

annual report 2003



hongkong.com Corporation

[incorporated in the Cayman Islands with limited liability]

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 sector 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 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 annual reports 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.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this annual report.

This annual report, for which the Directors (the “Directors”) of hongkong.com Corporation (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: – (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ch'ien Kuo Fung, Raymond (*Chairman*)
Yip Hak Yung, Peter (*Vice-Chairman*)
Zhou Shun Ao (*Vice-Chairman*)
Xiao Xiangyang, John (*Chief Executive Officer*)
Chan Kai Yu, Rudy
Kwok Yee Leen, Elaine

Independent Non-Executive Directors

Chou Kei Fong, Silas
Wong Sin Just
Wang Cheung Yue, Fred
Chia Kok Onn

COMPANY SECRETARY

Kwok Yee Leen, Elaine, *AICPA, AHKSA*

QUALIFIED ACCOUNTANT

Ho Yi Man, Agnes, *FCCA, AHKSA*

COMPLIANCE OFFICER

Kwok Yee Leen, Elaine, *AICPA, AHKSA*

AUDIT COMMITTEE

Wong Sin Just (*Committee Chairman*)
Yip Hak Yung, Peter
Chou Kei Fong, Silas
Wang Cheung Yue, Fred

AUTHORIZED REPRESENTATIVES

Chan Kai Yu, Rudy
Kwok Yee Leen, Elaine

REGISTERED OFFICE

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

PLACE OF BUSINESS

34/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

AUDITORS

Ernst & Young
15/F., Hutchison House
10 Harcourt Road
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513GT
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands

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

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Citibank N.A.
Fortis Bank

STOCK CODE

8006

WEBSITE

www.corp.hongkong.com

RESULTS

	2003 HK\$'000	For the year ended 31st December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	187,663	54,595	86,526	79,498	13,113
Net profit/(loss) from ordinary activities attributable to shareholders	105,143	27,139	28,441	4,419	(21,778)

ASSETS AND LIABILITIES

	2003 HK\$'000	As at 31st December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Assets	1,830,916	2,146,832	1,589,098	1,291,652	34,329
Liabilities	(389,737)	(808,090)	(292,435)	(44,268)	(59,554)
Minority interests	(5,525)	(5,640)	(5,873)	–	–
Net assets/(liabilities)	1,435,654	1,333,102	1,290,790	1,247,384	(25,225)

KEY FINANCIAL DATA

	2003 HK cents	Year ended 31st December			
		2002 HK cents	2001 HK cents	2000 HK cents	1999 HK cents
Earnings/(loss) per share	2.54	0.66	0.69	0.11	(0.65)
Net assets/(liabilities) per share	34.73	32.27	31.24	31.54	(0.75)

Note: The results of hongkong.com Corporation (the "Company") together with its subsidiaries (the "Group") for the year ended 31st December, 1999 have been extracted from the Company's prospectus dated 28th February, 2000 (the "Prospectus").



EXECUTIVE DIRECTORS

Dr. Ch'ien Kuo Fung, Raymond (Chairman, age 52)

Dr. Ch'ien was appointed to the Board on 25th November, 1999. He is Executive Chairman of chinadotcom corporation, and chinadotcom Mobile Interactive Corporation, and non-executive Chairman of HSBC Private Equity (Asia) Limited and MTR Corporation Limited. Dr. Ch'ien serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc., Convenience Retail Asia Limited and VTech Holdings Limited and The Wharf (Holdings) Limited. Dr. Ch'ien is the Chairman of the Hong Kong/Japan Business Co-operation Committee; Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption; and an honorary President and Past Chairman of the Federation of Hong Kong Industries. Dr. Ch'ien is also President of Hong Chi Association, Hong Kong's leading non-government organization helping mentally handicapped persons. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong SAR on 1st July, 1997 and served until June, 2002. Dr. Ch'ien received a doctorate in Economics from the University of Pennsylvania. He was appointed Justice of the Peace in 1993 and Commander in the Most Excellent Order of the British Empire in 1994, and was awarded the Gold Bauhinia Star medal in 1999.

Yip Hak Yung, Peter (Vice-Chairman, age 51)

Mr. Yip was appointed to the Board on 15th October, 1999. He is the Chief Executive Officer and Vice Chairman of chinadotcom corporation and a director of chinadotcom Mobile Interactive Corporation. Mr. Yip has international experience as an entrepreneur in the media and telecommunications industries. He received his M.B.A from Wharton School and M.S.E.E. and B.S.E.E. from University of Pennsylvania.

Zhou Shun Ao (Vice-Chairman, age 55)

Mr. Zhou was appointed to the Board on 7th December,

1999. He is also a director of chinadotcom corporation. He has extensive media experience across China and has spent more than 30 years with Xinhua News Agency, rising to Deputy Director of Xinhua Development and Planning Bureau and General Manager of China Media Development Corporation, President of China Global Public Relations Company, Executive Deputy General Manager of Xinhua News Agency as well as General Manager of Asia-Pacific Regional Bureau of Xinhua News Agency.

Chan Kai Yu, Rudy (Chief Executive Officer, age 42)

Mr. Chan was appointed to the Board on 3rd February, 2000. He is responsible for overall management and operations of the Group. He has extensive experience in the media industry having spent 8 years in Time Inc., Asia and rising to Managing Director for Asia. He was the first Chinese and the youngest ever to achieve that post. As an entrepreneur, Mr. Chan co-founded Hong Kong operations of a global computerized barter trade exchange network. He is a Certified Public Accountant registered with the State of New York and has an MBA from Wharton School, University of Pennsylvania. Mr. Chan was appointed as an Independent Non-executive Director of Softbank Investment International (Strategic) Limited on 26th June, 2003. On 28th January, 2004, Mr. Chan was appointed as the Chief Executive Officer of chinadotcom Mobile Interactive Corporation, a wholly owned subsidiary of chinadotcom corporation, the ultimate holding company of the Company. His position as Chief Executive Officer of the Company has been succeeded by Mr. Xiao Xiangyang, John.

Kwok Yee Leen, Elaine (age 41)

Ms. Kwok was appointed to the Board on 30th January, 2003. She is also the Company Secretary and the Compliance Officer of the Company. She is currently Financial Controller of chinadotcom corporation. Ms. Kwok was previously the Financial Controller and Company Secretary of AsiaTech Ventures, one of the top Venture Capital firms specialising in technology companies. She is member of the American Institute of Certified Public Accountants and the Hong Kong Society of Accountants.

**Xiao Xiangyang, John (age 40)**

Mr. Xiao was appointed to the Board on 21st November, 2003. He is the founder of Newpalm (China) Information Technology Co. Ltd. ("Newpalm"), a wholly owned subsidiary of the Company and has been Chief Executive Officer of Newpalm since March 2000. As a seasoned business executive and entrepreneur, he has over 17 years of telecommunications and IT industries experience. Mr. Xiao served as director of wireless Internet, personal networking group – Motorola (Asia) prior to becoming Chief Executive Officer of Newpalm. Mr. Xiao graduated from Donghua University with a B.S. degree in Mechanical Engineering and a M.S. degree in Computer Science from the University of Illinois at Urbana-Champaign. Mr. Xiao was appointed as Chief Executive Officer of the Company on 28th January, 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS**Chou Kei Fong, Silas (age 57)**

Mr. Chou was appointed to the Board on 25th November, 1999. Mr. Chou is the Director and the President & Chief Executive Officer of Novel Holdings (BVI) Limited and Novel Enterprises Limited, a vertically integrated textile and apparel manufacturer. He is also Co-Chairman of A & G Group Limited, which operates in London and New York a group of companies engaged in the design and manufacture of luxury goods and jewellery under the Asprey and Garrard brands. Mr. Chou is also Co-Chairman of Michael Kors Inc., headquartered in New York, which designs, manufactures, and markets the Michael Kors line of apparel.

Wong Sin Just (age 38)

Mr. Wong was appointed to the Board on 25th November, 1999. 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. Prior to establishing e2-Capital Limited (subsequently renamed as OpenOffering Capital Limited), Mr. Wong was the Managing Director and the Head of Equity Capital Markets at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering from Imperial College, University of London and was qualified with the

Association of Chartered Accountants, England and Wales. Mr. Wong is Executive Co-Chairman and Acting Chief Executive Officer of E2-Capital (Holdings) Limited, Vice-Chairman and Chief Executive Officer of Softbank Investment International (Strategic) Limited, Chairman of SBI E2-Capital Holdings Limited and an Independent Non-executive Director of Capital Strategic Investment Limited.

Wang Cheung Yue, Fred (age 59)

Mr. Wang was appointed to the Board on 11th February, 2002. The Wang family found Salon Films (Hong Kong) Limited in 1969. Mr. Wang has been a director of Salon since 1970. With over 30 years of film production experience, Mr. Wang has worked with various major Hollywood film and television companies in setting up projects in Asia, including Hawaii Five-O, Shogun, Noble House, etc. Since 1985, Mr. Wang has been involved with various investment groups including Unifund S.A., a prominent investment fund company based in Geneva, the Anglo Chinese Group in Hong Kong, and the Pan Asia Development Corporation. Mr. Wang is a member of the Hong Kong Trade Development Council Entertainment Industry Advisory Committee and an advisor of the China Film Foundation expert committee.

