

Interim Report 2004



hongkong.com Corporation
[incorporated in the Cayman Islands with limited liability]



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This 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 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to report yet another period of continual profitability for the hongkong.com Group for the Interim Period ended 30th June, 2004.

Strategic and financial highlights of the half-yearly period of 2004 include:

- Turnover climbed 87% to HK\$126 million versus the half-yearly period of 2003
- Revenue from 2.5G (including IVR) generated in Q2 04 increased by 152% as compared to Q1 04
- Gross margin improved to 77% from 64% of the same period last year
- Net profit increased 62% to about HK\$45 million compared with HK\$28 million of corresponding period of 2003
- EPS reached 1.10 cents, representing a 62% increase compared to 0.68 cent of corresponding period of 2003
- Maintained a strong position in net cash and investments in interest-bearing securities of over HK\$1 billion
- Announced the proposed injection of Go2Joy ("Beijing He He Technology Company Limited") from the Group's ultimate holding company, chinadotcom corporation

In the last six months we have worked diligently to upgrade our service offerings, particularly in the Mobile Value Added Services division, to keep pace with industry development. I am delighted to see that our efforts have started to pay off and we have recorded very strong uptake of revenue streams being generated by new services introduced on our WAP (Wireless Application Protocol) and IVR (Interactive Voice Response) platforms.

In the interest of improving overall service quality Chinese mobile operators implemented new systems and policies primarily directed at the SMS (Short Message Services) platform. While this has created some slowdown of the SMS market we believe in the long run a healthier marketplace will emerge and bode well for high quality operators like ourselves.

Subsequent to the end of the Interim Period the Group announced the intention to acquire Go2joy, a leading and profitable mobile application and services provider in China, from our ultimate parent company, chinadotcom corporation. Go2joy has one of the original IVR licenses from China Mobile and has also signed exclusive agreements with the China's national TV network and Union Mobile Pay Ltd. (UMP), a joint venture between China Mobile and China Union Pay Co., Ltd. The successful addition of Go2joy to the Group will enhance our competitive strength and is expected to create synergistic benefits to our existing operations.

The Mobile Value Added Services industry is still in its infancy and opportunities abound for future business development. hongkong.com is committed to this sector and will continue to invest in new technologies and new products to remain competitive.

Our other operations, including the china portal, and our media and travel business, have also improved during the quarter. In particular the www.china.com portal was named "One of the Most Valuable 500 Brands in China" by the World Economic Forum and has been appointed as the exclusive online partner for China's 10th National Games in 2005. This will be an especially exciting event in the run up to the 2008 Olympic Games.

I am honored to have been invited by the Board of Directors to resume the position of Chief Executive Officer of the Group last month and I am pleased to have Albert Lam joining us as Chief Operating Officer of the Group as a further initiative to strengthen our management team. With the strong operating team and an industry full of new business opportunities, I believe hongkong.com will reach yet higher levels of profitability for our shareholders in the future.

Rudy Chan
Chief Executive Officer
hongkong.com Corporation

Hong Kong, 2nd August, 2004

RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months (the "Quarterly Period") and six months (the "Half-Yearly Period") ended 30th June, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30th June, 2004

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	62,994	49,247	126,205	67,490
Cost of sales		(15,284)	(12,540)	(29,342)	(24,029)
Gross profit		47,710	36,707	96,863	43,461
Other revenue and gains, net	2	7,234	13,472	17,155	29,448
Selling and distribution expenses		(3,145)	(2,402)	(5,942)	(2,840)
General and administrative expenses		(24,359)	(19,027)	(47,951)	(29,884)
Other operating expenses		(7,058)	(3,429)	(13,330)	(3,812)
Profit from operating activities	4	20,382	25,321	46,795	36,373
Finance costs		(608)	(1,991)	(1,380)	(5,011)
Share of profits of associates		-	89	44	89
Profit before tax		19,774	23,419	45,459	31,451
Tax	5	(126)	(3,678)	(60)	(3,678)
Profit before minority interests		19,648	19,741	45,399	27,773
Minority interests		63	233	65	242
Net profit from ordinary activities attributable to shareholders		19,711	19,974	45,464	28,015
Earnings per share	6				
Basic		0.48 cent	0.48 cent	1.10 cents	0.68 cent
Diluted		0.48 cent	0.48 cent	1.10 cents	0.68 cent

