these reputable service providers would have expanded their market share during the consolidation, and with better services being provided, the overall market size is also expected to increase,

The fast changing environment that China.com operates in provide multitudes of opportunities. We are committed to continue our success in the vast growing market of China.

(1) FOR THE YEAR ENDED 31ST DECEMBER, 2003

The following is the management discussion and analysis principally extracted from the annual report of China.com for the year ended 31st December, 2003. Terms and definitions used below shall bear the same meanings as defined in such annual report.

FINANCIAL REVIEW

Turnover and gross profit

The Group continued to be profitable this year, as it has been since its listing on GEM on 9th March, 2000. A turnover of HK$187,663,000 was recorded for the year ended 31st December, 2003, representing HK$133,068,000, or a 244% increase as compared with last year. The significant increase was primarily attributable to (1) the revenue from Newpalm, our newly acquired business in April 2003, which amounted to HK$131,635,000, (2) the increase of revenue from event organizing activities mainly due to TTG Asia's management of the ASEAN Tourism Forum 2003 which amounted to HK$8,346,000, and (3) the increase of revenue from china portal of HK$5,510,000. However, these increases in revenue were partially offset by the economic slowdown caused by the SARS outbreak during the year.

Gross profit margin has also increased from 45% in 2002 to 76% in 2003, which was mainly due to the higher profit margin of the subscription revenue owing to lower cost of revenue as a significant portion of the subscription revenue was generated from our own intellectual property with low or no external direct cost of revenue.

Other revenue and gains, net

Other revenue and gains fell by 18% to HK$51,625,000 for the year ended 31st December, 2003, compared with HK$62,999,000 in 2002. The reduction was primarily due to the decrease in interest income from interest-bearing debt securities by HK$25,616,000 as a result of the implementation of a more conservative investment strategy of purchasing higher-rated securities which had lower yield. On the other hand, this more conservative investment strategy resulted in a decrease in the loss on disposal of debt securities by HK$14,937,000, from a loss of HK$16,137,000 in 2002 to a loss of HK$1,200,000 in 2003.

Selling and distribution expenses

Selling and distribution expenses increased by 816% to HK$9,197,000 compared with HK$1,004,000 in 2002. This was mainly attributable to the newly acquired business of Newpalm in China in April as well as increased marketing and promotion expenses due to more events organized by TTG Asia in 2003.

General and administrative expenses

General and administrative expenses increased by 30% to HK$69,736,000 in 2003 versus HK$53,598,000 in 2002. The increase was primarily due to the acquisition of Newpalm in April and the taking over of the operations of the www.china.com portal since the third quarter. These resulted in HK$32,000,000 additional expenses which was partially offset by the continual tight cost control management with significant reduction in personnel expenses and depreciation expenses.

Other operating (income)/expenses, net

Other operating expenses increased by HK$6,677,000 to HK$6,364,000 in 2003, when compared to an operating income of HK$313,000 in 2002. The additional expenses were primarily the loss on disposal of investment in travelrelated business and the relating fixed asset write off amounting to HK$1,234,000, as well as the amortization expenses of intangible assets and goodwill of the newly acquired business of HK$3,493,000. In addition, there was no significant one-time reversal of provisions in 2003 as compared to a special write back of bad debt in 2002.

In 2003, the goodwill amortization expense related to Newpalm was based on partial consideration of HK$109,200,000 paid during the year immediately after closing in April 2003, of which HK$72,163,000 was recognized as goodwill. As the Company has, subsequent to the year end date, paid the remaining consideration of HK$319,800,000 in February 2004 of which 100% would be recognized as goodwill, it is expected the goodwill amortization expenses will be increased in 2004.

Share of profit of an associate

The increase was due to the share of profit of an associated company owned by Newpalm.

Tax

The increase in tax income was attributable to the deferred tax income arising from Newpalm, which generated deductible temporary differences for the year.

Net profit from ordinary activities attributable to shareholders

Net profit from ordinary activities attributable to shareholders increased significantly to HK$105,143,000 in 2003 compared with HK$27,139,000 in 2002.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK$1,435,654,000 shareholders' funds as at 31st December, 2003, while as at 31st December, 2002 was HK$1,333,102,000. Total assets amounted to HK$1,830,916,000 as at 31st December, 2003 as compared to HK$2,146,832,000 as at 31st December, 2002, of which HK$137,154,000 were cash and cash equivalents versus HK$118,709,000 as at 31st December, 2002 and HK$1,214,648,000 were interest-bearing debt securities versus HK$1,970,648,000 as at 31st December, 2002.

Capital structure

Except for the decrease in the Group's bank borrowings by HK$748,801,000 to HK$31,492,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2003 as compared with that as at 31st December, 2002.

As at 31st December, 2003, the Group's bank borrowing of HK$31,492,000 was repayable within two years. All the bank borrowings are denominated in United States Dollars.

Charges on the Group's assets

As at 31st December, 2003, an amount of HK$37,165,000, as compared to HK$944,206,000 as at 31st December, 2002 of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK$31,492,000 (2002: HK$780,293,000). Neither time deposits nor bank balances (2002: nil) were pledged to banks as guarantee to certain suppliers of the Group.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds substantially reduced from 59% as at 31st December, 2002 to 2% as at 31st December, 2003. The change was due to the repayment of bank borrowings of HK$748,801,000, and a corresponding decrease in interest-bearing securities of HK$756,000,000.

The Group's net cash and investments in interest-bearing securities was HK$1,320,310,000 (2002: HK$1,309,064,000), comprising of cash and cash equivalents of HK$137,154,000 (2002: HK$118,709,000), interest-bearing debt securities of HK$1,214,648,000 (2002: HK$1,970,648,000) and interest-bearing bank borrowings of HK$31,492,000 (2002: HK$780,293,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2003, no related hedges were made by the Group.

Contingent liabilities

Details of contingent liabilities are the same as that disclosed in the Company's annual report for the year ended 31st December, 2003.

BUSINESS REVIEW

Overall

In 2003, the global economy remained stagnant with uncertainties stemming from both the political and the economic arena. Despite the continued economic downturn, the Group managed to focus on its core operations as well as to proactively look at the opportunities in the China market, a market that continues to show solid growth, with an average of 8% GDP growth last year, demonstrating the tremendous opportunities in this region.

Mobile Value Added Services

With the completion of the Group's acquisition of Newpalm in April 2003, it has successfully entered the fast growing Mobile Value Added Services (MVAS) sector in China.

Newpalm operates MVAS in China and has service agreements with both China Mobile and China Unicom. In addition to having such service agreements at the head office level, Newpalm also signed provincial service agreements with these mobile operators directly in 27 provinces. The direct connectivity with provincial network mobile operators facilitates Newpalm's marketing and promotional activities at the provincial level, resulting in better quality of services and a higher sign-up rate for subscribers and new services.

Amongst the various services offered by Newpalm to mobile subscribers of China Mobile and China Unicom, the company's community service ("X-City"), fortune-telling service ("i-Fate") and "Jokes" are most popular with subscribers. The company also offers services such as the downloading of ring-tones, logos, and java games. At the end of the year, Newpalm's subscription base was 5.53 million.

Leveraging the online capabilities of the www.china.com portal, the company launched a new subscription service "XCity 2" an innovative community-based service including dating and chatting, ringtone and logo downloads, leveraging off the original X-city service's existing subscriber base and incorporating new picture and video clippings for the benefit of users. X-City 2 is an example of the synergistic products being developed through www.china.com's portal content and Newpalm's SMS operations. Such new services represented the successful integration of the SMS platform of Newpalm and the Internet and content resources of the www.china.com portal. The Group intends to monetize such synergies amongst the various different assets within the Group to create additional enterprise value.

During the fourth quarterly period, while maintaining its strong position in China's SMS market, Newpalm continued its focus on establishing a stronghold in China's WAP (Wireless Application Protocol) market. Newpalm has launched products on China Mobile's Monternet, Henan Mobile and Guangdong Mobile's WAP sites. Newpalm also continued to focus on developing its IVRS (Interactive Voice Response Service) products.

The addition of Newpalm brought significant value to the Group, both strategically and financially. During the year of 2003, profits attributed to Newpalm amounted to around HK$87 million. Had it not been for the consolidation of the financial results of Newpalm, the Group would have reported a profit of only approximately HK$18 million.

Portal

In 2003, the online advertising market was adversely impacted due to the outbreak of atypical pneumonia (SARS), which had caused many advertisers to delay or cancel marketing activities and expenditures which were already under review from the worsening economic conditions. Despite efforts to stimulate the economy post SARS, signs of recovery were slow with advertisers preferring to focus on 2004 campaigns at the expense of 2003 campaigns.

Despite the unfavorable operating environment, the portal continued to make progress in terms of joint partnerships and strategic developments. During the year the China portal launched and relaunched several channels and services including, digital library, education channel, medical channel, a property channel and a translation service. By working with various partners, the development and the subsequent demand in such vertical content and audience continued to generate new sales opportunities for the portal. In particular, the automotive channel, which ranked amongst the leading channels within the portal, provided a strong surge post SARS with automotive advertisers and enthusiast alike, generating good growth in viewership and advertising. Furthermore, the military channel continues to build on its already top position by exceeding growth targets post redesign.

Since the acquisition of Newpalm in China, synergies have been developed between the china.com portal and Newpalm. Leveraging the online capabilities of china.com portal and the mobile and SMS technology of Newpalm, new value added services were launched to both Internet and SMS users. Jointly launched services between china.com and Newpalm in the recent months include “China SMS News” and “Business Elite”, with other services such as “Military SMS” and “XCity 2", continuing its roll-out during the year.

The group continued to further improve the paid email service branded under @china.com and @hongkong.com. Through ongoing refinements in the technical operations and services and the ongoing value-added developments, the subscriber base continues to demonstrate solid growth. In Hong Kong, hongkong.com partnered with I-Care to drive the registered user base for both I-Care as well as the Mymail channel of hongkong.com, by bundling the paid email subscription accounts with I-Care’s ISP services. In addition, hongkong.com also launched a joint campaign in conjunction with the “We Love Hong Kong” campaign initiated by Cathay Pacific Airways Limited, to drive both online and offline transactions.

hongkong.com continued to work closely with reputable charities and for the community, through goodwill initiatives and provision of timely information to the Hong Kong community. During the outbreak of SARS in Hong Kong, the Group launched a SARS feature site to provide updates on the latest developments and precautionary education programs for SARS, to better inform and educate the citizenships of Hong Kong. Furthermore, hongkong.com provided a free marketing and advertising platform for well-known non-profit organizations to promote their activities. Non-profit organizations included HK Red Cross Blood Transfusion, Christian Action Organization, Oxfam, World Wide Fund, World Vision and Orbis.