Chia Kok Onn (age 50)

Mr. Chia was appointed to the Board on 22nd July, 2003. Mr. Chia is the Managing Director at Walden International, an international venture capital group. He has 25 years of combined U.S.-Asia venture capital investing, start-up company experience and corporate management experience in the telecommunications and IT sectors in Europe and Asia-Pacific. Before Walden International, Mr. Chia was the Vice President, Asia-Pacific at Premisys Communications, Inc., (NASDAQ: PRMS), a successful venture capital backed technology start-up. Previously, he had a 12-year career at Hewlett-Packard (now Agilent Technologies) in Europe and Asia-Pacific in a variety of manufacturing, product, sales and marketing management positions. He also spent two years at Apple Computer Asia in the regional product marketing role. Mr. Chia earned his MBA from Strathclyde University, Scotland and B.Eng (Hons) from Sheffield University, England.

CHAIRMAN'S STATEMENT

I am pleased to report a year of far reaching developments for the company in 2003, with substantial revenue and net profit growth posted, despite the unfavorable macro economic climate in Asia. Our business operations, particularly those in the mobile applications sector based on newly acquired Newpalm, have done well, ending the year with record high financial results. Following are the highlights of our performance in 2003:

- Revenue was HK\$187.7 million, up 244% compared to 2002
- Gross profit was HK\$141.8 million, an increase of 479% compared to the previous year
- Gross margin was 76% for 2003 compared to 45% in 2002
- Recorded net profit from ordinary activities of HK\$105.1 million, a rise of 287% year on year
- Successfully acquired and integrated Newpalm (China) Information Technology Co., Ltd. ("Newpalm") in April 2003, expecting significant contributions to the Group in terms of financials and business development going forward
- Promoted John Xiao, founder and CEO of Newpalm, as Executive Director of the board of hongkong.com Corporation

The acquisition of Newpalm was a major milestone in the company's development. Newpalm strategically complements our internet portal business and provides a strong launch pad for us in the fast growing mobile applications sector in China. Newpalm has developed synergies with our China portal by leveraging our online capabilities. New short messaging services ("SMS") services were launched during the year, including X-City 2, an upgraded version with video clips and online functionalities of X-City, SMS News, SMS Military News, etc. A key to our success is the strong relationship we have with the mobile network operators at the provincial level. Newpalm has established direct connectivity with China Mobile and/or China Unicom in 27 provinces and we are ranked within top 3 with either operator in Shangdong, Zhejian, Jiangsu, Guangdong and Shanghai. With China Unicom, we are selected as a key partner to develop the CDMA data applications and WAP services that target its 75 million mobile subscribers in China.

We have recently announced a strategic investment in Beijing 17game Network Technology Co. Ltd ("17game"), a leading online game operator in China. Currently, 17game operates an online game which is considered to be one of the top 10 online games in the China market and with plans to add an additional online game to its portfolio. The online games market in China have been experiencing rapid growth and we intend to be a long term player in this sector.

Our parent company, chinadotcom corporation, recently announced its intention to re-organize and spin-off its mobile business as chinadotcom Mobile Interactive Corporation ("CDC Mobile"). We are pleased to see Rudy Chan, former CEO of hongkong.com Corporation, appointed as CEO of CDC Mobile in January 2004. We thank Rudy for the significant contributions made to hongkong.com during the past four years as CEO of the Company, during which time he has transformed the company and achieved substantial profit growth during a challenging economic period. We are looking forward to seeing him make further progress in the chinadotcom group.

In parallel with Rudy's advancement, we welcome John Xiao, incumbent CEO of Newpalm, as the new CEO of hongkong.com. We believe John's superior knowledge and command of the mobile applications business in China, the fastest growing large mobile market globally, will continue to help drive our growth in the mobile sector. John has also joined hongkong.com's Board as an Executive Director, adding to the collective capabilities of our Board.

With the arrival of the Year of Monkey, I would like to take this opportunity to thank all the employees at hongkong.com for their hard work during 2003. We are committed to further strengthening our core businesses and we are well positioned to become the leading player in the mobile applications sector in China. The legendary Monkey King could leap vast expanses in one somersault. At hongkong.com, we too, intend to go far.

Ch'ien Kuo Fung, Raymond
Chairman
hongkong.com Corporation

16th February, 2004

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 travel-related 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 "X-City 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 "X-City 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 value-added 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.

Outlook

The Company’s largest market, Mainland China, is poised for continually strong economic development in the coming year. In particular, the mobile value added services sector will continue to be our growth engine.

Newpalm will strengthen its product portfolio through internal product development as well as importing high quality mobile products such as polyphonic ringtones and mobile games globally. It will also continue to work closely with provincial mobile operators around China to market its products to the over 250 million mobile phone users in an effort to broaden our subscription base.

The Company began operating the www.china.com portal during the year. We expect to extract further synergies between Newpalm and the portal through the introduction of new online/mobile services, much like those which were introduced during 2003 as Xcity2 and China News. Emphasis will also be placed on joint marketing activities to promote these well known brands.

Even after the full payment of the acquisition consideration of Newpalm the Company’s balance sheets remains exceptionally strong, with over HK\$1 billion in cash and cash equivalent. The management of the Company expects to leverage on this cash to make additional acquisitions in companies which have strategic fit with our existing operations. Companies which can help expand our product line, our customer base in the mobile value-added services sector will be likely targets, as are online businesses such as online games.

MANAGEMENT DISCUSSION AND ANALYSIS

In February 2004 we announced a strategic investment in 17game, a leading online games operator, in the China market. 17game has a track record in launching and distributing successful online games in the China market. Currently, 17game operates an online game which is considered to be one of the top 10 online games in the China market and with plans to add an additional online game to its portfolio. The new game is ranked within the top 5 online games in the beta testing stage in the Korean online games market in terms of total aggregate play-time. 17game has a well-established distribution network across China for the games it licenses, including Internet cafes, software distributors, bookstores and department stores. According to Bear Sterns, the China online games sector is forecasted to grow revenues at a CAGR of 39% over 2003 – 2008 to be totally valued at US\$1.5 billion by 2008 on the back of robust Internet usage. Today, online gaming in China is valued at US\$150 million with 11 million annual subscribers.

Year 2004 promises to be a year with tremendous opportunities for the Company. The Company successfully initiated the beginning of our transformation last year. With strong momentum in our own operations, and an equally strong momentum of the China market, we can look forward to further transformational changes in the coming year.

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. During the year, through the acquisition of Palmweb Inc., the Group started to engage in the provision of mobile value-added services. Except for the above, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st December, 2003, and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 60.

The directors do not recommend the payment of any dividend in respect of the year.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights either under the Company's articles of association, or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31st December, 2003, the Company's reserves available for distribution amounted to HK\$929,521,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's five largest customers and suppliers accounted for 32% and 41% of the total sales and total purchases of the Group, respectively, for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Ch'ien Kuo Fung, Raymond (*Chairman*)

Yip Hak Yung, Peter (*Vice-chairman*)

Zhou Shun Ao (*Vice-chairman*)

Xiao Xiangyang, John (appointed as Executive Director on 21st November, 2003 and as Chief Executive Officer on 28th January, 2004)

Chan Kai Yu, Rudy

Kwok Yee Leen, Elaine (appointed on 30th January, 2003)

Lin, Jack (resigned on 30th January, 2003)

Hung Shuk Tak, Vicky (resigned on 30th January, 2003)

Non-executive director

Chan Wing Tak, Douglas (resigned on 17th July, 2003)

Independent non-executive director

Chou Kei Fong, Silas

Wong Sin Just

Wang Cheung Yue, Fred

Chia Kok Onn (appointed on 22nd July, 2003)

In accordance with article 99 of the Company's articles of association, Mr. Chia Kok Onn and Mr. Xiao Xiangyang, John will hold office until the forthcoming annual general meeting of the Company and will then be eligible for re-election at that meeting. In accordance with article 116 of the Company's articles of association, Mr. Yip Hak Yung, Peter, Mr. Chou Kei Fong, Silas and Mr. Wong Sin Just will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Emoluments of directors and the five highest paid individuals

Details of the director's emoluments and of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company.

Each of Dr. Ch'ien Kuo Fung, Raymond and Mr. Yip Hak Yung, Peter has entered into a service agreement with the Company for an initial term of two years commencing 25th November, 1999 for which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice to the others. As at 31st December, 2003, none of these service agreements had been terminated by either party.

Each of Mr. Zhou Shun Ao, Mr. Chan Kai Yu, Rudy, Ms. Kwok Yee Leen, Elaine and Mr. Xiao Xiangyang, John has entered into a service agreement with the Company for an initial term of two years commencing 7th December, 1999, 3rd February, 2000, 30th January, 2003 and 21st November, 2003, respectively, which will continue thereafter for such further term (if any) unless terminated by either party by three months' prior written notice to the others. As at 31st December, 2003, none of these service agreements had been terminated by either party.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company in respect of his service to the Company in the capacity of a director which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was a party during the year.

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

As of 31st December, 2003, 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") as 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 of Hong Kong Limited pursuant to the minimum standard of Dealings by the Directors under the GEM Listing Rules, were as follows:

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	3,274,000	17,000,000	Personal/ beneficiary	0.49%
Chan Kai Yu, Rudy	3,416,000	94,000,000	Personal/ beneficiary	2.36%
Chou Kei Fong, Silas	–	2,600,000	Personal/ beneficiary	0.06%
Wang Cheung Yue, Fred	–	2,000,000	Personal/ beneficiary	0.05%
Wong Sin Just	–	4,100,000	Personal/ beneficiary	0.10%
Yip Hak Yung, Peter	3,416,000	–	Corporate (note 1)	0.08%
Yip Hak Yung, Peter	–	12,400,000	Personal/ beneficiary	0.30%
Zhou Shun Ao	5,000,000	8,400,000	Personal/ beneficiary	0.32%
Kwok Yee Leen, Elaine	–	1,500,000	Personal/ beneficiary	0.04%
Xiao Xiangyang, John	–	4,000,000	Personal/ beneficiary	0.10%

Note:

- (1) These shares were beneficially owned by Asia Internet Holdings Limited in which Mr. Yip Hak Yung, Peter is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings and, accordingly Mr. Yip has an interest in such shares under the SFO.