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30th June, 2004

	Notes	30th June, 2004 HK\$'000 (Unaudited)	31st December, 2003 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		11,075	7,117
Interests in associates		–	809
Intangible assets		4,729	5,202
Goodwill		384,899	396,284
Long term investments		60,528	60,528
Pledged securities		37,180	37,165
Deferred tax assets		686	531
		<u>499,097</u>	<u>507,636</u>
CURRENT ASSETS			
Amounts due from fellow subsidiaries		5,361	6,193
Short term investments		761,533	1,116,955
Pledged securities		100,895	–
Accounts receivable	7	63,609	47,986
Prepayments, deposits and other receivables		23,872	14,992
Cash and cash equivalents		180,344	137,154
		<u>1,135,614</u>	<u>1,323,280</u>
CURRENT LIABILITIES			
Amounts due to fellow subsidiaries		4,016	1,491
Tax payable		247	124
Accounts payable	8	13,522	18,457
Other payables and accrued liabilities		18,311	14,873
Acquisition consideration payable		–	319,800
Interest-bearing bank borrowings		85,800	–
Deferred revenue		5,094	3,500
		<u>126,990</u>	<u>358,245</u>
NET CURRENT ASSETS		<u>1,008,624</u>	<u>965,035</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,507,721</u>	<u>1,472,671</u>
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings		31,492	31,492
MINORITY INTERESTS		5,460	5,525
		<u>1,470,769</u>	<u>1,435,654</u>
CAPITAL AND RESERVES			
Issued capital	9	413,628	413,523
Reserves		1,057,141	1,022,131
		<u>1,470,769</u>	<u>1,435,654</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital	Share premium	Goodwill reserve	Investment revaluation reserve	Reserve funds	Exchange fluctuation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	413,156	913,204	(31,215)	595	-	(271)	37,633	1,333,102
Issue of shares	313	776	-	-	-	-	-	1,089
Goodwill reserve released on disposals	-	-	21	-	-	-	(21)	-
Investment revaluation reserve released on disposals	-	-	-	823	-	-	-	823
Movement in fair value	-	-	-	2,355	-	-	-	2,355
Exchange realignment	-	-	-	-	-	14	-	14
Profit for the period	-	-	-	-	-	-	28,015	28,015
At 30th June, 2003	<u>413,469</u>	<u>913,980</u>	<u>(31,194)</u>	<u>3,773</u>	<u>-</u>	<u>(257)</u>	<u>65,627</u>	<u>1,365,398</u>
At 1st January, 2004	413,523	914,138	(31,193)	(3,347)	8,415	(243)	134,361	1,435,654
Issue of shares	105	453	-	-	-	-	-	558
Share issue expenses	-	(5)	-	-	-	-	-	(5)
Investment revaluation reserve released on disposals	-	-	-	(967)	-	-	-	(967)
Movement in fair value	-	-	-	(10,031)	-	-	-	(10,031)
Exchange realignment	-	-	-	-	-	96	-	96
Profit for the period	-	-	-	-	-	-	45,464	45,464
At 30th June, 2004	<u>413,628</u>	<u>914,586</u>	<u>(31,193)</u>	<u>(14,345)</u>	<u>8,415</u>	<u>(147)</u>	<u>179,825</u>	<u>1,470,769</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	25,819	30,843
Net cash (outflow)/inflow from investing activities	(68,083)*	635,064
Net cash inflow/(outflow) from financing activities	84,973	(591,711)
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Net increase in cash and cash equivalents	42,709	74,196
Cash and cash equivalents at the beginning of period	137,154	118,709
Effect of foreign exchange rate changes, net	481	14
	<hr/>	<hr/>
Cash and cash equivalents at the end of period	180,344	192,919
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	137,926	48,701
Non-pledged time deposits with original maturity of less than three months when acquired	42,418	144,218
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	180,344	192,919
	<hr/> <hr/>	<hr/> <hr/>

* Including the payment of Palmweb's accelerated final consideration of HK\$319,800,000.