The group continued to focus inwards to leverage existing expertise and further progress the integration of the portal network outlined in the previous quarters. The integration provides a platform for better use of resources through the leveraging of the respective expertise within the Group. Since the integration, synergies have been generated within the portal network. Having already launched a news channel by leveraging the news content provided by www.china.com portal, an entertainment channel was also launched on the www.hongkong.com portal during the year with further integrations in various vertical channels. Consolidation also took place at the sales and marketing, management levels of the portal network. Further synergies updates will be reported in the near future.

Travel

Faced with a slow economy caused by the SARS outbreak and the Iraq War, prudent measures and contingency plans were put in place by TTG Asia to ensure that it could ride the wave of uncertainty.

By implementing cost-cutting measures as well as revenue generating programs and developing new initiatives on an ongoing basis, TTG Asia continues to perform close to expectation.

In May, TTG successfully launched TTG India, a bi-monthly publication within TTG Asia. The objective of TTG India is to promote both inbound and outbound travel to India and share its insights with readers.

TTG was also appointed by the host nation of ASEAN Tourism Forum, as the official publisher for the daily newspaper during ATF 2003 in Cambodia. In addition, TTG Asia's travel group was appointed the official publication/official daily for several major trade events including TIME 2003, International Travel Fair ("ITF") 2003, PATA Annual Conference 2003, and First International Management Summit 2003.

The Exhibition Division made significant contributions to the bottom line with the organization of several key industry events during the year. TTG successfully organized the Asean Tourism Forum ("ATF") 2003 in Phnom Penh, Cambodia in January on behalf of Ministry of Tourism, Cambodia and the 11th Incentive Travel & Conventions, Meetings Asia ("IT&CMA"), held in Thailand at the beginning of November. ATF is Asean's biggest travel trade event and is held once a year among Asean countries on a rotational basis while IT&CMA is one of the largest and most rewarding Meeting Incentive Conference Exhibitions ("MICE"), bringing together exhibitors and buyers from around the world.

The postponement of Corporate Travel World ("CTW") and Direct Marketing Asia ("DM Asia") to the fourth quarter of the year proved to be a prudent move. This coincided with the recovery from SARS and both events went on to record more booth sales and year-on-year growth in terms of visitor numbers.

Times Software

Times Software continued the development from 2002, with the successful completion and launch of the PC card for the Mobile Ticketing System ("MTS") to the market. Initial market feedback was positive, with revenue contributions made in the first quarter of the year but was unfortunately adversely impacted by the SARS outbreak since the end of the first quarter. Revenue started gradually picking up in the fourth quarter of the year. Despite the slowdown of the business during the year, Times Software was able to focus its resources in exploring the possibilities of the new business opportunities induced by ongoing business developments in its core systems.

Material acquisitions, significant investment and their performance and future prospect

In April 2003, the Company had completed its very successful acquisition of a mobile value added service company, Newpalm (China) Information Technology Co., Ltd ("Newpalm"). Please refer to the section headed "Business Review" for details.

Directors of the Company announced that on 10th December, 2003, 先達華網通訊技術發展(北京)有限公司 (Chinadotcom Communications Technology Development (Beijing) Limited), an indirect wholly owned subsidiary of the Company, entered into an asset transfer agreement with 國際網絡傳訊(上海)有限公司 (CIC (Shanghai) Company Limited) to acquire the Assets as set forth in the Agreement for a consideration of RMB2,672,150. An announcement regarding the transfer was published on the GEM website on 10th December, 2003, as well as the Company's annual report for the year ended 31st December, 2003.

Segmental information

The business segments were reclassified during the year 2003 into four segments, namely, Subscription from Mobile Value-Added Services, Advertising, Technology and E-Commerce, in order to better reflect the Company's business after the acquisition of the new business and transformation of the business model. Subscription revenue from mobile valueadded services was generated by Newpalm, the newly acquired business in April 2003. Advertising segment includes revenue from all portal and non-portal advertising, marketing activities. Technology segment comprises revenue from the production and sales of hardware and software. Other revenue comprises e-commerce revenue from direct mailings and online sales.

Employee information

As at 31st December, 2003, the Group has 338 full-time employees of which 19 are based in Hong Kong, 279 in China and 40 in Singapore. The Company has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

(2) FOR THE YEAR ENDED 31ST DECEMBER, 2004

The following is the management discussion and analysis principally extracted from the annual report of China.com for the year ended 31st December, 2004. Terms and definitions used below shall bear the same meanings as defined in such annual report.

FINANCIAL REVIEW

Turnover and gross profit

The Group continued to be profitable this year, as it has been since its listing on GEM on 9th March, 2000. A turnover of HK$235,301,000 was recorded for the year ended 31st December, 2004, representing a HK$47,638,000, or a 25% increase as compared with last year. The increase was primarily attributable to (1) the increase of HK$36,382,000 in MVAS revenue when compared to 2003, as a result of the acquisition of two MVAS units, Newpalm and Go2joy, in April 2003 and in August 2004, respectively; and (2) the increase of HK$10,400,000 in revenue from the china.com portal in 2004 on a full year basis when compared to 2003, given that the Group began operating the china.com portal during the third quarterly period in 2003.

Gross profit increased by HK$35,794,000 to HK$177,556,000 for the year ended 31st December, 2004, when compared with HK$141,762,000 last year. Gross profit margin remained relatively unchanged in 2004 at 75%, when compared with 76% in 2003. The overall gross profit margin for the Group remained high in 2004 as a significant portion of the subscription revenue was generated from our own intellectual property with low or no external direct cost of revenue.

Other revenue and gains, net

Other revenue and gains fell by 36% to HK$32,962,000 for the year ended 31st December, 2004, compared with HK$51,625,000 in 2003. The reduction was primarily due to the decrease in interest income from interest-bearing debt securities by HK$20,742,000 as a result of decreasing balances of debt securities, a more conservative investment strategy, and a lower interest rate environment.

Selling and distribution expenses

Selling and distribution expenses increased by 34% to HK$12,298,000 compared with HK$9,197,000 in 2003. This was mainly attributable to the operation of the MVAS businesses for a full calendar year during 2004. The MVAS business had commenced operations only in 2003, and were operated for only a portion of that year.

General and administrative expenses

General and administrative expenses increased by 43% to HK$99,947,000 in 2004 versus HK$69,736,000 in 2003. The increase was primarily due to the full year operations of both the MVAS business and the china.com portal in 2004 which resulted in additional expenses of HK$25,318,000 and HK$10,064,000, respectively. These additional expenses were partially offset by the continual tight cost control management adopted by the Group.

Other operating expenses, net

Other operating expenses, net, increased by HK$29,737,000 to HK$36,101,000 in 2004, compared to other operating expenses, net, of HK$6,364,000 in 2003. The additional expenses were primarily due to (1) an increase in the amortisation expense of HK$19,961,000 in respect of the additional goodwill of the Group's MVAS business as a result of the full payment of the acquisition consideration of Newpalm as well as the acquisition consideration paid and payable in respect of Go2joy; (2) an increase in the amortisation expense of intangible assets of HK$3,356,000 for the newly acquired MVAS and online businesses; and (3) impairment of goodwill related to the discontinued operation amounting to HK$4,632,000.

Share of profits and losses of associates and a jointly-controlled entity

In 2004, the Company recorded a share of profits of associates of HK$44,000 and loss of a jointly-controlled entity of HK$924,000, compared to a share of profits of associates of HK$281,000 for 2003. The decrease was due to the share of loss of a jointly-controlled entity, 17game, during the year, which is engaged in the online game business in Mainland China. 17game was still in the developing stage during 2004. The Group acquired 11.11% equity interest in 17game in August 2004 and equity accounted for its results from August to November 2004. It is being accounted for as a jointlycontrolled entity due to the fact that the Group had joint control over 17game, via board representation and certain super majority provisions, during the period.

Tax

Tax income decreased to HK$95,000 in 2004 compared to tax income of HK$2,520,000 in 2003. The net decrease in tax income was mainly because there was a deferred tax income arising from Newpalm amounting to HK$2,246,000, which generated temporary differences in 2003 but there is no such deferred tax income in 2004.

Minority interests

Loss shared by minority interests increased to HK$1,965,000 in 2004 compared to HK$115,000 in 2003. The increase represented minority interests' share of loss of 17game. The Group increased its shareholding in 17game to 36.5% during Q4 2004 and has consolidated its results from the date when certain potential voting rights, in form of share call options, became presently exercisable, in accordance with Interpretation 18 "Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests" issued by the Hong Kong Institute of Certified Public Accountants.

Net profit from ordinary activities attributable to shareholders

Net profit from continuing ordinary activities attributable to shareholders was HK$67,598,000 in 2004 when compared with HK$109,051,000 in 2003.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK$1,492,075,000 shareholders' funds as at 31st December, 2004. Shareholders' funds as at 31st December, 2003 were HK$1,435,654,000. Total assets amounted to HK$1,815,254,000 as at 31st December, 2004 as compared to HK$1,830,916,000 as at 31st December, 2003, of which HK$390,104,000 were cash and cash equivalents versus HK$137,154,000 as at 31st December, 2003 and HK$739,842,000 were interest-bearing debt securities versus HK$1,214,648,000 as at 31st December, 2003.

Capital structure

Except for an increase in the Group's bank borrowings by HK$85,801,000 to HK$117,293,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2004 as compared with that as at 31st December, 2003.

As at 31st December, 2004, the Group's bank borrowing of HK$117,293,000 was repayable within one year. All the bank borrowings are denominated in United States Dollars.

Charges on the Group's assets

As at 31st December, 2004, an amount of HK$137,461,000, (2003: HK$37,165,000) of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK$117,293,000 (2003: HK$31,492,000). Neither time deposits nor bank balances (2003: Nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds increased from 2% as at 31st December, 2003 to 8% as at 31st December, 2004. The change was due to the additional bank borrowings of HK$85,801,000 during the year.

The Group's net cash and investments in interest-bearing securities was HK$1,012,653,000 (2003: HK$1,320,310,000), comprising of cash and cash equivalents of HK$390,104,000 (2003: HK$137,154,000), interest-bearing debt securities of HK$739,842,000 (2003: HK$1,214,648,000) and interest-bearing bank borrowings of HK$117,293,000 (2003: HK$31,492,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2004, no related hedges were made by the Group.

Contingent liabilities

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed the China.com and its subsidiaries that it reserves its right to levy additional charges on the China.com and its subsidiaries for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

BUSINESS REVIEW

In 2004, the Group received the Deloitte Technology Fast 500 Asia Pacific award. The award program was designed to recognize top 500 fast-growing technology companies from 10 regions throughout Asia Pacific, that have managed to achieve strong three-year revenue growth. The Group believes that the award reflects the Group's commitment to achieving strong and sustainable growth.