Options to subscribe for ordinary shares in the Company

Details of the options to subscribe for ordinary shares in the Company are set out in note 27 to the financial statements.

Associated Corporation

Long positions in Class A common shares in chinadotcom 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	871,773	996,667	Personal/beneficiary	1.84 %
Chan Kai Yu, Rudy	–	75,265	Personal/beneficiary	0.07%
Yip Hak Yung, Peter	16,460,586	2,381,442	Interest of children or spouse (note 1)	18.55%
Yip Hak Yung, Peter	–	90,000	Personal/beneficiary	0.09%
Zhou Shun Ao	17,794	108,000	Personal/beneficiary	0.12%
Zhou Shun Ao	–	60,000	Corporate (note 2)	0.06%
Kwok Yee Leen, Elaine	–	29,000	Personal/beneficiary	0.03%
Xiao Xiangyang, John	–	19,000	Personal/beneficiary	0.02%

Notes:

- (1) 16,135,686 Class A common shares and 2,381,442 share options were held under the name of Asia Pacific Online Limited ("APOL"), 1 share in APOL representing 50% of its issued share capital, is owned by the spouse of Mr. Yip Hak Yung, Peter. The remaining 50% of APOL is owned by a trust established for the benefit of Mr. Yip's spouse and his children under the age of 18. 324,900 Class A common shares are held by the spouse of Mr. Yip.
- (2) These share options were granted to Golden Tripod Technology Limited in which Mr. Zhou Shun Ao is deemed to be entitled to exercise, or control the exercise of, one third or more of the voting power of general meetings and, accordingly Mr. Zhou has an interest in such share options under the SFO.

Options to subscribe for Class A common shares in chinadotcom corporation

Name of director	Date of grant	Exercise price US\$	Option exercise period	Balance as at 1st January, 2003	Number of share options			Number of share options outstanding as at 31st December, 2003
					Granted during the year	Exercised during the year	Lapsed during the year	
Ch'ien Kuo Fung, Raymond	22/6/1999	3.3750	Note (1)	66,667	-	-	-	66,667
	17/10/2000	6.8125	Note (3)	100,000	-	-	-	100,000
	9/1/2001	4.2813	Note (2)	30,000	-	-	-	30,000
	27/4/2001	2.7400	Note (3)	400,000	-	-	-	400,000
	13/7/2001	2.9700	Note (3)	400,000	-	-	-	400,000
Chan Kai Yu, Rudy	15/11/1999	14.5000	Note (4)	38,000	-	-	-	38,000
	15/4/2000	14.2375	25/2/2001 - 14/4/2005	4,500	-	-	-	4,500
	29/7/2000	15.7500	Note (5)	4,500	-	-	-	4,500
	17/10/2000	6.8125	25/11/2000 - 14/11/2009	8,265	-	-	-	8,265
	11/7/2001	2.3810	Note (3)	70,000	-	50,000	-	20,000
						Note (8)		
Chan Wing Tak, Douglas	22/6/1999	3.3750	Note (1)	40,000	-	40,000	-	-
	9/1/2001	4.2813	Note (2)	30,000	-	30,000	-	-
	12/7/2001	2.5800	Note (2)	50,000	-	50,000	-	-
						Note (9)		
Hung Shuk Tak, Vicky	22/6/1999	3.3750	Note (1)	640,000	-	5,000	635,000	-
	9/1/2001	4.2813	Note (3)	20,000	-	-	20,000	-
	5/11/2001	2.0400	Note (3)	23,750	-	23,750	-	-
						Note (10)	Note (11)	
Lin, Jack	15/4/2000	14.2375	15/4/2001 - 14/4/2005	9,000	-	-	9,000	-
	17/4/2000	16.7500	Note (1)	36,000	-	-	36,000	-
	29/7/2000	15.7500	Note (6)	9,000	-	-	9,000	-
	17/10/2000	6.8125	17/4/2001 - 16/4/2010	11,919	-	-	11,919	-
	17/10/2000	6.8125	17/7/2001 - 16/10/2010	100,000	-	-	100,000	-
	9/1/2001	4.2813	Note (6)	100,000	-	-	100,000	-
	11/7/2001	2.3810	Note (3)	140,000	-	-	140,000	-
						Note (11)		
Yip Hak Yung, Peter	22/6/1999	3.3750	Note (1)	60,000	-	-	-	60,000
	12/7/1999	5.0000	Note (1)	1,881,442*	-	-	-	1,881,442*
	9/1/2001	4.2813	Note (2)	30,000	-	-	-	30,000
	6/6/2002	2.8200	Note (2)	200,000*	-	-	-	200,000*
	3/6/2003	4.9500	30/6/2003 - 2/6/2013	-	200,000*	-	-	200,000*
	16/6/2003	5.1600	Note (3)	-	100,000*	-	-	100,000*
Zhou Shun Ao	22/6/1999	3.3750	Note (1)	120,000**	-	60,000	-	60,000**
	15/4/2000	14.2375	15/1/2001 - 14/4/2005	9,000	-	-	-	9,000
	29/7/2000	15.7500	Note (7)	9,000	-	-	-	9,000
	20/10/2000	8.1250	Note (3)	60,000	-	-	-	60,000
	9/1/2001	4.2813	Note (2)	30,000	-	-	-	30,000

REPORT OF THE DIRECTORS

Name of director	Date of grant	Exercise price US\$	Option exercise period	Number of share options				Number of share options outstanding as at 31st December, 2003
				Balance as at 1st January, 2003	Granted during the year	Exercised during the year	Lapsed during the year	
Kwok Yee Leen, Elaine	11/09/2002	2.0600	Note (1)	12,500	-	3,000	-	9,500
	11/10/2002	1.9500	Note (3)	10,000	-	4,500	-	5,500
	16/06/2003	5.1600	Note (1)	-	9,000	-	-	9,000
	16/06/2003	5.1600	Note (3)	-	5,000	-	-	5,000
Xiao Xiangyang, John	16/06/2003	5.1600	Note (1)	-	19,000	-	-	19,000

* These share options were granted to APOL

** These share options were granted to Golden Tripod Technology Limited.

Notes:

- (1) One year after the date of grant to the year ending 10 years after the grant date.
- (2) From the date of grant to the year ending 10 years after that date.
- (3) Three months after the date of grant to the year ending 10 years after the grant date.
- (4) From 25th November, 2000 to the year ending 10 years after the grant date.
- (5) From 25th February, 2001 to the year ending 10 years after the grant date.
- (6) From 17th July, 2001 to the year ending 10 years after the grant date.
- (7) Six months after the date of grant to the year ending 10 years after the grant date.
- (8) Mr. Chan Kai Yu, Rudy exercised his right to subscribe for 10,000 Class A common shares on 1st July, 2003, 20,000 Class A common shares on 19th September, 2003 and 20,000 Class A common shares on 17th December, 2003, respectively, in respect of the share options granted on 11th July, 2001 at a subscription price of US\$2.3810 each. These shares were sold on or around the respective dates of the exercise of share options.
- (9) Mr. Chan Wing Tak, Douglas exercised his right to subscribe for a total of 115,830 Class A common shares on 24th June, 2003 in respect of the share options granted on 22nd June, 1999, 9th January, 2001 and 12th July, 2001 at a subscription price of US\$3.3750, US\$4.2813 and US\$2.5800, respectively. The said shares were also sold on 24th June, 2003. Mr. Chan also exercised his right to subscribe for 4,170 Class A common shares on 14th July, 2003 in respect of the share options granted on 12th July, 2001 at a subscription price of US\$2.5800. These shares were sold on or around 14th July, 2003.
- (10) Ms. Hung Shuk Tak, Vicky exercised her right to subscribe for a total of 23,750 Class A common shares on 7th January, 2003, 23rd January, 2003, 11th February, 2003 and 20th March, 2003, respectively, in respect of the share options granted on 5th November, 2001 at a subscription price of US\$2.0400 each. These shares were sold on the said dates.

Ms. Hung also exercised her right to subscribe for 5,000 Class A common shares on 28th March, 2003 in respect of share options granted on 22nd June, 1999 at a subscription price of US\$3.3750. These shares were sold on or around 28th March, 2003.
- (11) Lapsed upon resignation of the directors on 30th January, 2003.

Save as disclosed above and the share option scheme disclosures in note 27 to the financial statements, as at 31st December, 2003, none of the directors, chief executive and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

At 31st December, 2003, the interests and short positions of the substantial shareholders in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares

Name	Number of shares	Nature of interests	Appropriate percentage of interests (%)
China M Interactive (BVI) Limited	3,361,828,000	Beneficial owner	81.30%

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 chinadotcom corporation, the ultimate holding company of the Company.

Saved as disclosed above and in note 27 to the financial statement, as at 31st December, 2003, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be recorded in the register kept under section 336 of SFO.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 27 to the financial statements.