Notes:

1. Basis of presentation

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") Number 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounts have been prepared under the historical cost convention except for the periodic remeasurement of debt securities at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

The accounting policies adopted in the interim financial statements are consistent with those followed in the annual financial statements for the year ended 31st December, 2003.

2. 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:

	Six months ended	
	30th June,	
	2004	2003
	HK\$'000	HK\$'000
Turnover:		
Mobile value-added services and applications income	98,519	39,440
Advertising services income	22,690	20,223
Sale of railway ticketing system hardware and software	2,379	6,661
E-commerce revenue	2,617	1,166
	126,205	67,490
Other revenue:		
Dividend income	70	-
Interest income	594	1,710
Interest income on debt securities	16,491	28,737
Loss on disposal of debt securities, net	-	(1,161)
	17,155	29,286
Gains:		
Foreign exchange gains, net	-	162
	143,360	96,938

3. Segment information

(a) Business segments

	For the six months ended 30th June,											
	Advertising		Subscription		Technology		E-commerce		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER												
External sales	22,690	20,223	98,519	39,440	2,379	6,661	2,617	1,166	-	-	126,205	67,490
Inter-segment sales	-	1,560	-	-	304	-	867	320	(1,171)	(1,880)	-	-
Total	<u>22,690</u>	<u>21,783</u>	<u>98,519</u>	<u>39,440</u>	<u>2,683</u>	<u>6,661</u>	<u>3,484</u>	<u>1,486</u>	<u>(1,171)</u>	<u>(1,880)</u>	<u>126,205</u>	<u>67,490</u>
Segment results	<u>(5,827)</u>	<u>(4,461)</u>	<u>42,601</u>	<u>20,399</u>	<u>(2,121)</u>	<u>(2,217)</u>	<u>(1,706)</u>	<u>(3,716)</u>	<u>-</u>	<u>-</u>	<u>32,947</u>	<u>10,005</u>
Interest income and unallocated gains											17,155	29,448
Unallocated expenses											<u>(3,307)</u>	<u>(3,080)</u>
Profit from operating activities											46,795	36,373
Finance costs											<u>(1,380)</u>	<u>(5,011)</u>
Share of profits of associates											44	89
Profit before tax											45,459	31,451
Tax											<u>(60)</u>	<u>(3,678)</u>
Profit before minority interests											45,399	27,773
Minority interests											<u>65</u>	<u>242</u>
Net profit from ordinary activities attributable to shareholders											<u>45,464</u>	<u>28,015</u>
ASSETS												
Segment assets	<u>103,325</u>	<u>140,847</u>	<u>569,253</u>	<u>157,894</u>	<u>20,465</u>	<u>22,732</u>	<u>35,478</u>	<u>71,202</u>	<u>(95,735)</u>	<u>(178,130)</u>	<u>632,786</u>	<u>214,545</u>
Unallocated assets											1,001,925	1,391,213
Total assets											<u>1,634,711</u>	<u>1,605,758</u>
LIABILITIES												
Segment liabilities	<u>464,509</u>	<u>187,683</u>	<u>15,012</u>	<u>31,571</u>	<u>23,735</u>	<u>22,421</u>	<u>160,139</u>	<u>178,777</u>	<u>(634,719)</u>	<u>(376,122)</u>	<u>28,676</u>	<u>44,330</u>
Unallocated liabilities											129,806	190,632
Total liabilities											<u>158,482</u>	<u>234,962</u>
Other segment information:												
Depreciation and amortization	2,506	2,412	11,739	1,605	1,310	1,541	292	1,021	-	-	15,847	6,579
Non-cash expenses other than depreciation and amortization	62	2,113	1,215	-	195	(582)	-	67	-	-	1,472	1,598