Mobile Value Added Services

In August 2004, the Group acquired Go2joy from chinadotcom corporation, the Group's parent company. Go2joy is a MVAS service provider in China which has an exclusive partnership with the state-owned national TV station in China with respect to certain selected popular TV programes and exclusive mobile payment partnership with Umpay. Through Go2joy, the Group offers entertainment-oriented MVAS over multiple MVAS platforms including SMS, Interactive Voice Response Service ("IVRS"), and Multimedia Messaging Service ("MMS"). Go2joy offers innovative MVAS products in cooperations with media and content providers.

Go2joy was granted one of the first five nation-wide IVR licenses issued by China Mobile. The Group believes that the acquisition of Go2joy not only strengthened the Group's IVR capabilities, but also helped to position the Group to capture growth opportunities in IVR and other 2.5G services. Synergistic opportunities generated via this acquisition included the cross-selling and product-bundling of services to the subscriber bases of Go2joy and the Group's preexisting MVAS customer base.

During the second half of the year, the Group's SMS business was negatively impacted by tighter regulatory controls and enforcement by the mobile operators. Various service pro viders, including Go2joy, were sanctioned and required to connect with the Mobile Information Service Center ("MISC") platform, a centralized services monitoring and billing system for SPs operated by China Mobile. The actions were undertaken to improve compliance with the policies of the mobile operators and improve customer service standards. Despite this temporary negative impact, the Group believes such regulatory actions will help create a healthier operating environment in the medium to long term and will accelerate industry consolidation which ultimately benefits key players in the market.

The Group re-allocated resources from SMS to 2.5G in 2004 in efforts to improve its 2.5G services, such as Wireless Application Protocol ("WAP") and MMS. The MVAS unit received approval from China Mobile to expand WAP direct connectivity to seven provinces in China. Recently, two of our WAP products were ranked amongst the top five positions in the ringtone and picture categories on China Mobile's WAP portal respectively. MMS revenue increased 187% between Q3 and Q4. Revenue from 2.5G services amounted to 31% of total MVAS revenue in Q4, a jump over 29% in Q3.

In addition to current mobile operators, we have started to work with China Netcom and China Telecom to provide MVAS offerings to their Personal Handy Phone Service ("PHS") users. Both China Netcom and China Telecom are national fixed line telecommunication operators. We have completed the system connection, service testing and billing arrangements of SMS and IVR services with China Netcom. Cooperation with China Telecom is in process. We believe that our MVAS unit's successful MVAS implementation experience and market expertise will result in a strong foundation in making MVAS offerings available to PHS users.

Our MVAS unit was selected as the exclusive MVAS provider for Snow Wolf Lake's (雪狼湖) China Tour. Snow Wolf Lake has been a top musical show for seven years and stars Jacky Cheung, one of China's most famous singers. Products developed for this Tour utilize various MVAS technologies, including MMS, WAP, IVR and ring back tone, and a series of marketing activities were conducted in Beijing. The show and our MVAS products were promoted through diversified channels, including billboards, bus body, bus shelter and TV ads, and received very positive feedback from customers. The Tour will run through 2005 and will visit numerous Chinese cities and provinces including Shanghai and Jiangsu, Sichuan and Hubei provinces. In Q4, we continued to explore the forming strategic partnerships with several national satellite TV stations in order to enhance and diversify our MVAS content and attract new users.

Portal

During 2004, the china.com portal made good progress in increasing advertising revenue and re-establishing itself as an influential portal player in China. On a full year basis, advertising revenue increased more than double between 2003 and 2004. The portal's strategic plan for 2005 targets growth in terms of users and market influence by, in part, leveraging on the relationships we have built with our users. The strategic plan includes an increase in resources committed to the improvement of content and services, as well as marketing and event participation.

The china.com portal was named the exclusive online partner of the 10th National Games of the People's Republic of China ("The Games") in April 2004. Since then, the portal unit has launched a series of marketing and promotional events in collaboration with the Organising Committee of The Games. The Games will be held in Jiangsu Province in October 2005. In Q2 2004, the portal unit provided technical support to the official website for The Games (www.10thgames.org.cn) which was launched in June 2004. Subsequently, the portal unit has carried out various promotional campaigns, such as an online quiz and mobile applications activities to increase market awareness and public interest. In Q4 2004, a press conference was held to celebrate the one year count-down to The Games as well as the launch of the commercial website for The Game (http://titan.china.com) which the Group developed. More advertising and marketing events are in the pipeline for 2005.

In addition to special projects like The Games, china.com's editorial team undertook several other projects during 2004. Several channels were launched or revamped, including the Home4U, MM Show, and Soccer Channels, to enhance the coverage, depth and timeliness of the content with the aim of improving users' experience and participation. The Group completed a full revamp of the portal's most popular verticals, namely the Military, Automobile, Sports, and Entertainment Channels.

The portal unit organized and actively participated in a number of events, including a photo competition associated with the annual car exhibition held in Beijing, the Qingdao Beer Festival, the 1st Chinastar Pop Competition and the International Figure Skating Competition.

Leveraging on its distinctive URL of www.china.com, the portal unit has boosted traffic to the site according to the rankings and increased its international recognition. In June 2004, www.china.com was named "One of the Most Valuable 500 Brands in China" by the World Economic Forum.

The portal unit plays a significant role in generating synergies among other related businesses within the Group. During Q4 2004, the portal unit launched various joint online promotional activities with the MVAS unit, including for the China Tour of Snow Wolf Lake (雪狼湖). It also launched a new paid email service (vip.china.com) which allows users to retrieve emails through MMS provided by the Group's MVAS division. The portal also commenced an online userrecruitment campaign for the open beta test of Travia, 17game's new 3D Massively Multiplayer Online Role-playing Game ("MMORPG").

Media and Travel

TTG operates the Group's Media and Travel business and celebrated its 30th anniversary during 2004. TTG's 2004 results were encouraging. TTG generated increased revenues compared to 2003, largely attributable to higher revenues from its publication business as a result of increased advertising sales.

Incremental revenues were also generated through ad hoc projects and supplements, such as publishing dailies at major travel trade events, producing special travel supplements and completing pre-press printing jobs for external clients.

TTG was appointed the official media provider by major travel associations such as the Pacific Asia Travel Association (PATA) and ASEANTA for a number of projects relating to the travel and tourism industry.

During 2004, several national tourist organisations and government bodies in the region appointed TTG as the official publisher for events organized by them. The appointments included: Lao, PDR - ASEAN Tourism Forum in January, Tourism Malaysia - Commonwealth Travel Mart in March, Singapore Tourism Board - Great Singapore Sale in July, Department of Tourism, Indonesia - TIME in September, and the Taiwan Visitors Association - ITF in November.

Online Games

Online games is an emerging sector which many people think has great potential in China. The Group entered this sector in 2004 by making a strategic investment in 17game under a convertible loan arrangement. In the second half of 2004, upon the conclusion of the beta tests of Travia, the Group converted its loan to 17game into equity. As of 31st December, 2004, the Group holds 36.5% of 17game, with the option to acquire up to 100% on an earn-out basis, depending on operating performance.

17game commercializes online games in the China market which includes marketing and promotional strategies. It has an extensive distribution network in China, including both online and offline channels, and collaborates with two of the largest data centre services operators in China, China Netcom and China Telecom, to establish its infrastructural network.

17game is currently preparing to launch Yulgang during 2005, a MMORPG game based on a very popular comic book published in Korea. Yulgang was recently launched commercially in the Korean market, and is one of the most popular online games in Korea.

The Group will be exploring cross-selling and cooperation opportunities between 17game and its other business divisions in the area of marketing and promotion, community building and MVAS product sales, in an effort to develop its online game business and improve online game profits.

Material acquisitions and significant investment

On 5th July, 2004, CDC Mobile IVR Corporation ("CDC Mobile IVR"), a British Virgin Islands company and an indirect wholly-owned subsidiary of the Group, entered into a share purchase agreement with CDC International Mobile Limited ("CDC International") to acquire Go2joy. Please refer to the section headed "Business Review" for details.

CDC International is a direct wholly-owned subsidiary of chinadotcom Mobile Interactive Corporation ("chinadotcom Mobile"). chinadotcom Mobile is the parent company of China M Interactive (BVI) Limited ("China M Interactive"), the substantial shareholder of the Group. CDC International is regarded as an associate of China M Interactive and a connected person of the Group under the GEM Listing Rules. Details of this connected transaction has been disclosed in accordance with the announcement requirements set out in Rule 19.06(2) and Rule 20.13(1) of the GEM Listing Rules.

During 2004, the Group made a strategic investment in 17game. In Q1, Prime Leader Holdings Limited ("Prime Leader"), a British Virgin Islands company and an indirect wholly-owned subsidiary within the Group, entered into the Senior Secured Convertible Loan Agreement with Equity Pacific Limited ("Equity Pacific"), a British Virgin Islands company and an offshore holding company of 17game, its shareholders and 17game, pursuant to which the Group provided, through Prime Leader, a senior secured loan up to US$3,200,000 to Equity Pacific convertible into ordinary shares of Equity Pacific upon fulfillment of certain due diligence and financial conditions. In Q4, Prime Leader converted all of the outstanding loan in the total amount of US$3,200,000 into 12,000 ordinary shares of Equity Pacific. Additionally, Prime Leader also acquired 3,333 ordinary shares from Skynet Global Limited, a British Virgin Islands company wholly owned by Mr. Dai Hong, the majority shareholder of Equity Pacific and 17game in Q3. As of 31st December, 2004, the Group indirectly holds 15,333 ordinary shares of Equity Pacific, representing 36.5% of the total issued share capital of Equity Pacific.

Employee information

As at 31st December, 2004, the Group had 617 (2003: 338) full-time employees of which 15 (2003: 19) were based in Hong Kong, 563 (2003: 279) in China and 39 (2003: 40) in Singapore. The Group has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

(3) FOR THE YEAR ENDED 31ST DECEMBER, 2005

The following is the management discussion and analysis principally extracted from the annual report of China.com for the year ended 31st December, 2005. Terms and definitions used below shall bear the same meanings as defined in such annual report.

FINANCIAL REVIEW

Turnover and gross profit

The Group's subscription revenue from the provision of mobile services and applications was reported in the prior year's financial statements on a "net basis" (excluding from revenue the portion of mobile services and applications revenue paid to the mobile network operators). Significant changes in the operation of the mobile services and applications business in the PRC had taken effect by early 2005. In response to such changes, the management and directors of the Group had reevaluated the arrangements with the mobile operators to determine whether to recognize the Group's revenue from mobile services and applications on a gross basis as a "principal" or net of services charges paid to mobile operators as an "agent". The Group has assessed the contractual relationship with the customer, the ability to set the terms and specifications of the service and the credit risk of the Group to assess whether the Group acts as a principal or agent when providing mobile services and applications. After consideration of these factors, the Group has determined (a) the Group is the primary obligor in the arrangement; (b) the Group controls the selection of the mobile operators and content providers and determines the service specifications; and (c) the Group has latitude in establishing pricing within ranges prescribed by the mobile operators and bears the credit risks.