The directors have estimated the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of the grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK\$
Ch'ien Kuo Fung, Raymond	4,000,000	1,600,000
Chan Kai Yu, Rudy	4,000,000	1,600,000
Chou Kei Fong, Silas	1,000,000	400,000
Wong Sin Just	2,500,000	1,000,000
Yip Hak Yung, Peter	4,000,000	1,600,000
Wang Cheung Yue, Fred	2,000,000	800,000
Kwok Yee Leen, Elaine	1,500,000	600,000
Xiao Xiangyang, John	4,000,000	1,600,000

The Black-Scholes model is a generally accepted method of valuing options, using certain variables, including risk-free interest rate, expected life of the options and expected volatility and expected dividend of the shares of the Company. The range of interest rate applied in the Black-Scholes model is 2.409% per annum, representing the five-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options. The expected life of the option used is five years and the expected volatility of the expected share prices of the Company at 82.4% is used in the Black-Scholes model. It is assumed that based on historical pattern, no dividend would be paid out during the vesting period. The measurement dates used in the theoretical valuation calculations were the dates on which the options were granted.

The values of share options calculated using theoretical models are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

None of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interest in a business which competes or may compete with the business of the Group.

CONNECTED TRANSACTIONS

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) (the "Transferee"), an indirect wholly-owned subsidiary of the Company, entered into an asset transfer agreement (the "Agreement") with 國際網絡傳訊(上海)有限公司 (CIC (Shanghai) Company Limited) (the "Transferor") to acquire certain fixed assets as set forth in the Agreement for a consideration of RMB2,672,150, approximately HK\$2,511,000. The Transferor is 100% beneficially owned by chinadotcom corporation. chinadotcom corporation is the management shareholder of the Company. Mr. Yip Hak Yung, Peter and Mr. Zhou Shun Ao are also directors of both chinadotcom corporation and the Company. Details of this connected transaction has been disclosed in accordance with the announcement requirements set out in Rule 20.34 of the GEM Listing Rules.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the consolidated profit and loss account for the year are set out in notes 3 and 6 to the financial statements, respectively.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has four members comprising three independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Chou Kei Fong, Silas, Wang Cheung Yue, Fred, and one executive director, Mr. Yip Hak Yung, Peter. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. During the year, the audit committee has met six times reviewing and supervising the financial reporting process, the Company's annual report and financial statements, and providing advice and recommendations to the Board.

CHANGE OF QUALIFIED ACCOUNTANT

Mr. Chan Wai Sze, Francis resigned as Qualified Accountant of the Company and Ms. Ho Yi Man, Agnes was appointed as Qualified Accountant of the Company, both with effect from 10th October, 2003. Ms. Ho is a fellow member of Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong,
16th February, 2004



To the members
hongkong.com Corporation

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Hong Kong

16th February, 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	187,663	54,595
Cost of sales		(45,901)	(30,091)
Gross profit		141,762	24,504
Other revenue and gains, net	5	51,625	62,999
Selling and distribution costs		(9,197)	(1,004)
General and administrative expenses		(69,736)	(53,598)
Other operating income/(expenses), net		(6,364)	313
PROFIT FROM OPERATING ACTIVITIES	6	108,090	33,214
Finance costs	7	(5,863)	(7,018)
Share of profit of an associate		281	–
PROFIT BEFORE TAX		102,508	26,196
Tax	10	2,520	710
PROFIT BEFORE MINORITY INTERESTS		105,028	26,906
Minority interests		115	233
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	105,143	27,139
EARNINGS PER SHARE	12		
Basic		2.54 cents	0.66 cents
Diluted		2.53 cents	0.66 cents

CONSOLIDATED BALANCE SHEET

31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	7,117	8,500
Interests in associates	15	809	–
Intangible assets	16	5,202	–
Goodwill	17	396,284	8,862
Long term investments	19	60,528	62,400
Pledged securities	19	37,165	37,108
Deferred tax assets	25	531	–
		507,636	116,870
CURRENT ASSETS			
Amounts due from fellow subsidiaries	18	6,193	8,152
Short term investments	19	1,116,955	964,042
Pledged securities	19	–	907,098
Accounts receivable	20	47,986	8,732
Prepayments, deposits and other receivables		14,992	23,229
Cash and cash equivalents	21	137,154	118,709
		1,323,280	2,029,962
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries	18	1,491	1,158
Tax payable		124	187
Accounts payable	22	18,457	6,663
Other payables and accrued liabilities		14,873	10,348
Acquisition consideration payable	23	319,800	–
Interest-bearing bank borrowing	24	–	748,801
Deferred revenue		3,500	9,441
		358,245	776,598
NET CURRENT ASSETS		965,035	1,253,364
TOTAL ASSETS LESS CURRENT LIABILITIES		1,472,671	1,370,234
NON-CURRENT LIABILITY			
Interest-bearing bank borrowing	24	31,492	31,492
MINORITY INTERESTS		5,525	5,640
		1,435,654	1,333,102
CAPITAL AND RESERVES			
Issued capital	26	413,523	413,156
Reserves	28(a)	1,022,131	919,946
		1,435,654	1,333,102

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December, 2003

	Notes	Issued share capital HK\$'000	Share premium account* HK\$'000	Goodwill reserve* HK\$'000	Investment revaluation reserve* HK\$'000 (note 28 (a))	Reserve funds* HK\$'000	Exchange fluctuation reserve* HK\$'000 (note 28(a))	Retained profits/ (accumulated losses)* HK\$'000	Total HK\$'000
At 1st January, 2002		413,156	913,204	(31,215)	(13,794)	-	(1,055)	10,494	1,290,790
Surplus on revaluation		-	-	-	2,030	-	-	-	2,030
Exchange realignment		-	-	-	-	-	784	-	784
Net gains not recognised in the consolidated profit and loss account		-	-	-	2,030	-	784	-	2,814
Investment revaluation reserve released on disposal		-	-	-	12,359	-	-	-	12,359
Net profit for the year		-	-	-	-	-	-	27,139	27,139
At 31st December, 2002 and 1st January, 2003		413,156	913,204	(31,215)	595	-	(271)	37,633	1,333,102
Issue of shares	26	367	937	-	-	-	-	-	1,304
Share issue expenses	26	-	(3)	-	-	-	-	-	(3)
Deficit on revaluation		-	-	-	(2,749)	-	-	-	(2,749)
Exchange realignment		-	-	-	-	-	28	-	28
Net gains and losses not recognised in the consolidated profit and loss account		-	-	-	(2,749)	-	28	-	(2,721)
Goodwill reserve released on dissolution of a subsidiary	17	-	-	22	-	-	-	-	22
Investment revaluation reserve released on disposal		-	-	-	(1,193)	-	-	-	(1,193)
Net profit for the year		-	-	-	-	-	-	105,143	105,143
Transfer from retained profits		-	-	-	-	8,415	-	(8,415)	-
At 31st December, 2003		413,523	914,138	(31,193)	(3,347)	8,415	(243)	134,361	1,435,654

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December, 2003

Notes	Issued share capital HK\$'000	Share premium account* HK\$'000	Goodwill reserve* HK\$'000	Investment revaluation reserve* HK\$'000 <i>(note 28 (a))</i>	Reserve funds* HK\$'000	Exchange fluctuation reserve* HK\$'000 <i>(note 28(a))</i>	Retained profits/ (accumulated losses)* HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	413,523	914,138	(31,193)	(3,347)	8,415	(243)	137,679	1,438,972
Associates	-	-	-	-	-	-	(3,318)	(3,318)
At 31st December, 2003	413,523	914,138	(31,193)	(3,347)	8,415	(243)	134,361	1,435,654
Company and subsidiaries	413,156	913,204	(31,215)	595	-	(271)	41,232	1,336,701
Associates	-	-	-	-	-	-	(3,599)	(3,599)
At 31st December, 2002	413,156	913,204	(31,215)	595	-	(271)	37,633	1,333,102

* These reserve accounts comprise the Group's consolidated reserves of HK\$1,022,131,000 at 31st December, 2003 (2002: HK\$919,946,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		102,508	26,196
Adjustments for:			
Finance costs	7	5,863	7,018
Share of profits of associates		(281)	–
Interest income on debt securities	5	(50,232)	(75,848)
Other interest income	5	(2,585)	(3,031)
Depreciation	6	7,401	13,692
Amortisation of intangible assets	6	710	–
Amortisation of goodwill	6	5,200	2,417
Loss on dissolution of a subsidiary		22	–
Loss on disposal of fixed assets	6	1,301	503
Loss on disposal of debt securities	5	1,200	16,137
(write-back of provision)/Provision for doubtful debts	6	(1,284)	1,523
Write-back of provision for investment deposits paid	6	–	(2,711)
Operating profit/(loss) before working capital changes		69,823	(14,104)
Decrease in amounts due from fellow subsidiaries		1,959	4,788
(Increase)/decrease in accounts receivable		(3,800)	7,073
Decrease in prepayments, deposits and other receivables		16,929	14,795
Increase/(decrease) in amounts due to fellow subsidiaries		333	(2,061)
Decrease in accounts payable, other payables and accrued liabilities		(10,617)	(4,548)
(Decrease)/increase in deferred revenue		(5,941)	8,792
Cash generated from operations		68,686	14,735
Overseas taxes paid		(26)	(1,691)
Net cash inflow from operating operations		68,660	13,044
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income on debt securities		50,232	75,848
Other interest income		2,585	3,031
Purchases of fixed assets		(4,146)	(2,139)
Purchases of short term investments		(1,475,434)	(2,824,452)
Acquisition of subsidiaries	29	(96,410)	–
Proceeds from disposal of fixed assets		–	30
Proceeds from disposal of short term investments		2,226,292	2,317,819
Net cash inflow/(outflow) from investing activities		703,119	(429,863)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	26	1,304	–
Share issue expenses	26	(3)	–
New bank borrowings		–	780,293
Repayment of bank borrowings		(748,801)	(264,420)
Interest paid		(5,863)	(7,018)
Net cash (outflow)/inflow from financing activities		(753,363)	508,855
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		118,709	25,875
Effect of foreign exchange rate changes, net		29	798
CASH AND CASH EQUIVALENTS AT END OF YEAR		137,154	118,709
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	109,729	24,075
Non-pledged time deposits with original maturity of less than three months when acquired	21	27,425	94,634
		137,154	118,709