(b) *Geographical segments*

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
China	107,893	46,242
Hong Kong	958	1,927
Other Asian countries*	17,354	19,321
	<hr/>	<hr/>
Total external sales	126,205	67,490
	<hr/> <hr/>	<hr/> <hr/>

* Other Asian countries include Singapore and Taiwan.

4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	3,989	4,365
Amortization of intangible assets	473	–
Amortization of goodwill	11,385	2,214
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5. Tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Half-Yearly Period (six months ended 30th June, 2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. Earnings per share

(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 Quarterly Period and Half-Yearly Period of approximately HK\$19,711,000 and HK\$45,464,000 respectively (three months and six months ended 30th June, 2003: HK\$19,974,000 and HK\$28,015,000 respectively) and weighted average number of 4,136,243,876 and 4,135,938,100 (three months and six months ended 30th June, 2003: 4,131,558,942 and 4,132,011,082 respectively) ordinary shares respectively.

(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 Quarterly Period and Half-Yearly Period of approximately HK\$19,711,000 and HK\$45,464,000 respectively (three months and six months ended 30th June, 2003: HK\$19,974,000 and HK\$28,015,000 respectively) and weighted average number of 4,142,474,600 and 4,144,521,738 (three months and six months ended 30th June, 2003: 4,148,113,338 and 4,138,588,059 respectively) ordinary shares respectively, after adjusting for the effects of all dilutive potential shares during the Quarterly Period and Half-Yearly Period.

7. Accounts receivable

30th June, 2004 31st December, 2003
HK\$'000 *HK\$'000*
(Audited)

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

Within 90 days	61,498	45,575
91 – 120 days	1,487	1,634
121 – 180 days	441	620
Over 180 days	183	157
	<hr/>	<hr/>
	63,609	47,986
	<hr/> <hr/>	<hr/> <hr/>

The trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance. The Group maintains strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are regularly reviewed by management.

8. Accounts payable

30th June, 2004 31st December, 2003
HK\$'000 *HK\$'000*
(Audited)

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

Within 90 days	11,568	7,007
91 – 120 days	1,034	349
121 – 180 days	612	677
Over 180 days	308	10,424
	<hr/>	<hr/>
	13,522	18,457
	<hr/> <hr/>	<hr/> <hr/>

9. Issued capital

	Six months ended 30th June, 2004		Twelve months ended 31st December, 2003	
	No. of shares	HK\$'000	No. of shares (Audited)	HK\$'000 (Audited)
Authorized:				
Ordinary shares of HK\$0.10 each	<u>10,000,000,000</u>	<u>1,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Beginning of period/year	<u>4,135,226,833</u>	<u>413,523</u>	<u>4,131,558,942</u>	<u>413,156</u>
Exercise of share options	<u>1,053,807</u>	<u>105</u>	<u>3,667,891</u>	<u>367</u>
End of period/year	<u>4,136,280,640</u>	<u>413,628</u>	<u>4,135,226,833</u>	<u>413,523</u>

10. Post Balance Sheet Event

Subsequent to the ending of the Half-Yearly Period, the Group announced the proposed acquisition of Beijing He He Technology Company Limited, a PRC company engaged in providing entertainment-related mobile value-added services on its SMS and IVR platforms connected to China Mobile's and China Unicom's networks, by a consideration of no more than HK\$468,000,000.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Half-Yearly Period (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit

A turnover of HK\$126,205,000 was recorded for the Half-Yearly Period, representing a 87% increase from HK\$67,490,000 in the same period of last year. The increment in turnover was primarily attributable to (1) the increase in mobile application service revenue, which amounted to HK\$55,390,000 when compared to the same period of last year and (2) the increase in China Portal revenues amounted to HK\$6,854,000, since the Group began operating the www.china.com portal during the third quarterly period last year. However, these increases in revenue were partially offset by the decrease in revenue from the Hong Kong Portal and revenue from the Media & Travel division of HK\$1,915,000 and HK\$969,000 respectively.