Taking into account the above factors, the management and directors of the Group considered it is more appropriate to report revenue from the provision of mobile services and applications on a "gross basis" (including in revenue the portion of the mobile services and applications revenue paid to mobile network operators, and reporting such amounts paid to mobile network operators as an additional cost of sales), effective from 1st January, 2005. The management and directors of the Group have also reevaluated these factors in considering the net basis of revenue presentation for 2004 and based on management's assessment, as the changes in the operation of the mobile services and applications business in the PRC had not yet occurred or materialised in 2004, comparative amounts for the corresponding period in 2004 have not been changed, and are presented as previously reported.

The effect of this change in presentation was to increase revenue and cost of sales for the year ended 31st December, 2005 by HK$74,238,000, representing the services charges paid to the mobile operators during the year. Gross profit and profit for the year are not affected by this change in presentation.

Revenue from continuing operations for the year ended 31st December, 2005 was HK$387,315,000 representing a HK$155,904,000, or 67%, increase as compared with last year. The net increase was attributable to several factors, including the change in presentation of mobile services and applications revenue to a "gross basis", as well as an increase in online game revenue of HK$48,491,000 (due principally to the contribution of 17game which the Group commenced consolidating in December 2004) and an increase in advertising revenue from both portals and TTG of HK$7,193,000. The change in presentation of mobile services and applications revenue to a "gross basis" from a "net basis" resulted in an increase in mobile services and applications revenue of HK$74,238,000. Excluding the effect of the change in presentation, net mobile services and applications revenue in 2005 amounted to HK$193,999,000, increased by HK$25,982,000, or 15%, comparing with HK$168,017,000 in 2004 as a result of an increase in revenues from the Group's IVR, WAP and MMS platforms.

Gross profit margin was 57% (or 71% under the net presentation for mobile services and applications revenue) in 2005, compared to 76% when the net presentation was used for mobile services and applications revenue in 2004. Apart from the general tightening of market regulations in the mobile services and applications section starting from the 2nd half of 2004 which resulted in some negative impacts to the overall gross profit margin, the decrease in gross profit margin was mainly due to (1) the lower margin of online game business (61% in 2005); (2) the decline of the Group's SMS business which typically generates higher profit margins than the Group's other mobile services and applications businesses and (3) the change in presentation to a "gross basis" which results in a higher revenue base to calculate gross profit margin, thereby decreasing gross profit margin.

Other income

Other income decreased by 17% to HK$27,313,000 for the year ended 31st December, 2005, compared with HK$32,863,000 in 2004. The decrease was primarily due to a HK$7,498,000 decrease in interest income from availablefor-sale investments as a result of decreasing balances of available-for-sale investments after payments in connection with various acquisitions and repayments of bank loans. The decrease was offset by a HK$3,104,000 increase in bank interest income during the year.

Selling and distribution costs

Selling and distribution costs increased by 571% to HK$82,531,000 in 2005 compared with HK$12,298,000 in 2004. The increase was attributable to several factors, including HK$15,703,000 marketing and promotion expenses in connection with operating the new online game business. Besides, there were also additional expenses incurred in connection with new 2.5G products and applications (including WAP, IVR and MMS) and an increase in marketing expenses at the www.china.com portal as a result of new sponsorships.

Administrative expenses

General and administrative expenses increased by 29% to HK$132,094,000 in 2005 versus HK$102,603,000 in 2004. The increase was primarily due to expenses in connection with operating the Group's online game businesses amounting HK$16,242,000 and operating on additional mobile services and applications platforms (including WAP, IVR and MMS) as none of which business or platform was in large-scale operation during 2004. In addition, an increase in personnel expense as a result of an increase in headcount contributed to increased administrative expenses. Administrative expenses include share option expenses in 2005 amounting to HK$8,508,000 (2004: HK$4,539,000) recognized in accordance with the newly adopted HKFRS 2.

Other expenses

Other expenses decreased by about HK$1,777,000 to HK$27,624,000 in 2005, compared to HK$29,401,000 for the corresponding period last year. The decrease was primarily due to a decrease in goodwill amortisation expense of HK$28,264,000 (starting in 2005, goodwill is no longer amortised, but is subject to regular reviews for impairment) and a decrease in bad debt expenses of HK$1,235,000. However, such decreases were offset by an increase of HK$26,246,000 in amortisation expense of certain intangible assets for the Group's certain new online games titles for 17game as well as Go2joy mobile services and applications business acquired in August 2004.

Share of profit of an associate

There was no share of profit of an associate in 2005, compared to HK$44,000 in 2004. The associate was disposed of prior to 2005.

Income tax

The Group recorded a tax expense of HK$7,662,000 in 2005, compared to a tax income of HK$95,000 in 2004. The net increase in tax expense was mainly attributable to the provision of income tax for the Group's mobile services and applications businesses in the PRC. In 2004, one of the Group's mobile services and applications operations in the PRC obtained a full exemption from paying corporate income tax. Starting from 2005 to 2007, this mobile services and applications operation is entitled to a 50% tax exemption.

Discontinued operation

There was no discontinued operation in the year ended 31st December, 2005. During Q4 2004, the Group discontinued its operation under the technology segment. Further details of the discontinued operation are set out in note 10 to this report.

Minority interests

Loss shared by minority interests increased to HK$13,138,000 in 2005 compared to HK$1,965,000 in 2004. The increase represented the share of loss in the Group's minority interest in 17game. The Group increased its shareholding in 17game to 48% during Q3 2005, and has consolidated the results of 17game in accordance with Interpretation 18 "Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests"/HKAS 27 "Consolidated and Separate Financial Statements" issued by the HKICPA due to the fact that the Group owns certain potential voting rights in the form of share call options in a company which controls 17game that are presently exercisable.

Profit for the period attributable to equity holders of the Company

Profit for the year attributable to equity holders of the Company was HK$9,737,000 in 2005, compared to HK$53,594,000 in 2004.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK$1,515,821,000 shareholders' funds as at 31st December, 2005. Shareholders' funds as at 31st December, 2004 were HK$1,492,075,000. Total assets amounted to HK$1,725,638,000 as at 31st December, 2005 as compared to HK$1,815,254,000 as at 31st December, 2004, of which HK$402,937,000 were bank balances and cash versus HK$390,104,000 as at 31st December, 2004 and HK$629,687,000 were available-for-sale investments versus HK$739,842,000 as at 31st December, 2004.

Capital structure

Except for an decrease in the Group's bank borrowings by HK$31,493,000 to HK$85,800,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2005 as compared with that as at 31st December, 2004.

As at 31st December, 2005, the Group's bank borrowing of HK$85,800,000 was repayable within one year. All the bank borrowings are denominated in United States Dollars.

Charges on the Group's assets

As at 31st December, 2005, an amount of HK$99,184,000, (2004: HK$137,461,000) of available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings of HK$85,800,000 (2004: HK$117,293,000). Neither time deposits nor bank balances (2004: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds decreased from 8% as at 31st December, 2004 to 6% as at 31st December, 2005. The change was due to the repayment of bank borrowings of HK$31,493,000 during the year.

The Group's net cash and available-for-sale investments was HK$946,824,000 (2004: HK$1,012,653,000), comprising of bank balances and cash of HK$402,937,000 (2004: HK$390,104,000), available-for-sale investments of HK$629,687,000 (2004: HK$739,842,000) and bank borrowings of HK$85,800,000 (2004: HK$117,293,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2005, no related hedges were made by the Group.

Contingent liabilities

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed the China.com and its subsidiaries that it reserves its right to levy additional charges on the China.com and its subsidiaries for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

BUSINESS REVIEW

In April 2005, the shareholders of the Company approved a proposal to change the Company's name to "China.com Inc." and adopt the Chinese name "中華網科技公司". Concurrently with the change of the Company's name, in April 2005 shareholders of the Company's parent company approved a proposal to change its name from "chinadotcom corporation" to "CDC Corporation".

The new name China.com Inc. reflects the fact that the Group's business operations, revenues, customers and staff are all predominately based in China. The Group currently operates mobile services and applications, internet and media and online game businesses in China, whereas the Company's parent company has more diverse business lines (including a significant enterprise software business) and a more geographically diversified revenue and customer mix. In addition, the concurrent changes in name of the Company and its parent allows investors to more easily distinguish the Group from its parent, and helps clarify to investors that when they look to compare operations and results with other NASDAQ listed Chinese portal companies they should look to the operations and results of the Group, given its focus on the mobile services and applications, Internet and media and online game businesses in China, rather than to the more highly diversified operations and results of the parent company.

Mobile Value Added Services

For the year of 2005, our Group's mobile services and applications business experienced healthy recovery from the 2004 regulatory impact. After a challenging and stressful year for the mobile services and applications industry in 2004, the overall mobile services and applications business has started to turn positive after the mobile operators' implementation of the subscriber and billing platform. The new management platform is more customer-centric and has paved the way for a more service oriented business environment. The Group's mobile services and applications business has experienced steady improvement in 2005 with 60% increase in total revenue over year 2004 or 15% on a normalized basis, amounted to HK$268.2 million.

In 2005, the Group successfully transformed our mobile services and applications business from a SMS focused service provider to a more balanced one. During the year, revenue from our 2.5G products increased to 54% of the total mobile services and applications revenue from 16% in 2004. Meanwhile, the share of our SMS revenue has been diluted to 46% of the total mobile services and applications revenue, which previously reported 84% in 2004. All of our 2.5G services reported delightful increase in revenue during the year. In particular, revenues from IVR, MMS and WAP recorded some 5-fold, 7-fold and 3-fold year-to-year growth respectively.

In order to broaden our reach to potential subscribers, the Group has made tremendous efforts on the collaboration with handset vendors to embed its services and products into mobile phones. During the year, more products were contracted to embed in handsets from major vendors including Motorola, Sony Ericsson, Lenovo, TCL, Bird, BENQ, DBTel, KONKA and CECT.

As of the end of the year, we have connected to the nationwide SMS and IVR platforms of China Mobile, China Unicom, China Netcom and China Telecom, the nationwide WAP platforms of China Mobile and China Unicom, as well as the nationwide MMS platform of China Mobile. In addition, the Group has continued to expand its geographical reach at the provincial level. As of the end of the year, we have local connections with China Mobile, China Unicom, China Netcom and China Telecom in over 20 provinces. This resulted in better quality of services and a higher sign-up rate for subscribers and new services.

Online Games

Online game is an emerging sector which many people think has great potential in China. The Group entered this sector in 2004 by making a strategic investment in 17game under a convertible loan arrangement. During the year ended 31st December, 2005, the Group has acquired additional 11.5% shares of 17game. As of 12th August, 2005, the Group held 48% of 17game, with the option to acquire up to 100% on an earn-out basis, depending on operating performance.