BALANCE SHEET

31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	137,218	103,569
Long term investments	19	60,528	62,400
Pledged securities	19	37,165	37,108
		234,911	203,077
CURRENT ASSETS			
Short term investments	19	1,116,955	964,042
Pledged securities	19	–	907,098
Other receivables		8,937	18,052
Cash and cash equivalents	21	15,002	8
		1,140,894	1,889,200
CURRENT LIABILITIES			
Amount due to a fellow subsidiary	18	1	1
Other payables and accrued liabilities		1,268	4,822
Interest-bearing bank borrowing	24	–	748,801
		1,269	753,624
NET CURRENT ASSETS		1,139,625	1,135,576
TOTAL ASSETS LESS CURRENT LIABILITIES		1,374,536	1,338,653
NON-CURRENT LIABILITY			
Interest-bearing bank borrowing	24	31,492	31,492
		1,343,044	1,307,161
CAPITAL AND RESERVES			
Issued capital	26	413,523	413,156
Reserves	28(b)	929,521	894,005
		1,343,044	1,307,161

Ch'ien Kuo Fung, Raymond
Director

Chan Kai Yu, Rudy
Director

1. CORPORATE INFORMATION

During the year, the Group was primarily involved in the provision of mobile value-added services and applications; the operation of portal sites; the provision of content and Internet services, advertising services through the Internet and a travel magazine, and event organising services; magazine publication; and the sale of hardware and software.

The Company is a subsidiary of China M Interactive (BVI) Limited, a limited company incorporated in the British Virgin Islands. In the opinion of the directors, the ultimate holding company is chinadotcom corporation ("chinadotcom"), which is incorporated in the Cayman Islands and listed on NASDAQ.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements and prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting the revised SSAP 12 are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax income for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 to the financial statements.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five to twenty years.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Goodwill (continued)**

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms and the assets estimated useful lives
Furniture and fixtures	20% – 33 $\frac{1}{3}$ %
Office equipment	20% – 33 $\frac{1}{3}$ %
Computer equipment and software	33 $\frac{1}{3}$ %
Motor vehicles	33 $\frac{1}{3}$ %

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Completed technologies, business licences and partnership agreements acquired through the acquisition of a subsidiary are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of six to seven years.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (*continued*)

Investments

Long term investments are non-trading investments in listed and unlisted debt securities intended to be held on a long term basis. Short term investments are non-trading investments in listed debt securities.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted securities are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Repurchase agreement

Debt securities sold under agreements to repurchase are classified as pledged securities and are accounted for in accordance with the accounting policies in the "Investments" section above. The agreements specify the third parties' right to request additional collateral. Both parties monitor the fair values of the underlying securities as compared with the related receivable or payable, including accrued interest, and may request a cash transfer at least equal to that net exposure as necessary.

Deferred revenue

Deferred revenue represents amounts received in advance of services being rendered.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) advertising service fees are derived from the sales of banner advertisements and sponsorships in which the Group delivers advertising for a fixed fee on the Group's web sites and advertising affiliates, which comprise third party web sites. Advertising revenue is derived principally from short term advertising contracts over a specific period of time for a fixed fee. Revenue from advertising is recognised ratably in the period in which the advertisement is displayed, provided that no significant Group obligations remain, on the straight-line basis over the term of the contract, and when collection of the resulting receivable is probable. Advertising service fees from direct mailings are derived from advertisements sent to audiences identified by customers and are recognised when each advertisement is sent to a target audience;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue recognition (continued)**

- (b) from the provision of services, when the underlying services are rendered;
- (c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable.

Barter transactions

When goods or services are exchanged or swapped for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue and barter revenue and expenses are recognised. Barter revenue and expenses are measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair values of the goods or services received cannot be measured reliably, barter revenue and expenses are measured at the fair values of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Income tax *(continued)*

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Employee benefits

Retirement benefits schemes

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 profit and loss account as they become payable in accordance with the rules of 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 Mainland China are required to participate in certain pension schemes operated by local municipal governments. The subsidiaries are required to contribute certain percentage of their payroll costs to the pension schemes. The contributions are charged to the profit and loss account 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 profit and loss account as incurred. The subsidiary discharges its retirement obligations upon payment of the retirement benefits to its employees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits (continued)***Hong Kong Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance. No provision for these long service payments has been made at the balance sheet date as the Group's employer contributions made under the above retirement benefits schemes are adequate to cover the probable future long service payments expected to be made to respective employees.

Share option scheme

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services and products they provide. Each of the Group's business segments represents a strategic business unit that offers services and products which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the subscription segment engages primarily in the provision of short messaging services and other mobile value-added services and applications to mobile phone users;
- (b) the advertising segment engages primarily in the sale of online banner advertising, sponsorships and offline advertising campaigns;
- (c) the technology segment engages primarily in the sale of railway ticketing system hardware and software; and
- (d) the e-commerce segment engages primarily in direct mailings and online sales.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices that would have been used for sales made to third parties at the then prevailing market prices or at mutually agreed terms.

NOTES TO FINANCIAL STATEMENTS

31st December, 2003

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Subscription		Advertising		Technology		e-Commerce		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:												
Sales to external customers	131,635	-	46,664	42,094	5,925	10,441	3,439	2,060	-	-	187,663	54,595
Intersegment sale	-	-	3,120	3,120	-	-	1,521	695	(4,641)	(3,815)	-	-
Total	131,635	-	49,784	45,214	5,925	10,441	4,960	2,755	(4,641)	(3,815)	187,663	54,595
Segment results	80,239	-	(8,487)	(14,348)	(4,065)	(3,742)	(4,742)	(3,471)	-	-	62,945	(21,561)
Interest income and unallocated other revenue and gains											51,625	62,720
Unallocated expenses											(6,480)	(7,945)
Profit from operating activities											108,090	33,214
Finance costs											(5,863)	(7,018)
Share of profit of an associate											281	-
Profit before tax											102,508	26,196
Tax											2,520	710
Profit before minority interests											105,028	26,906
Minority interests											115	233
Net profit from ordinary activities attributable to shareholders											105,143	27,139

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Subscription		Advertising		Technology		e-Commerce		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	530,758	-	163,237	153,157	22,492	25,076	58,412	54,389	(183,375)	(74,497)	591,524	158,125
Interests in associates	809	-	-	-	-	-	-	-	-	-	809	-
Unallocated assets											1,238,583	1,988,707
Total assets											1,830,916	2,146,832
Segment liabilities	338,899	-	324,586	196,890	23,729	22,853	58,357	49,296	(388,594)	(246,065)	356,977	22,974
Unallocated liabilities											32,760	785,116
Total liabilities											389,737	808,090
Other segment information:												
Depreciation and amortisation	5,256	-	3,863	9,956	2,986	3,557	1,206	2,596	-	-	13,311	16,109
Other non-cash expenses/(income), net	(622)	-	2,224	(1,808)	(1,148)	1,166	-	79	-	-	454	(563)
Capital expenditure	12,687	-	445	1,169	13	349	87	305	-	-	13,232	1,823

(b) Geographical segments

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments.

Group

	Mainland China		Hong Kong		Other Asian countries*		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:										
Sales to external customers	143,952	10,441	2,270	7,023	41,441	37,131	-	-	187,663	54,595
Other segment information:										
Segment assets	554,284	16,213	1,647,384	2,343,735	17,842	32,949	(388,594)	(246,065)	1,830,916	2,146,832
Capital expenditure	12,934	455	83	1,368	215	-	-	-	13,232	1,823

* Other Asian countries principally include Singapore and Taiwan.

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5. TURNOVER, REVENUE AND GAINS

Turnover represents (1) subscription revenue from the provision of mobile value-added services including short messaging services and other related products to mobile phone users; (2) advertising revenue from online banner advertising and offline advertising campaigns; (3) technology revenue from the sale of railway ticketing system hardware and software; and (4) e-commerce revenue from direct mailings and online sales.

An analysis of turnover, other revenue and gains is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Turnover:		
Mobile value-added services and applications income	131,635	–
Advertising services income	46,664	42,094
Sale of railway ticketing system hardware and software	5,925	10,441
e-commerce services income	3,439	2,060
	187,663	54,595
Other revenue, net:		
Interest income on debt securities	50,232	75,848
Other interest income	2,585	3,031
Loss on disposal of debt securities	(1,200)	(16,137)
Others	1	257
	51,618	62,999
Gains:		
Foreign exchange gains, net	7	–
	51,625	62,999

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	3,454	5,211
Auditors' remuneration	1,306	749
Minimum lease payments under operating leases in respect of land and buildings	4,903	2,532
Staff costs*:		
Salaries and allowances	38,527	32,765
Retirement benefits scheme contributions (defined contribution schemes)#	586	1,030
	39,113	33,795
Barter costs	–	2,167
Depreciation	7,401	13,692
Marketing and promotion expenses	9,197	444
Foreign exchange losses, net	–	278
Amortisation of intangible assets**	710	–
Amortisation of goodwill**	5,200	2,417
Loss on disposal of fixed assets	1,301	503
Provision/(write-back of provision) for bad and doubtful debts	(1,284)	1,523
Write-back of provision for investment deposits paid***	–	(2,711)
Write-back of provision for interests in associates***	–	(2,045)

* Including directors' remuneration as disclosed in note 8 to the financial statements.