The gross profit of the Group for the Half-Yearly Period increased by 123% to HK\$96,863,000 compared to the corresponding period in 2003 of HK\$43,461,000. As a result of the high profit margin of mobile application service revenue as well as the e-commerce revenue from the China Portal, the gross profit margin increased from 64% in 2003 to 77% in 2004.

Other revenue and gains, net

Other revenue and gains, net decreased by 42% to HK\$17,155,000 for the Half-Yearly Period, when compared with HK\$29,448,000 in the same period, mainly attributed to the significant decrease in interest income from interest-bearing securities by HK\$12,246,000 as a result of the redemption of interest-bearing securities during the Half-Yearly Period as well as the reduction of overall cash and cash equivalents balance caused by the full payment for the acquisition of Palmweb of HK\$319,800,000 during the first quarter of this year.

Selling and distribution expenses

On a year-to-year basis, selling and distribution expenses doubled to HK\$5,942,000 for the Half-Yearly Period. This was mainly attributable to Newpalm, which was being consolidated from April 2003.

General and administrative expenses

General and administrative expenses increased by 60% to HK\$47,951,000 for the Half-Yearly Period compared to the corresponding period in 2003 of HK\$29,884,000. Both the acquisition of Newpalm in April last year and the taking over of the operations of the www.china.com portal since the third quarterly period last year resulted in additional expenses of HK\$11,595,000 and HK\$9,161,000 respectively, which were partially offset by the Group's continued effort in cost control on the personnel and general expenditures.

Other operating expenses

An increase in other operating expenses by 250% to HK\$13,330,000 was recorded for the Half-Yearly Period as compared to HK\$3,812,000 for the same period of 2003. This was primarily due to the increase in amortization expenses in respect of intangible assets and goodwill of the newly acquired businesses amounting to HK\$9,644,000.

Share of profit of an associate

The decrease was due to the share of profit of an associated company. The associated company was disposed and a gain was recorded in the second quarter of 2004.

Tax

The decrease was mainly attributable to the deferred tax income arising from Newpalm, which generated deductible temporary differences for the Half-Yearly Period.

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders improved by 62% to HK\$45,464,000 as compared to HK\$28,015,000 in the corresponding period of 2003.

Liquidity and financial resources

On 2nd February, 2004, a short term loan of HK\$319,800,000 was drawn down 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. The payment was being accelerated in accordance with the Shares Purchase Agreement (SPA) for a year due to strong operating performance of Palmweb.

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position after the acquisition of new businesses with HK\$1,470,769,000 shareholders' funds as at 30th June, 2004 compared to HK\$1,435,654,000 as at 31st December, 2003. The net cash and investments in interest-bearing securities held by the Group as at 30th June, 2004 was HK\$1,023,188,000 compared to HK\$1,320,310,000 as at 31st December, 2003.

Capital structure

The Group's bank borrowing was increased by HK\$85,800,000 to HK\$117,292,000 as at 30th June 2004 since last year end as a result of an additional borrowing and loan repayments of HK\$319,800,000 and HK\$234,000,000 in the first and second quarter respectively. The change of issued share capital was due to the issue of a number of 1,053,807 ordinary shares upon the exercise of share options in the Half-Yearly Period.

As at 30th June, 2004, the Group's bank borrowing of HK\$85,800,000 was repayable within one year, and the remaining of HK\$31,492,000 was repayable within two years. All bank borrowings are denominated in United States Dollars.