17game commercializes online games in the China market. It has an extensive distribution network in China, including both online and offline channels, covering 30 provinces and over 100,000 web bars and collaborates with two of the largest data centre services operators in China, China Netcom and China Telecom, to establish its infrastructural network.

17game made an extremely successful launch of "Yulgang" MMORPG in July 2005. "Yulgang" was noted by 17173.com as the second most popular MMORPGs among over 50 new online games launched in China in 2005.

Unlike other commercial MMORPGs in the PRC market that generate fees based on the time players spent in the game world, we have been working with the Korean game developer to adopt a different revenue model for Yulgang in which we do not charge players for time spent playing the game, but rather charge players for virtual game merchandise and services, such as armor, uniforms and magical power, that players may choose to buy for the roles they are playing in the game world. This billing model has proven to be successful as demonstrated by the continuous increase in the number of paying players.

Yulgang opened its online store in mid-July this year, has proven to be one of the hottest new games in the market. The peak concurrent players of Yulgang exceeded 260,000 in Q4 2005, representing a quarter-on-quarter increase of 39%. Registered users totaled 14,966,000 in Q4 2005, up 63% from 9,170,000 in Q3 2005. Server groups throughout China supporting Yulgang and the company's other online games numbered 36, up 33% from 27 server groups in Q3 2005. Comparing with Q3 2005, the revenue of Yulgang made 109% increment in Q4 2005.

In addition to Yulgang, the other two online games, Droiyan and Travia, continued to contribute steady revenue during Q4 of 2005.

The Group will be exploring cross-selling and cooperation opportunities between 17game and its other business divisions in the area of marketing and promotion, community building and mobile services and applications product sales, in an effort to develop its online game business and improve online game profits.

Portal

Portal invested significant resources in content building in 2005, therefore both content and PV achieved remarkable increase during 2005.

In 2005, China.com conducted a full revamp of its football channel. In addition, partnership with three English Premier League football clubs enriched sports contents and further enhanced China.com's brand equity.

As the exclusive Internet partner of the 10th National Games, China.com fully participated in news coverage and online interactive sessions of the biggest sports event in 2005 in China. It is the first successful case for close cooperation between portal and large and comprehensive sports event in Internet history of China. The official website for the 10th National Games established by China.com created a new operating mode for new media and large comprehensive event, and also enhanced the development of wireless operation.

China.com established partnership with Shanghai Shenhua SVA SMG Football Club in 1st quarter, and regularly sponsored fan gatherings before each match. Since Shenhua performed better and better in Chinese Football Super League, it earned increasing fame and reputation for China.com in East China.

After the launch of Chinese official website of Manchester United under joint cooperative efforts by China.com and Manchester United Football Club in June, it soon became a hit among football zealots and was recognized by the market. During MU's Asia Tour in July and August, China.com rendered full-range and timely coverage and conducted online live broadcasting of football stars' exclusive interviews. Furthermore, it provided a platform and enriched content resources for mobile value-added service.

China.com also conducted reconstruction of Auto Channel. In the Recommendation of Internet Brand Column (Channel) of China jointly held by Internet News Research Center of State Council Information Office and Internet News Information Service Commission of Internet Society of China, China.com's Auto Channel was awarded one of the "Top Brand Channel of Chinese Internet Website". China.com attended world-famous Shanghai Automobile Exhibition in May 2005, by which raised the brand fame of China.com among netizens and its position among automobile manufacturers.

In order to attract users with high educational background and high income, China.com launched Luxury & Life Channel and received wide attention by advertisers and high-end readers. The successful story of China.com's Auto Channel makes it easier for relevant channels such as News, Health and entertainment to take lead in the field.

Significant progress has been achieved in application of new technologies in 2005. All existing BBS were reconstructed in September, among which, Military BBS is the biggest and most influential in China. The new edition of Military BBS was warmly welcomed by readers as soon as it was launched and brought in further increase of PV. According to a marketing study by iResearch (Feb 2005), the Military Channel of www.china.com portal was recognized as the number one military related channels amongst all Chinese Internet Media, affirmed the portal's leading position in the market.

China.com launched BLOG system in August and conducted continuous improvement and upgrading thereafter. Reconstruction of web pages that can be subscribed by RSS reader is also completed. Exploring efforts committed to new technologies such as TAG and SNS will make it easier for China.com to satisfy customized content needs of readers in near future, and build solid foundation for it to become a leading portal in China.

In order to provide better service to our advertisers and raise the image of China.com among our clients, we have adopted the world-leading advertisement launching system: Double Click.

China.com participated in China Science and Technology Expo 2005 together with Sina, Sohu and another 10 websites, and attended industrial forum organized by Internet Society of China and many other significant events such as China Internet Conference, fortifying our position as one of famous portals in China. Rapid growth of China.com also drew wide attention of domestic media and institutions.

In 2005, China.com ranked 31st in the first "Top 50 of China High Tech and High Growth", and was awarded "Top 50 Enterprises with Creativity" by ranking first 10th.

Media and Travel

TTG's business in 2005 started on a shaky note due to the Tsunami tragedy that affected the region's travel industry. However, TTG was able to recover by the first quarter of 2005 and thereafter leveraged on its strong brand and presence in the region to out-perform year 2004. This good performance for 2005 was driven by the overall improvement of advertising sales revenues and the group's ability to continue to work with National Tourist Organisations and government bodies as their preferred media partner at major travel events in the following events:

1. ASEAN Tourism Forum in Malaysia

2. PATA Annual Conference in Macau

3. PATA Travel Mart in Malaysia

4. TIME in Indonesia

5. International Taipei Fair in Taiwan

In addition, the group was able to generate additional revenues through ad hoc projects and special supplements which helped to contribute to the group's overall performance in 2005. TTG successfully organized the following events during the year and they were:

i. Thailand Travel Mart/International Travel Show – 1st time that the two travel shows were co-located as a single event which took place at IMPACT Exhibition Centre, Bangkok in June.

ii. DM Asia – The partnership with Gift Association of Singapore during the month of September helped to attract twice the number of visitors to this event.

iii. Incentive Travel & Conventions, Meetings Asia/Corporate Travel World – The 2nd co-location of these 2 events in October yielded better revenues and attracted more delegates.

iv. International Feng Shui Convention – Successfully organized this ad hoc event in November, which attracted some 500 delegates.

Material acquisitions and significant investment

During the year, the Group paid the entire balance amount of consideration for US$12,369,889 in respect of Beijing He He Technology Co. Ltd (“Go2joy”), a mobile value-added service provider in China, which the Group acquired from CDC Corporation, the Group’s ultimate holding company in August 2004.

In Q3, 2005, the Group made a further investment of US$3.5 million in Beijing 17game Network Technology Co., Ltd. (“17game”). Prime Leader Holdings Limited (“Prime Leader”), a British Virgin Islands company and an indirect whollyowned subsidiary within the Group, entered into a share subscription and purchase agreement with Equity Pacific Limited (“Equity Pacific”), a British Virgin Islands company and an offshore holding company of 17game, its shareholders and 17game, pursuant to which the Group, through Prime Leader, acquired from the management shareholders of Equity Pacific 2,098 ordinary shares at a consideration of US$1 million and subscribed for 5,248 new ordinary shares at a consideration of US$2.5 million. As of 31st December, 2005, the Group indirectly holds 22,679 ordinary shares of Equity Pacific, representing 48% of the total issued share capital of Equity Pacific.

On 17th March, 2006, Prime Leader entered into a share purchase agreement (the “Agreement”) for the acquisition of 24,569 ordinary shares, representing 52% of the total issued and outstanding shares in Equity Pacific for an aggregated total consideration of US$18,000,000 and thereafter, become the legal and beneficial owner of 100% of Equity Pacific. Details of this transaction has been disclosed in accordance with the announcement requirements set out in Rule 19.58 to 19.60 of the GEM Listing Rules.

Employee information

As at 31st December, 2005, the Group has 686 (2004: 617) full-time employees of which 18 (2004: 15) are based in Hong Kong, 633 (2004: 563) in China and 35 (2004: 39) in Singapore. The Group has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

(4) FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

The following is the management discussion and analysis principally extracted from the interim report of China.com for the six months ended 30th June, 2006. Terms and definitions used below shall bear the same meanings as defined in such interim report.

FINANCIAL REVIEW

Revenue and gross profit

Revenue for the Half-Yearly Period was HK$279,796,000 representing a HK$117,207,000, or 72%, increase as compared with the same period last year. The net increase was primarily attributable to (1) an increase in online game revenue of HK$92,151,000 (due principally to the full consolidation of 17game's revenue starting from the second quarter of 2006); (2) increase in mobile services and applications subscription revenue of HK$17,816,000 from 2.5G platforms such as WAP and MMS; and (3) an increase in advertising revenue from both portals and TTG of HK$7,240,000.

Gross profit margin was 61% for the Half-Yearly Period, compared to 53% in the same period last year. The overall increase in gross profit margin of the Group was mainly due to the significant increase in the higher-profit-margin online game business (67% in the Half-Yearly Period).

Other income

Other income fell by 11% to HK$12,973,000 for the Half-Yearly Period, compared with HK$14,549,000 in the corresponding period in 2005. The decrease was primarily due to a HK$2,445,000 decrease in interest income from available-for-sale investments as a result of decreasing balances of available-for-sale investments after payments in connection with various acquisitions and repayments of bank borrowings. The decrease was partly offset by a HK$496,000 increase in bank interest income during the Half-Yearly Period.

Selling and distribution costs

Selling and distribution costs increased to HK$62,834,000 for the Half-Yearly Period, compared with HK$35,518,000 in the corresponding period in 2005. The increase was mainly attributable to the additional marketing and promotion expenses incurred for our mobile services and applications businesses amounting to HK$29,402,000 during the Half-Yearly Period.

Administrative expenses

Administrative expenses increased by 21% to HK$67,673,000 for the Half-Yearly Period versus HK$55,872,000 for the corresponding period last year. The net increase was primarily due to the expansion of our operation during the Half-Yearly Period. Administrative expenses include share option expenses in the Half-Yearly Period amounting to HK$7,123,000 (six months ended 30th June, 2005: HK$3,138,000) recognized in accordance with HKFRS 2.

Other expenses

Other expenses increased by about HK$9,605,000 to HK$18,691,000 in the Half-Yearly Period, compared to HK$9,086,000 for the corresponding period last year. The increase was primarily due to the increase in amortization expense of intangible assets.

Income tax

The Group recorded a tax expense of HK$1,800,000 in the Half-Yearly Period, compared to HK$2,578,000 for the corresponding period last year. The provision of income tax was HK$2,752,000 in the Half-Yearly Period which was partially offset by the deferred tax income of HK$952,000.