** The amortisation of intangible assets and the amortisation of goodwill are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

*** The write-back of provision for investment deposits paid and provisions for interests in associates are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

At 31st December, 2003, there were no forfeited contributions available to the Group to reduce its contributions to the retirement benefits schemes in future years (2002: Nil).

7. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings wholly repayable within five years	5,863	7,018

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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Executive directors:		
Fees	246	164
Salaries, allowances and benefits in kind	1,668	1,745
Retirement benefits scheme contributions	12	12
	1,926	1,921
Independent non-executive directors:		
Fees	351	273
	2,277	2,194

The number of directors whose remuneration fell within the following bands is set out below:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	12	11
HK\$1,000,001 – HK\$2,000,000	1	1
	13	12

For the year ended 31st December, 2003, all the executive directors received fees of HK\$1 each save for two executive directors who received fees of HK\$129,000 and HK\$117,000, respectively, and another two executive directors who received other emoluments of HK\$1,538,000 and HK\$142,000, respectively.

Four independent non-executive directors received fees of HK\$156,000, HK\$156,000, HK\$39,000 and nil, respectively. Apart from the aforesaid, none of the non-executive directors received any other emoluments in respect of their services to the Company in the capacity of a director.

For the year ended 31st December, 2002, all the executive directors received fees of HK\$1 each save for two executive directors who received fees of HK\$94,000 and HK\$70,000, respectively, and another executive director who received other emoluments of HK\$1,757,000. Three independent non-executive directors received fees of HK\$137,000, HK\$117,000 and HK\$19,000, respectively. Apart from the aforesaid, none of the non-executive directors received any other emoluments in respect of their services to the Company in the capacity of a director.

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

During the year, 23,000,000 (2002: 37,800,000) share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account (2002: Nil), or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: one) executive director of the Company, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: four) non-director, highest paid employees for the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	3,548	3,156
Performance related bonuses	206	198
Retirement benefits scheme contributions	108	125
	3,862	3,479

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	2	1
	4	4

During the year, 1,500,000 (2002: 3,213,020) share options were granted to the four non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account (2002: Nil), or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

	Group	
	2003 HK\$'000	2002 HK\$'000
Group:		
Current – overseas profits tax credit	37	710
Deferred tax credit (<i>note 25</i>)	2,483	–
Total tax credit for the year	2,520	710

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: 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.

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10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and its associates are domiciled to the tax credit at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	Hong Kong		Singapore		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	31,932		(2,026)		72,602		102,508	
Tax at the statutory tax rate	5,588	17.5	(496)	(24.5)	23,959	33.0	29,051	28.3
Adjustments in respect of current tax								
of previous periods	–	–	(120)	(5.9)	–	–	(120)	(0.1)
Tax concession	–	–	–	–	(25,343)	(34.9)	(25,343)	(24.7)
Income not subject to tax	(12,129)	(38.0)	–	–	(1,099)	(1.5)	(13,228)	(12.9)
Expenses not deductible for tax	4,500	14.1	–	–	83	0.1	4,583	4.5
Increase in unutilised tax losses carryforward	2,041	6.4	496	24.5	–	–	2,537	2.5
Tax credit at the Group's effective rate	–	–	(120)	(5.9)	(2,400)	(3.3)	(2,520)	(2.4)

Group – 2002

	Hong Kong		Singapore		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	28,318		(2,164)		42		26,196	
Tax at the statutory tax rate	4,531	16.0	(530)	(24.5)	14	33.3	4,015	15.3
Adjustments in respect of current tax of previous periods	–	–	(515)	(23.8)	–	–	(515)	(2.0)
Income not subject to tax	(13,216)	(46.7)	–	–	–	–	(13,216)	(50.4)
Expenses not deductible for tax	2,944	10.4	–	–	321	764.3	3,265	12.5
Increase in unutilised tax losses carryforward	5,741	20.3	–	–	–	–	5,741	21.9
Tax charge/(credit) at the Group's effective rate	–	–	(1,045)	(48.3)	335	797.6	(710)	(2.7)

Newpalm (China) Information Technology Co., Ltd. ("Newpalm"), a wholly-owned subsidiary of the Group, which is registered in the People's Republic of China ("PRC"), is subject to PRC corporate income tax. During the year, based on the interim information provided to the relevant tax authorities, Newpalm received a preliminary tax concession from the tax authority that it would be fully exempted from PRC corporate income tax for the 2003 fiscal year. This is a one-time exemption only and Newpalm may be subjected to paying PRC corporate income tax in the future.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company was HK\$38,524,000 (2002: HK\$47,385,000) (note 28 (b)).

12. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$105,143,000 (2002: HK\$27,139,000) and the weighted average of 4,133,577,209 (2002: 4,131,558,942) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$105,143,000 (2002: HK\$27,139,000) and the weighted average number of 4,149,373,829 (2002: 4,131,776,746) ordinary shares, after adjusting for the effects of all dilutive potential ordinary shares during the year.

The reconciliation of weighted average number of shares used in the calculation of basic earnings per share and diluted earnings per share is as follows:

	2003	2002
Weighted average number of ordinary shares used in basic earnings per share calculation	4,133,577,209	4,131,558,942
Weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year	15,796,620	217,804
Weighted average number of ordinary shares used in diluted earnings per share calculation	4,149,373,829	4,131,776,746

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13. FIXED ASSETS

Group

	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 beginning of year	1,350	706	1,233	39,645	244	43,178
Exchange realignment	–	(3)	–	(1)	–	(4)
Acquisition of subsidiaries (note 29)	384	44	1,435	1,173	138	3,174
Additions	65	–	2,081	852	1,148	4,146
Disposals	–	(542)	–	(3,227)	–	(3,769)
At 31st December, 2003	1,799	205	4,749	38,442	1,530	46,725
Accumulated depreciation:						
At beginning of year	483	592	736	32,806	61	34,678
Exchange realignment	–	(2)	–	(1)	–	(3)
Provided during the year	429	54	1,038	5,606	274	7,401
Disposals	–	(490)	–	(1,978)	–	(2,468)
At 31st December, 2003	912	154	1,774	36,433	335	39,608
Net book value:						
At 31st December, 2003	887	51	2,975	2,009	1,195	7,117
At 31st December, 2002	867	114	497	6,839	183	8,500

14. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	205,217	171,568
	205,218	171,569
Provisions for amounts due from subsidiaries	(68,000)	(68,000)
	137,218	103,569

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity/interest attributable to the Company				Principal activities
			2003		2002		
			Direct	Indirect	Direct	Indirect	
Beijing China-Railway Times Science and Technology Company Limited*	PRC/ Mainland China	RMB1,000,000	-	60	-	60	Sale of hardware and software
Beijing Times Prime Science and Technology Company Limited*	PRC/ Mainland China	US\$1,000,000	-	60	-	60	Sale of hardware and software
hongkong.com Limited	Hong Kong	HK\$1,000	100	-	100	-	Operation of a portal site, provision of content and Internet advertising services
TTG Asia Media Pte Limited	Singapore	S\$100,000	-	100	-	100	Provision of advertising, and event organising services and magazine publication
Palmweb Inc.	Cayman Islands	US\$382,353	-	100	-	-	Investment holding
Newpalm (China) Information Technology Co., Ltd.#	PRC/ Mainland China	US\$600,000	-	100	-	-	Provision of short messaging services and other mobile value-added services and applications
Beijing NewPalm Technology Co., Ltd.*	PRC/ Mainland China	RMB1,000,000	-	100	-	-	Provision of short messaging services and other mobile value-added services and applications
Beijing Wisecom Technology Co., Ltd.*	PRC/ Mainland China	RMB1,000,000	-	100	-	-	Provision of short messaging services and other mobile value-added services and applications
Beijing China Net Communication Technology Service Limited*	PRC/ Mainland China	RMB1,000,000	-	100	-	-	Operation of a portal site, provision of content and Internet advertising services

* 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.

Newpalm (China) Information Technology Co., Ltd. is registered as a wholly-foreign owned enterprise under the PRC law.

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14. INTERESTS IN SUBSIDIARIES (continued)

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

Acquisition of subsidiaries:

- (i) In April 2003, CDC Mobile Media Corporation, a wholly owned subsidiary of the Company, acquired the entire equity interest in Palmweb Inc. ("Palmweb"), which through its subsidiaries (collectively the "Palmweb Group"), is primarily engaged in the provision of short messaging services and other mobile value-added services and applications in Mainland China for a maximum cash consideration of US\$55,000,000 (approximately HK\$429,000,000), part of which is to be determined based on the future earnings of the Palmweb Group (the "Contingent Consideration") in accordance with the terms of a share purchase agreement (the "SP Agreement"). The first instalment of the acquisition consideration of US\$14,000,000 (approximately HK\$109,200,000) was paid in April 2003.