Minority interests

Profit shared by minority interests was HK$4,213,000 in the Half-Yearly Period, compared to a loss shared by minority interests of HK$11,561,000 in the same period last year. The amount represented the share of profit in the Group's minority interest in 17game and the turnaround was mainly attributable to the significant growth in 17game's online game business. The Group had acquired the remaining 52% shareholding of 17game to make it a wholly-owned subsidiary by the end of Q1 2006 and there was no share of profit or loss by minority interests in 17game during Q2 2006.

Profit for the period attributable to equity holders of the Company

Profit for the period attributable to equity holders of the Company was HK$26,353,000 in the Half-Yearly Period, compared to HK$7,673,000 in the same period last year, up 243%.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK$1,651,640,000 shareholders' funds as at 30th June, 2006. Shareholders' funds as at 31st December, 2005 were HK$1,515,821,000. Total assets amounted to HK$1,754,225,000 as at 30th June, 2006 as compared to HK$1,725,638,000 as at 31st December, 2005, of which HK$364,240,000 were bank balances and cash versus HK$402,937,000 as at 31st December, 2005 and HK$589,720,000 were available-for-sale investments versus HK$629,687,000 as at 31st December, 2005.

Capital structure

Except for the full repayment of the Group's bank borrowings amounting to HK$85,800,000 during the Half-Yearly Period, there was no change in the capital structure of the Group as at 30th June, 2006 as compared with that as at 31st December, 2005.

Charges on the Group's assets

As at 30th June, 2006, none (31st December, 2005: HK$99,184,000) of the Group's available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings which was fully repaid as at 30th June, 2006 (31st December, 2005: HK$85,800,000). Neither time deposits nor bank balances (31st December, 2005: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, decreased from 6% as at 31st December, 2005 to 0% as at 30th June, 2006. The change was due to the full repayment of bank borrowings of HK$85,800,000 during the Half-Yearly Period.

As at 30th June, 2006, the Group's net cash and available-for-sale investments was HK$953,960,000 (31st December, 2005: HK$946,824,000), comprising of bank balances and cash of HK$364,240,000 (31st December, 2005: HK$402,937,000), available-for-sale investments of HK$589,720,000 (31st December, 2005: HK$629,687,000) and bank borrowings of nil (31st December, 2005: HK$85,800,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 30th June, 2006, no related hedges were made by the Group.

Contingent liabilities

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed the China.com and its subsidiaries that it reserves its right to levy additional charges on the China.com and its subsidiaries for the use of any intellectual property rights not otherwise covered by the Licensing Agreement.

Material acquisition and significant investments

During the Half-Yearly Period, the Group made a further investment in Beijing 17game Network Technology Co., Ltd. ("17game"). On 17th March, 2006, Prime Leader Holdings Limited ("Prime Leader"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with the shareholders of Equity Pacific Limited ("Equity Pacific"), a British Virgin Islands company and an offshore holding company of 17game, to acquire 52% of the total issued and outstanding shares in Equity Pacific for an aggregated of US$18,000,000 and thereafter, became the legal and beneficial owner of 100% of Equity Pacific. Details of the transaction has been disclosed in the announcement dated 22nd March, 2006 made by the Company.

Employee information

As at 30th June, 2006, the Group had 735 (2005: 717) full-time employees of which 11 (2005: 17) were based in Hong Kong, 685 (2005: 660) in China and 39 (2005: 40) in Singapore. The Group has introduced share option schemes to recognize the contributions of its employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

BUSINESS REVIEW

Online Games

As of 17th March, 2006, the Group increased its shareholding in 17game from 48% to 100% to make it a wholly-owned subsidiary and we started full consolidation of its result in Q2 2006.

17game is a leading massive multiplayer online role-playing games (MMORPG) provider with a proven track record in launching and distributing successful online games for the China market. Its latest online game, Yulgang, is one of the most popular games in China. During this quarter, Yulgang kept on achieving new milestones and continued the strong growth momentum.

The number of registered users of Yulgang had exceeded 30,000,000 in Q2 2006, up 36% from 22,000,000 in Q1 2006. The average concurrent players for Yulgang surpassed 242,000 in Q2 2006, representing a quarter-on-quarter increase of 34%. The number of virtual items sold reached 21.3 million, an increase of 187% from Q1 2006. Server groups throughout China supporting Yulgang and the Group's other online games numbered 48, up 12% from 43 server groups in Q1 2006.

Regarding the gamer demographics of Yulgang, 20% of our players are female and over 60% of our gamers are in between 18-25. We note that around 60% of the gamers come from the Southern part of China.

The success of Yulgang drives a significant growth in our online game business. Comparing with Q1 2006, the online game revenue increased by 52% to HK$61 million in Q2 2006. We have delivered solid quarter-over-quarter improvements in the operation metrics. Additionally, the strong growth momentum and financial flexibility from our strong balance sheet give us confidence in our ability to become the market leader of online and mobile games in China. The Group plans to widen our market coverage with our extensive marketing and distribution networks in China, to build a broader portfolio of games and to selectively acquire synergistic and earnings accretive gaming companies in China.

Leveraging the momentum created by Yulgang, CDC Games has licensed two more online games with free-to-play business model. The games are licensed from Japan and Korea and the deals are closed in July and August 2006 respectively. We are negotiating another MMORPG from the United States. It is expected to be closed toward the end of Q3 2006.

The Group aims to leverage on Yulgang's growing base of 30 million registered users and its extensive national coverage and support of 48 server groups for organic growth while employing our strong cash position to make target acquisitions.

Mobile Value Added Services

In Q2 2006, our mobile services and applications business continued its uptrend on revenue growth, with a quarter-on-quarter overall revenue increment of 6%. Along with the experience accumulated from our 2.5G product operation and promotion, our mobile services and applications business unit became sophisticated in operating 2.5G services such as WAP and MMS services. Our 2.5G services continued to be the key growth driver. During this quarter, our WAP and MMS revenues went up 27% sequentially and more than doubled on a year-onyear basis.

In this quarter, we kept on achieving a healthy and balanced revenue mix of our mobile services and applications business unit. WAP and SMS services continued to act as our major revenue generators, each contributed around one-third of the total revenue. In particular, 35%, 31%, 18% and 16% of the total revenue were generated by our WAP, SMS, IVR and MMS services respectively.

In early July, China Mobile, as well as other mobile operators, announced new policies related to the mobile services and applications industry, under the policy directives of China's Ministry of Information Industry, with an aim to reduce customer complaints and increase customer satisfaction. We anticipated, under the implementation of the new policies; (1) new subscription will decrease; (2) cancellation rate will increase; and (3) user acquisition cost will increase. We expect the new policies will have negative impacts on the revenues and profits of our mobile services and applications business. The effects will be reflected starting from Q3 of 2006. However, we believe that although user subscriptions will be affected in the near term, the industry's overall development is likely to benefit in the longer term.

Portal

In Q2 2006, the china.com portal continued in building its position as China's Portal for Professionals, focusing on Lifestyle, Career, Entertainment, Technology and Health Channels.

We launched China's first online comic news show, "The Straight Show", in May, and was very popular among Chinese Internet users. "The Straight Show" is positioned also as mobile video content in the 3G era, as well as a platform for interactive online video.

Also in Q2, the china.com portal signed strategic partnership agreements with Google, Amazon and DEX, combining strengths in international brands, technologies, and the china.com portal's own content. These partnerships have not only provided better user experience, but also turned pageviews into more revenue.

In addition, the china.com portal and CDC Games had achieved more synergy in advertising sales – the china.com portal's advertising sales force would also sell advertisements for games' portal to broaden the revenue base of CDC Games without adding cost.

After Italy.China.com, the china.com portal signed agreements with a Korean content provider for Korea.China.com in Q2 2006. Korea.China.com provides the latest content in Korean movie and TV, music, fashion, games and other products. The large number of fan base in China for Korean pop culture has laid the foundation for the popularity of this channel.

Media and Travel

TTG had done well in Q2 with its key media products performing better compared to the same period last year.

TTG successfully organized one conference/exhibition during the quarter – DM Asia/Gifts & Stationary Fair 2006. The event was supported by three associations, namely Direct Marketing Association of Singapore, Gifts Association, and Book Sellers & Stationers Association.

Other significant activities undertaken by TTG includes; publishing of the Official 2006 Great Singapore Sale Guide; publishing of the 2006 PATA Annual Conference Daily and managing of a roadshow on behalf of Vietnam Meeting & Incentive Club.

TTG has been awarded media partner status by Xin Lu (inhouse agency of China National Tourist Administration) to publish the international section of the China International Travel Mart ("CITM") 2006 Official Directory and CITM 2006 Picture Daily. CITM is China's largest travel event which is scheduled to take place in Shanghai in November this year and is expected to attract over 1,900 exhibiting companies.

(1) FOR THE YEAR ENDED 31ST DECEMBER, 2004

Business review

2004 is a year of growth of the TimeHeart Group. During the year, the nationwide license for operating telecommunication value-added services was granted to the TimeHeart Group. As at the end of the year, the TimeHeart Group had established connections to all four mobile operators in China, namely China Mobile, China Unicom, China Netcom and China Telecom. 21 provinces have been connected, compared to 11 connections in last year.

During the year, the TimeHeart Group transformed from a SMS focused service provider to a more balanced one that offer a blend of 2.5G products. As at the end of the year, PDA, WAP, IVR and other services were added in TimeHeart Group's product mix.

Profit and loss analysis

The TimeHeart Group recorded a profit after tax of RMB12.4 million (2003: RMB5.8 million), representing an increase of RMB6.6 million or 114% over last year's profit. The increase in profit after tax was mainly attributed to the increase in revenue which were partly offset by the increase in operating expenses.

For the year ended 31st December, 2004, the TimeHeart Group's revenue increased by 135% or RMB23.6 million to RMB41.1 million. The increase in revenue was primarily due to the expansion of its business, which was the result of the broaden of product line and geographic coverage. The TimeHeart Group's finance costs increased by 759% or RMB29,553 to RMB33,447 mainly because the average balance of bank borrowings during the year was higher than that of last year.

The TimeHeart Group's operating expenses increased by 137% or RMB10.4 million to RMB18.0 million for the year when compared to last year. The increase in operating expenses was mainly due to the expansion of its business.

Balance sheet analysis

As at 31st December, 2004, the TimeHeart Group's trade and other receivables increased by 118% or RMB4.6 million to RMB8.5 million from RMB3.9 million at the end of 2003. The increase in trade and other receivables was primarily attributed to the increase in revenue.

As at 31st December, 2004, the TimeHeart Group's bank balances and cash increased by 245% or RMB10.3 million to RMB14.5 million from RMB4.2 million at the end of 2003. The increase in bank balances and cash was primarily attributed to the increase in revenue.

As at 31st December, 2004, the TimeHeart Group's bank loans increased by 500% or RMB2.5 million to RMB3.0 million from RMB0.5 million at the end of 2003.