Based on the results of the Palmweb Group for the year ended 31st December, 2003 and in accordance with the terms of the SP Agreement, the balance of the acquisition consideration, which is limited to the maximum consideration less the amount already paid, of US\$41,000,000 (approximately HK\$319,800,000) was finalised in January 2004 and was paid on 4th February, 2004 (note 23).

- (ii) In June 2003, the Group acquired the entire equity interest in Beijing China Net Communication Technology Service Limited from a fellow subsidiary of the Company for a cash consideration of HK\$734,000, which was fully paid during the year. Beijing China Net Communication Technology Service Limited is primarily engaged in the operation of a portal site and the provision of content and Internet advertising services.

15. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	814	5
Provision for impairment	(5)	(5)
	809	–

Particulars of the principal associate are as follows:

Name	Business structure	Place of registration and operations	Percentage of indirect ownership interest attributable to the Group		Principal activities
			2003	2002	
Beijing Palm-Lottery Information Technology Company Limited*	Corporate	PRC/ Mainland China	50	–	Provision of lottery information services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

15. INTERESTS IN ASSOCIATES (continued)

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

16. INTANGIBLE ASSETS**Group**

	Completed technologies HK\$'000	Business licences HK\$'000	Partnership agreements HK\$'000	Total HK\$'000
Cost:				
Acquisition of a subsidiary and balance at 31st December, 2003 (<i>note 29</i>)	814	1,630	3,468	5,912
Accumulated amortisation:				
Provided during the year and balance at 31st December, 2003	102	175	433	710
Net book value:				
At 31st December, 2003	712	1,455	3,035	5,202
At 31st December, 2002	–	–	–	–

17. GOODWILL**Group**

	HK\$'000
Cost:	
At beginning of year	12,085
Acquisition of subsidiaries (<i>note 29</i>)	392,622
At 31st December, 2003	404,707
Accumulated amortisation:	
At beginning of year	3,223
Amortisation provided during the year	5,200
At 31st December, 2003	8,423
Net book value:	
At 31st December, 2003	396,284
At 31st December, 2002	8,862

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amounts of goodwill remaining in the consolidated reserves as a goodwill reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, as at 31st December, 2002 and 2003 were HK\$31,215,000 and HK\$31,193,000, respectively. During the year, part of such goodwill reserve of HK\$22,000 was released on dissolution of a subsidiary.

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18. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

19. INVESTMENTS

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Long term investments:		
Overseas publicly traded debt securities, at fair value	37,165	37,108
Overseas unlisted debt securities, at fair value	60,528	62,400
	97,693	99,508
Less: Securities pledged for a long term bank borrowing	(37,165)	(37,108)
	60,528	62,400
Short term investments:		
Overseas publicly traded debt securities, at fair value	1,116,955	1,871,140
Less: Securities pledged for a short term bank borrowing	–	(907,098)
	1,116,955	964,042

During the years ended 31st December, 2003 and 2002, the Group entered into a repurchase agreement and/or a total return swap agreement with certain banks pursuant to which the Group sold certain debt securities to the banks at a discounted price (the "Purchase Price") and the banks agreed to sell back the same debt securities to the Group at the Purchase Price at a later date (note 24).

As at 31st December, 2003, publicly traded debt securities of the Company of approximately HK\$37,165,000 (2002: HK\$37,108,000) were pledged to a bank as collaterals under the total return swap agreement mentioned above for securing a long term bank borrowings of approximately HK\$31,492,000 (2002: HK\$31,492,000) (note 24).

As at 31st December, 2002, certain publicly traded debt securities of the Group of approximately HK\$907,098,000 were pledged to a bank as collaterals under the repurchase agreement mentioned above for securing a short term bank borrowing of approximately HK\$748,801,000 (note 24). The short term bank borrowing was fully repaid and the security charge was released during the year.

20. ACCOUNTS RECEIVABLE

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 maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by management.

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	45,575	8,611
91 – 120 days	1,634	33
121 – 180 days	620	59
Over 180 days	157	29
	47,986	8,732

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	109,729	24,075	2,555	8
Time deposits	27,425	94,634	12,447	–
	137,154	118,709	15,002	8

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$96,448,000 (2002: HK\$8,655,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. ACCOUNTS PAYABLE

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	7,007	4,534
91 – 120 days	349	996
121 – 180 days	677	182
Over 180 days	10,424	951
	18,457	6,663

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23. ACQUISITION CONSIDERATION PAYABLE

As further detailed in note 14 to the financial statements, the acquisition consideration payable as at 31st December, 2003, represented the balance of the acquisition consideration in connection with the acquisition of Palmweb.

24. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans repayable:				
Within one year or on demand	–	748,801	–	748,801
In the second year	31,492	–	31,492	–
In the third to fifth years, inclusive	–	31,492	–	31,492
	31,492	780,293	31,492	780,293
Classified as current liabilities	–	(748,801)	–	(748,801)
Long term portion	31,492	31,492	31,492	31,492

All the interest-bearing bank loans are secured by the pledge of certain debt securities of the Group and the Company (note 19).

During the years ended 31st December, 2002 and 2003, the Group entered into a repurchase agreement and a total return swap agreement with certain banks pursuant to which the Group sold certain debt securities to the banks at the Purchase Price and the banks agreed to sell back the same debt securities to the Group on the repurchase date (the "Repurchase Date"). Pursuant to the agreements, during the period between the date that the Group sold the debt securities to the banks (the "Purchase Date") and the Repurchase Date, the banks would pay to the Group any income in respect of the debt securities and the Group 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 3 months LIBOR plus 0.35% per annum. Either party with a net exposure from the transaction arising from the fluctuations in the market value of the securities or other means, may request the other party to make a cash transfer at least equal to that net exposure. During the year, the bank loan under the repurchase agreement was fully repaid.

25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities**Group**

	Fair value adjustments arising from acquisition of a subsidiary HK\$'000
Additions through acquisition of a subsidiary (<i>note 29</i>)	1,952
Deferred tax credited to the profit and loss account during the year*	<u>(236)</u>
Gross deferred tax liabilities at 31st December, 2003	<u>1,716</u>

Deferred tax assets**Group**

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
Deferred tax credited to the profit and loss account during the year and gross deferred tax assets at 31st December, 2003*	<u>(374)</u>	<u>(1,873)</u>	<u>(2,247)</u>
Net deferred tax assets at 31st December, 2003			<u>(531)</u>

* Total deferred tax credited to the profit and loss account during the year amounted to HK\$2,483,000 (2002: Nil) (Note 10).

The Group has tax losses arising in Hong Kong of HK\$133,011,000 (2002: HK\$132,725,000) 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 as they have arisen in subsidiaries that have been loss-making for some time and/or due to the unpredictability of their future profit streams.

At 31st December, 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief or under the relevant tax laws.

26. SHARE CAPITAL**Shares**

	2003 HK\$'000	2002 HK\$'000
Authorised: 10,000,000,000 (2002: 10,000,000,000) ordinary shares of HK\$0.10	<u>1,000,000</u>	1,000,000
Issued and fully paid: 4,135,226,833 (2002: 4,131,558,942) ordinary shares of HK\$0.10	<u>413,523</u>	413,156

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31st December, 2003

26. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st January, 2002 and 1st January, 2003	4,131,558,942	413,156	913,204	1,326,360
Share options exercised*	3,667,891	367	937	1,304
Share issue expenses	–	–	(3)	(3)
At 31st December, 2003	4,135,226,833	413,523	914,138	1,327,661

* The subscription rights attaching to 3,667,891 share options were exercised at subscription prices ranging from HK\$0.36 to HK\$0.95 per share (note 27), resulting in the issue of 3,667,891 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$1,304,000.

Share options

Details of the Company's share option schemes and the share options issued under the share option schemes of the Company are set out in note 27 to the financial statements.

27. SHARE OPTION SCHEMES

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).

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, 2003, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme was 96,138,440, 44,595,118 and 39,419,504, respectively, which represented approximately 4.36% in aggregate of the Company's shares in issue as 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 exceed 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.

27. SHARE OPTION SCHEMES (continued)

The offer of a grant of share options under the Pre-IPO Scheme and the Post-IPO Scheme 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 Pre-IPO Scheme and the Post-IPO Scheme, 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 Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange of Hong Kong Limited (the "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.

As at 31st December, 2003, the remaining life of the Pre-IPO Scheme and the Post-IPO Scheme is six years and two months and the remaining life of the 2002 Scheme is eight years and four months.