Financial resources, liquidity and capital management

At 31st December, 2004, the total equity of the TimeHeart Group amounted to RMB19.4 million, representing an increase of RMB12.4 million or 177% from 2003. The TimeHeart Group had bank balances and cash of approximately RMB14.5 million as at 31st December, 2004 (2003: RMB4.2 million). The TimeHeart Group's bank loans, totalling RMB3.0 million (2003: RMB0.5 million) all of which was due on demand or within one year. The liquidity of the TimeHeart Group as evidenced by the current ratio (current assets/current liabilities) was 5.1 times (2003: 4.8 times). The TimeHeart Group's gearing ratio (the bank loans as a % of total equity) increased to 15.5% (2003: 7.1%).

The TimeHeart Group relied principally on its internally generated capital and bank loans to fund its business. The bank loans of the TimeHeart Group are charged at fixed rates. The principal source of internally generated capital is from retained earnings.

During 2004, the TimeHeart Group did not incur or enter into commitments for any material capital expenditure commitment. There were also no charge over the TimeHeart Group's assets.

Employees

The total number of staff of the TimeHeart Group at 31st December, 2004 was 113 (2003: 67). Total staff costs amounted to RMB3.4 million (2003: RMB1.1 million). The TimeHeart Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits included contributions to retirement benefit scheme, medical subsidies and a discretionary bonus scheme.

(2) FOR THE YEAR ENDED 31ST DECEMBER, 2005

Business review

In 2005, the TimeHeart Group continued to expand its SMS and PDA services with appreciated growth. During the year, JAVA, RBT, mobile flash, media stream services were added in TimeHeart Group's product line.

As at the end of the year, the TimeHeart Group had full access to all 4 mobile operators in China, together with nationwide coverage except for Xizang Province.

Profit and loss analysis

The TimeHeart Group recorded a profit after tax of RMB28.3 million, representing a growth of 128% or RMB15.9 million when compared to RMB12.4 million in last year. The increase in profit after tax was mainly attributed to the increase in revenue.

For the year ended 31st December, 2005, the TimeHeart Group's revenue increased by 61.1% or RMB25.1 million to RMB66.2 million. The increase in revenue was primarily due to the expansion of its business, which was the result of the broaden of product line and geographic coverage. The TimeHeart Group's finance costs increased by 564% or RMB188,619 to RMB222,066 mainly due to the increase in bank borrowings to finance the business.

The TimeHeart Group's operating expenses decreased by 8.3% or RMB1.5 million to RMB16.5 million for the year when compared to last year. The decrease in operating expenses reflex the economy of scale and the improvement of TimeHeart Group's operating efficiency.

Balance sheet analysis

As at 31st December, 2005, the TimeHeart Group's trade and other receivables increased by 39% or RMB3.3 million to RMB11.8 million from RMB8.5 million at the end of 2004. The increase in trade and other receivables was primarily attributed to the increase in revenue.

As at 31st December, 2005, the TimeHeart Group's bank balances and cash increased by 13% or RMB1.9 million to RMB16.4 million from RMB14.5 million at the end of 2004. The increase in bank balances and cash was primarily attributed to the increase in revenue which was party offset by the dividend payout during the year.

As at 31st December, 2005, the TimeHeart Group's had no bank loans outstanding (2004: RMB3.0 million).

Financial resources, liquidity and capital management

At 31st December, 2005, the total equity of the TimeHeart Group amounted to RMB14 million (2004: RMB19.4 million), representing an decrease of RMB5.4 million or approximately 28% from 2004. The TimeHeart Group had bank balances and cash of approximately RMB16.4 million as at 31st December, 2005 (2004: RMB14.5 million).

At 31st December, 2005, the TimeHeart Group had no bank loans (2004: RMB3.0 million). The liquidity of the TimeHeart Group as evidenced by the current ratio (current assets/current liabilities) was 1.8 times (2004: 5.1 times). The TimeHeart Group's gearing ratio (the bank loans as a % of total equity) decreased to 0% (2004: 15.5%).

The TimeHeart Group relied principally on its internally generated capital to fund its business. The principal source of internally generated capital is from retained earnings.

During 2005, the TimeHeart Group did not incur or enter into commitments for any material capital expenditure. There were also no charge over the TimeHeart Group's assets.

Employees

The total number of staff of the TimeHeart Group at 31st December, 2005 was 96 (2004: 113). Total staff costs amounted to RMB3.7 million (2004: RMB3.4 million). The TimeHeart Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits included contributions to retirement benefit scheme, medical subsidies and a discretionary bonus scheme.

(3) FOR THE SEVEN MONTHS PERIOD ENDED 31ST JULY, 2006

Business review

In the sever months period ended 31st July, 2006, the TimeHeart Group continued to increase its marketing effort in product promotion, especially the JAVA products. In this period, a new marking channel, television, was used for promotion of TimeHeart Group's products. A series of TV advertising program was developed and broadcasted, which brought the TimeHeart Group considerable number of hard-core users and nice return. At the mean time, the TimeHeart Group invested in the development of mobile TV, JAVA network game and boardband application, as preparation for new mobile value-added services for the future mobile network.

As at 31st July, 2006, the TimeHeart Group had full access to all 4 mobile operators in China, together with nationwide coverage. As at the end of the period, a total of 9 types of product were being operated by the TimeHeart Group, namely SMS, MMS, PDA, WAP, IVR, JAVA, RBT, mobile flash and media steam.

Profit and loss analysis

During the period, the TimeHeart Group recorded a profit after tax of RMB20 million, representing an increase of RMB4.6 million or 30%, when compared to RMB15.4 million in the same period of 2005. The increase in profit after tax for the year is mainly attributable to the increase in revenue which were partly offset by the increase in operating expenses.

During the period, the TimeHeart Group's revenue increased by 26% or RMB9.3 million to RMB45.5 million as compared to the same period of last year. The increase in revenue was primarily due to the expansion of its business.

The TimeHeart Group's operating expenses increased by 30% or RMB2.9 million to RMB12.5 million when compared to the same period of last year. The increase in operating expenses was inline with the increase in revenue.

Balance sheet analysis

As at 31st July, 2006, the TimeHeart Group's trade and other receivables increased by 16% or RMB1.9 million to RMB13.7 million from RMB11.8 million at the end of 2005. The increase in trade and other receivables was primarily due to the increase in revenue.

As at 31st July, 2006, the TimeHeart Group's bank balances and cash decreased slightly to RMB16.1 million from RMB16.4 million at the end of 2005. The decrease in bank balances and cash reflexed the increase in revenue which was offset by the dividend payout during the period.

Financial resources, liquidity and capital management

At 31st July, 2006, the total equity of the TimeHeart Group amounted to RMB27.1 million (31st December 2005: RMB14.0 million), representing an increase of RMB13.1 million or approximately 94% from 31st December 2005. The TimeHeart Group had bank balances and cash of approximately RMB16.1 million as at 31st July, 2006 (31st December 2005: RMB16.4 million).

At 31st July, 2006, the TimeHeart Group had no bank loans (31st December 2005: Nil). The liquidity of the TimeHeart Group as evidenced by the current ratio (current assets/current liabilities) was 7.3 times (31st December 2005: 1.8 times).

The TimeHeart Group relied principally on its internally generated capital to fund its business. The principal source of internally generated capital is from retained earnings.

During the period, the TimeHeart Group did not incur or enter into commitments for any material capital expenditure. There were also no charge over the TimeHeart Group's assets.

Employees

The total number of staff of the TimeHeart Group at 31st July, 2006 was 83 (31st December, 2005: 96). Total staff costs amounted to RMB2.7 million (2005: RMB2.4 million). The TimeHeart Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits included contributions to retirement benefit scheme, medical subsidies and a discretionary bonus scheme.

The accompanying unaudited pro forma combined balance sheet, income statement and cash flow statement (hereinafter collectively referred to as the "Unaudited Pro Forma Financial Information") of the Enlarged Group have been prepared to illustrate the effect of the Acquisition for a consideration of approximately HK$122,216,000.

The Unaudited Pro Forma Financial Information is prepared after making pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, is summarised in the accompanying notes. The Unaudited Pro Forma Financial Information has not taken into account the right of the seller to claim dividend and all of the profit of TimeHeart Group for the period from January 1, 2006 to September 30, 2006 as determined by the relevant terms in the Amendment.

The unaudited pro forma combined balance sheet is prepared based on the unaudited consolidated balance sheet of China.com as at June 30, 2006, which has been extracted from the interim report of China.com as set out in Appendix III, and based on the audited consolidated balance sheet of TimeHeart Group as at July 31, 2006 as extracted from the accountants' report as set out in Appendix II after translation into Hong Kong dollars at the exchange rate of HK$1 = RMB1.0233, after making pro forma adjustments relating to the Acquisition as if the Acquisition had been completed on June 30, 2006.

The unaudited pro forma combined income statement and unaudited pro forma combined cash flow statement are prepared based on the audited consolidated income statement and audited consolidated cash flow statement of China.com for the year ended December 31, 2005, which have been extracted from the annual report of China.com as set out in Appendix III, and based on the audited consolidated income statement and audited consolidated cash flow statement of TimeHeart Group for the year ended December 31, 2005 as extracted from the accountants' report set out in Appendix II after translation into Hong Kong dollars at exchange rate of HK$1 = RMB1.0385, after making pro forma adjustments relating to the Acquisition as if the Acquisition had been completed on January 1, 2005.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of China.com as set out in Appendix III, the financial information of TimeHeart Group as set out in Appendix II and other financial information included elsewhere in this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with the GEM Listing Rule Chapter 7 paragraph 31 for the purpose of illustrating how the Acquisition might have affected the financial information presented. The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors for illustrative purpose only. It is prepared based on a number of assumptions, estimates, uncertainties and currently available information and, because of its nature, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of Enlarged Group that would have been attained had the Acquisition been completed on June 30, 2006, or the results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on January 1, 2005. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results or cash flows.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