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31st December, 2003

27. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the respective share option schemes of the Company during the year:

(i) Pre-IPO Scheme

Name or category of participant	Date of grant of share options*	Exercise price of share options** HK\$	Number of share options		
			At 1st January, 2003	Lapsed during the year	At 31st December, 2003
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
Directors (resigned during the year)					
Hung Shuk Tak, Vicky	9th March, 2000	1.880	5,000,000	(5,000,000)	–
Lin Jack	9th March, 2000	1.880	530,000	(530,000)	–
Chan Wing Tak, Douglas	9th March, 2000	1.880	1,000,000	(1,000,000)	–
Other employees					
In aggregate	9th March, 2000	1.880	1,178,620	(407,540)	771,080
Others					
In aggregate	9th March, 2000	1.880	11,881,080	(513,720)	11,367,360
			103,589,700	(7,451,260)	96,138,440

27. SHARE OPTION SCHEMES (continued)

(ii) Post-IPO Scheme

Name or category of participant	Date of grant of share options*	Exercise price of share options** HK\$	At 1st January, 2003	Number of share options		At 31st December, 2003	Price of Company's shares at exercise date of options*** HK\$
				Exercised during the year	Lapsed during the year		
Directors							
Ch'ien Kuo Fung, Raymond	10th April, 2001	0.286	4,000,000	(1,000,000)	-	3,000,000	0.75
Chan Kai Yu, Rudy	5th October, 2000	0.582	10,000,000	-	-	10,000,000	-
	10th April, 2001	0.286	20,000,000	-	-	20,000,000	-
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	-	-	2,400,000	-
Directors (resigned during the year)							
Hung Shuk Tak, Vicky	10th April, 2001	0.286	2,000,000	-	(2,000,000)	-	-
Lin Jack	10th April, 2001	0.286	2,000,000	-	(2,000,000)	-	-
Chan Wing Tak, Douglas	10th April, 2001	0.286	600,000	(300,000)	(300,000)	-	0.76
Other employees							
In aggregate	6th April, 2000	2.106	103,340	-	(103,340)	-	-
	7th April, 2000 -	1.310 -					
	19th June, 2000	1.977	900,420	-	(271,260)	629,160	-
	14th August, 2000 -	0.286 -					
	28th March, 2002	0.876	10,699,562	(2,283,918)	(3,449,686)	4,965,958	0.36-0.95
			56,303,322	(3,583,918)	(8,124,286)	44,595,118	

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27. SHARE OPTION SCHEMES (continued)

(iii) 2002 Scheme

Name or category of participant	Date of grant share options [*]	Exercise price of share options** HK\$	At 1st January, 2003	Number of share options			At 31st December, 2003	Price of Company's shares***	
				Granted during the year	Exercised during the year	Lapsed during the year		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	0.62	-
Chan Kai Yu, Rudy	5th June, 2003	0.626	-	4,000,000	-	-	4,000,000	0.62	-
Chou Kei Fong, Silas	5th June, 2003	0.626	-	1,000,000	-	-	1,000,000	0.62	-
Wong Sin Just	5th June, 2003	0.626	-	2,500,000	-	-	2,500,000	0.62	-
Yip Hak Yung, Peter	5th June, 2003	0.626	-	4,000,000	-	-	4,000,000	0.62	-
Wang Cheung Yue, Fred	5th June, 2003	0.626	-	2,000,000	-	-	2,000,000	0.62	-
Kwok Yee Leen, Elaine	5th June, 2003	0.626	-	1,500,000	-	-	1,500,000	0.62	-
Xiao Xiangyang, John	5th June, 2003	0.626	-	4,000,000	-	-	4,000,000	0.62	-
Other employees									
In aggregate	19th August, 2002	0.200	968,848	-	(83,973)	(600,731)	284,144	-	0.83
	2nd December, 2002	0.208	400,420	-	-	(297,080)	103,340	-	0.86
	24th February, 2003	0.171	-	374,560	-	(64,580)	309,980	0.16	-
	29th May, 2003	0.716	-	697,480	-	(51,660)	645,820	0.63	-
	5th June, 2003	0.626	-	14,650,000	-	-	14,650,000	0.62	-
	22nd December, 2003	0.634	-	426,220	-	-	426,220	0.62	-
			1,369,268	39,148,260	(83,973)	(1,014,051)	39,419,504		

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** 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.

*** 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 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.

The 3,667,891 share options exercised during the year resulted in the issue of 3,667,891 ordinary shares of the Company and new share capital of HK\$367,000 and share premium of HK\$937,000 (before issue expenses), as detailed in note 26 to the financial statements.

27. SHARE OPTION SCHEMES (continued)

At the balance sheet date, the Company had in aggregate 180,153,062 share options outstanding under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme, which represented approximately 4.36% 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 180,153,062 additional ordinary shares of the Company and additional share capital of approximately HK\$18,015,000 and share premium of approximately HK\$204,845,000 (before issue expenses).

28. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 23 and 24 of the financial statements.

Pursuant to the relevant laws and regulations for foreign investment enterprises established in the PRC, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to reserve funds which are restricted as to use.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated reserves, as a goodwill reserve, as explained in note 17 to the financial statements.

(b) Company

	Note	Share premium account HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 2002		913,204	(13,794)	(67,179)	832,231
Investment revaluation reserve released on disposals		–	12,359	–	12,359
Surplus on revaluation		–	2,030	–	2,030
Net profit for the year		–	–	47,385	47,385
At 31st December, 2002 and 1st January, 2003		913,204	595	(19,794)	894,005
Issue of shares	26	937	–	–	937
Share issue expenses	26	(3)	–	–	(3)
Investment revaluation reserve released on disposals		–	(1,193)	–	(1,193)
Deficit on revaluation		–	(2,749)	–	(2,749)
Net profit for the year		–	–	38,524	38,524
At 31st December, 2003		914,138	(3,347)	18,730	929,521

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29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	3,174	–
Intangible assets	5,912	–
Interest in an associate	528	–
Accounts receivable	34,170	–
Prepayments, deposits and other receivables	8,692	–
Cash and cash equivalents	13,759	–
Deferred tax liabilities	(1,952)	–
Accounts payable	(20,498)	–
Other payables and accrued liabilities	(6,438)	–
	37,347	–
Goodwill on acquisition	392,622	–
Total consideration*	429,969	–
Satisfied by:		
Cash consideration paid	110,169	–
Acquisition consideration payable (note 23)	319,800	–
	429,969	–

* The total consideration also included a related professional fee of HK\$235,000.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration paid	110,169	–
Cash and cash equivalents acquired	(13,759)	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	96,410	–

During the year, the Group acquired Palmweb and Beijing China Net Communication Technology Service Limited. Further details of the acquisitions are set out in note 14 to the financial statements.

Since their acquisitions, these subsidiaries contributed HK\$137,145,000 to the Group's turnover and HK\$81,756,000 to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003.

30. 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 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.

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements for terms ranging from two to three years.

At 31st December, 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follow:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,784	816	–	–
In the second to fifth years, inclusive	1,073	63	–	–
	2,857	879	–	–

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, as at 31st December, 2003, the Group had capital commitments contracted but not provided for in respect of the acquisition of certain fixed assets from CIC (Shanghai) Company Limited, a fellow subsidiary of the Company, at an aggregate consideration of HK\$2,511,000 (2002: Nil).

At 31st December, 2003, the Company had no significant commitments (2002: Nil).

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Advertising service fees charged by a fellow subsidiary	(i)	–	(560)
Rentals charged by a fellow subsidiary	(ii)	(996)	(913)
Operating lease rentals in respect of fixed assets charged by a fellow subsidiary	(iii)	(611)	–

Notes:

- (i) The advertising service fees charged by a fellow subsidiary for the display of advertisements on its Internet portal for the year ended 31st December, 2002 were based on a fixed monthly fee and a standard CPM (define) rate which is similar to those rates charged to other customers by that fellow subsidiary in the ordinary course of business of the Group.
- (ii) The rentals are related to office premises occupied by the Group and were charged by a fellow subsidiary based on the attributable gross floor area occupied by the Group.

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33. RELATED PARTY TRANSACTIONS (continued)

- (iii) The operating lease rentals are related to the leasing of certain fixed assets and were charged by the fellow subsidiary at a lump sum annually with reference to open market rates.

During the year, the Group was licensed the right to use the URLs of hongkong.com and china.com by CSI, a fellow subsidiary of the Company, at nil consideration (2002: Nil) and at an annual license fee of US\$1 (equivalent to HK\$7.8) respectively. Further details of the licensing arrangements for URL of hongkong.com are set out in note 30 to the financial statements.

During the year, the Group entered into an agreement to acquire certain fixed assets from CIC (Shanghai) Company Limited, a fellow subsidiary of the Company, at an aggregate consideration of HK\$2,511,000. Further details of which are set out in note 32 to the financial statements.

During the year, the Group acquired a subsidiary, Beijing China Net Communication Technology Service Limited, from a fellow subsidiary of the Company, for a consideration of HK\$734,000. Further details of which are set out in note 14 to the financial statements.

34. POST BALANCE SHEET EVENTS

- (i) On 2nd February, 2004, a short term loan of HK\$319,800,000 was drawn down by the Group and the Company under a repurchase agreement for financing the payment of the balance of the acquisition consideration in relation to the acquisition of Palmweb paid on 4th February, 2004. Debt securities with fair value as at 31st December, 2003 of HK\$376,081,000 were pledged as collateral for the loan.
- (ii) On 12th February, 2004, Prime Leader Holdings Limited ("Prime Leader"), a wholly-owned subsidiary of the Company incorporated subsequent to 31st December, 2003, Equity Pacific Limited ("EPL") and certain other parties (collectively the "Parties") entered into a Senior Secured Convertible Loan Agreement (the "Loan Agreement") whereby, Prime Leader agreed to provide EPL a loan in the aggregate principle amount of up to approximately HK\$24,960,000, which shall be secured by the pledges to Prime Leader over 50% of all the shares of each of EPL and Beijing 17game Network Technology Co. Ltd., and convertible into shares of EPL, subject to terms and conditions of the Loan Agreement. Pursuant to the Loan Agreement, the Parties have agreed to execute an agreement relating to a call option to be granted by the shareholders of EPL to Prime Leader and a put option to be granted by Prime Leader to the shareholders of EPL in respect of some or all of the remaining shares of EPL, subject to the terms and conditions of that agreement, which have not yet been finalised at the date of approval of these financial statements.

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16th February, 2004.