	China.Com June 30, 2006	TimeHeart Group July 31, 2006	Pro forma adjustments for the completion of the Acquisition							Pro forma Enlarged Group
	HK$'000	*HK$'000*				*HK$'000*				*HK$'000*
						Notes				
			(a)	*(b)*	*(c)(i)*	*(c)(iii)*	*(c)(iv)*	*(d)*	*(e)*	
ASSETS										
Non-current Assets										
Plant and equipment	29,870	1,463								31,333
Goodwill	598,440	–	100,739							699,179
Other intangible assets	89,441	–								89,441
	717,751	1,463								819,953
CURRENT ASSETS										
Accounts receivable	55,749	13,361								69,110
Prepayments, deposits and other receivables	21,943	424								22,367
Available-for-sale investments	589,720	–								589,720
Amounts due from fellow subsidiaries	4,125	–								4,125
Amounts due from the ultimate holding company	697	–								697
Bank balances and cash	364,240	15,753		(2,400)	(16,211)					361,382
	1,036,474	29,538								1,047,401
Total Assets	1,754,225	31,001								1,867,354
EQUITY AND LIABILITIES										
Capital and Reserves										
Share capital	435,194	–				2,732				437,926
Reserves	1,216,446	26,530				9,748		(26,530)		1,226,194
Equity attributable to equity holders of the Company	1,651,640	26,530								1,664,120
Minority interests	–	–	2,653						77,301	79,954
Total Equity	1,651,640	26,530								1,744,074
Non-current Liabilities										
Acquisition consideration payable	–	–					16,224			16,224
Deferred tax liabilities	5,181	432								5,613
	5,181	432								21,837
CURRENT LIABILITIES										
Accounts payable	30,999	14								31,013
Other payables and accrued liabilities	36,555	3,686								40,241
Deferred revenue	21,947	–								21,947
Tax liabilities	1,947	95								2,042
Amounts due to fellow subsidiaries	5,956	–								5,956
Amount due to parent company	–	244								244
	97,404	4,039								101,443
Total Equity and Liabilities	1,754,225	31,001								1,867,354
Total assets less current liabilities	1,656,821	26,962								1,765,911

UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP

	China.Com for the year ended December 31, 2005	TimeHeart Group for the year ended December 31, 2005	Pro forma adjustment for the completion of the Acquisition	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			Note (f)	
REVENUE	387,315	63,780		451,095
Cost of sales	(164,935)	(18,640)		(183,575)
Gross profit	222,380	45,140		267,520
Other income	27,313	213		27,526
Selling and distribution costs	(82,531)	(6,189)		(88,720)
Administrative expenses	(132,094)	(3,624)		(135,718)
Research and development expenses	–	(6,120)		(6,120)
Other expenses	(27,624)	–		(27,624)
Interest expense on bank borrowings wholly repayable within five years	(3,183)	(214)		(3,397)
PROFIT BEFORE TAXATION	4,261	29,206		33,467
Income tax charge	(7,662)	(1,991)		(9,653)
(LOSS) PROFIT FOR THE YEAR	(3,401)	27,215		23,814
ATTRIBUTABLE TO:				
Equity holders of the Company	9,737	25,854	(6,272)	29,319
Minority interests	(13,138)	1,361	6,272	(5,505)
	(3,401)	27,215		23,814

UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	China.Com for the year ended December 31, 2005	TimeHeart Group for the year ended December 31, 2005	Pro forma adjustments for the completion of the Acquisition			Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*		*HK$'000*
				Notes		
			(b)	*(c)(i)*	*(g)*	
OPERATING ACTIVITIES						
Profit before taxation	4,261	29,206				33,467
Adjustment for:						
Interest expense	3,183	214				3,397
Interest income on available-for-sale investments	(21,992)	–				(21,992)
Other interest income	(5,482)	–				(5,482)
Loss on disposal of available-for-sale investments	160	–				160
Depreciation of plant and equipment	9,243	655				9,898
Amortisation of other intangible assets	26,246	–				26,246
Share-based payment expense	8,508	–				8,508
Gain on disposal of plant and equipment	(156)	–				(156)
Reversal of loss on receivable	–	(19)				(19)
Allowance for bad and doubtful debts	929	–				929
Operating cash flow before movements in working capital changes	24,900	30,056				54,956
Decrease (increase) in accounts receivable	6,784	(3,147)				3,637
Decrease (increase) in prepayments, deposits and other receivables	798	(372)				426
Decrease in amounts due from fellow subsidiaries	1,214	–				1,214
Increase in accounts payable	6,624	–				6,624
(Decrease) increase in other payable and accrued liabilities	(7,145)	1,125				(6,020)
Increase in deferred revenue	9,822	–				9,822
Increase in amounts due to fellow subsidiaries	1,683	–				1,683
Cash generated from operations	44,680	27,662				72,342
Income taxes paid	(4,119)	(1,368)				(5,487)
NET CASH FROM OPERATING ACTIVITIES	40,561	26,294				66,855

	China.Com for the year ended December 31, 2005	TimeHeart Group for the year ended December 31, 2005	Pro forma adjustments for the completion of the Acquisition			Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*		*HK$'000*
				Notes		
			(b)	*(c)(i)*	*(g)*	
INVESTING ACTIVITIES						
Interest income on available-for-sale investments	21,992	–				21,992
Other interest income	5,482	–				5,482
Purchases of plant and equipment	(13,949)	(1,027)				(14,976)
Acquisition of subsidiaries	(12,385)	–	(2,400)	(16,211)	13,949	(17,047)
Acquisition of additional equity interest in subsidiaries	(7,799)	–				(7,799)
Payment of acquisition consideration	(101,232)	–				(101,232)
Proceed from disposal of plant and equipment	404	–				404
Proceed from disposal of available-for-sale investments	101,400	–				101,400
NET CASH USED IN INVESTING ACTIVITIES	(6,087)	(1,027)				(11,776)
FINANCING ACTIVITIES						
Proceeds from issue of share capital	8,915	–				8,915
Share issue expenses	(16)	–				(16)
Dividends paid	–	(20,337)				(20,337)
New bank borrowings	–	1,926				1,926
Repayment of bank borrowings	(31,493)	(4,815)				(36,308)
Interest paid	(3,183)	(214)				(3,397)
NET CASH USED IN FINANCING ACTIVITIES	(25,777)	(23,440)				(49,217)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,697	1,827				5,862
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2005	390,104	13,949			(13,949)	390,104
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	4,136	–				4,136
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2005, represented by bank balances and cash	402,937	15,776				400,102

The adjustments reflect the following:

(a) Goodwill of approximately HK$100,739,000 arising from the Acquisition, which is calculated as the difference between (1) the aggregate of the total consideration of approximately HK$122,216,000 for the Acquisition and the estimated amount of the expenses of approximately HK$2,400,000 directly attributable to the Acquisition and (2) the estimated fair value of approximately HK$23,877,000 of the identifiable net asset of TimeHeart Group to be acquired upon the completion of the Acquisition, which represents a 90% equity interest in TimeHeart Group to be held by China.com through CMMC.

The identifiable net asset of TimeHeart Group attributable to the remaining 10% equity interest is to be held by a minority shareholder on completion of the Acquisition and accordingly its estimated fair value of approximately HK$2,653,000 is presented as part of the minority interests in the unaudited pro forma combined balance sheet.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the carrying value of the net asset of TimeHeart Group as at July 31, 2006 is taken to be the estimated fair value of its identifiable net asset at the Closing Date.

(b) The capitalisation of estimated expenses directly attributable to the Acquisition amounting to approximately HK$2,400,000.

(c) The consideration for the Acquisition shall be paid and determined as follows:

i) RMB cash equivalent to US$1,600,000 cash and RMB3,861,000 cash (equivalent to an aggregate of approximately HK$16,211,000);

ii) 10% of the issued share capital of CMMC upon the Closing Date, which fair value as at the Closing Date is taken to be 10% of the carrying value of net asset of CMMC as at June 30, 2006 amounted to HK$77,301,000;

iii) The issuance of approximately 27,320,000 China.com Restricted Shares, with a par value of HK$0.10 each, the fair value of which is estimated to be approximately US$1,600,000 (equivalent to approximately HK$12,480,000) at the Closing Date at the First Conversion Price of HK$0.4568, resulting in additional share capital of HK$2,732,000 and share premium of HK$9,748,000; and

iv) The issuance of China.com Restricted Shares of approximately 39,465,000, with a par value of HK$0.10 each, the fair value of which at the Closing Date is estimated to be approximately US$2,080,000 (equivalent to approximately HK$16,224,000). This part of consideration is calculated based on a formula set out in the Amendment which will vary based on the performance of TimeHeart Group in the fourth quarter of 2006 and in the year 2007, and is estimated based on management's expectation on the performance of TimeHeart Group in the aforesaid periods. The number of China.com Restricted Shares to be issued will also vary based on the future average market price. As this part of consideration is expected to be settled in May 2008, it is recorded under non-current liabilities. The effect of discount to present this non-current liability at its estimated fair value is not expected to be significant and has not been taken into account in this adjustment.

(d) The elimination of the pre-acquisition reserves of TimeHeart Group of approximately HK$26,530,000.

(e) The share of the carrying value of the net asset of CMMC by the 10% minority shareholder as if the Acquisition had been completed on June 30, 2006, which amounted to approximately HK$77,301,000.

(f) The share of profit of CMMC and TimeHeart Group by the 10% minority shareholder as if the Acquisition had been completed on January 1, 2005, which amounted to approximately HK$6,272,000.

(g) The bank balances and cash of TimeHeart Group at January 1, 2005 of approximately HK$13,949,000 in aggregate are included in determining the net cash outflow arising on acquisition of TimeHeart Group as if the Acquisition had been completed on January 1, 2005.

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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA.COM INC.

We report on the unaudited pro forma financial information of China.com Inc. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and TimeHeart Science Technology Limited ("TimeHeart") and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed acquisition of all the shares of TimeHeart might have affected the financial information presented, for inclusion in Appendix VI of the circular dated November 13, 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 182 to 188 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at June 30, 2006 or any future date; or
- the results and cash flows of the Enlarged Group for the year ended December 31, 2005 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

November 13, 2006

china.com

China.com Inc.

中華網科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8006)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the Company will be held at 33rd Floor Citicorp Centre, 18th Whitfield Road, Causeway Bay, Hong Kong on Tuesday, 28th November, 2006 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT:**

(a) the Share Purchase Agreement effective as of 25th July, 2006 (the "Agreement") and amendment to Share Purchase Agreement effective as of 5th October, 2006 (the "Amendment") both by and among TimeHeart Science Technology Limited ("TimeHeart"), Beijing TimeHeart Information Technology Limited ("Beijing TimeHeart"), CDC Mobile Media Corporation ("CMMC"), Fresh Earn Holdings Limited ("Fresh Earn"), Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (collectively the "Founders") and Palmweb Inc. pursuant to which CMMC shall acquire 100% of the entired issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders (the "Acquisition") for an aggregate consideration of up to HK$122,216,000 (a copy of each of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification), be and is hereby approved, ratified and confirmed;

(b) the Acquisition and the transaction contemplated under the Agreement and the Amendment be and are hereby approved; and

(c) the directors of the Company be and are hereby authorized for and on behalf of the Company, amongst other matters, to sign, execute, perfect, deliver or to authorize signing , executing, perfecting and delivering all such documents and deeds, and to do or authorize doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Agreement, the Amendment and the Acquisition."

On behalf of the Board
China.com Inc.
Chen Xiaowei
Executive Director

Hong Kong, 13 November, 2006

Notes:

1. A member entitled to attend and vote at the Company's meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting and in default thereof the form of proxy shall not be treated as valid.

3. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.