Charges on group assets

As at 30th June, 2004, an amount of HK\$138,075,000, as compared to HK\$37,165,000 as at 31st December, 2003, of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK\$117,292,000 compared to HK\$31,492,000 as at 31st December, 2003.

Gearing ratio

As at 30th June, 2004, the Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, was about 8% compared to 2% as at 31st December, 2003.

Exposure to fluctuation 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, and therefore, no hedging against foreign currency exposure was considered necessary.

Material acquisitions and significant investments

During the Half-Yearly Period, the Group made a strategic investment in 17game, by means of a secured convertible loan of HK\$9,360,000, a leading online games company with a track record and an established distribution network in China. Other than that, the Group did not have any other significant investments and capital commitments in the Half-Yearly Period.

Future plans for material investment and capital assets

Subsequent to the end of the Half-Yearly Period, the Group announced the proposed acquisition of Beijing He He, a PRC company engaged in providing entertainment-related mobile value-added services on its SMS and IVR platforms connected to China Mobile's and China Unicom's networks, by a consideration of no more than HK\$468,000,000.

Moreover, in view of the recent development of alternative business cooperation possibilities between the Group and 17game, the Group is now discussing with 17game in good faith in formulating a more cohesive and effective mode of business cooperation.

Details of which please refer to the section headed "Outlook" below. Other than those disclosed above, the Group does not have any other future plan for material investment and acquisition of capital assets.

Contingent liabilities

Other than those disclosed in a sub-section headed "Charges on group assets", the Group had no other material contingent liabilities as at 30th June, 2004.

Segmental information

The business segments were reclassified into four segments, namely, Advertising, Subscription, Technology, and E-commerce, in 2004 in order to better reflect the Group's business portfolio after the acquisition of new businesses. Advertising segment includes revenue from all portal and non-portal advertising, marketing activities, publishing and event organization fees. Subscription segment is composed of revenue from mobile value added services and other subscription-based activities. Technology segment comprises revenue from the production and sale of hardwares and softwares. Other revenue from Internet and content service provision falls within the E-commerce segment.

A prominent increment in turnover of 87% by HK\$58,715,000 was recorded for the Half-Yearly Period compared to the total turnover of HK\$67,490,000 for the same period in 2003. The favorable difference was primarily due to (1) the recovery of media and travel related business from the impact of the outbreak of SARS and (2) the consolidation of the newly acquired businesses of Newpalm as well as the China Portal.

Employee information

As at 30th June, 2004, the Group has 446 full-time employees distributed across Hong Kong, China and 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.

BUSINESS REVIEW

Mobile Value Added Services

Newpalm, the Company's MVAS division, offers entertainment-oriented MVAS in China area over diversified services platforms including SMS, MMS, WAP, and IVR. While SMS remains the major revenue contributor during the Quarterly Period, the company began aggressively pursuing market opportunities in 2.5G wireless data services and wireless voice services, such as WAP, MMS and IVR, which collectively started contributing meaningful revenue to the company's results.

Despite the increasing competition in the SMS market, the company was able to largely sustain its revenue and customer base through leveraging its experience and understanding of the MVAS market in China during the Half-Yearly Period. Our team of innovative product developers has been consistently developing content applications which are popular among mobile users. For example, "少女日記" (Maidens' diary), a series of story depicting three distinctive virtual female characters' affection and life experiences, helped draw new source of customers in the second quarter.

Services offered over 2.5G networks can be significantly more sophisticated and offer users higher quality graphics, richer content and interactivity. They also command premium pricing over the relatively traditional text-based SMS services. This provides the company an opportunity to increase its average revenue per user or ARPU. Thanks to the company's huge subscribers base, it is well positioned to capture the growth opportunities in WAP and IVR through creative cross-selling and product-bundling.

Wireless IVR service allows users to access voice content from their mobile phones. For example, users may choose to dedicate songs to friends, use voice-dating services and receive important information through voice rather than text. Apart from the partnership with chinadotcom's subsidiary Beijing He He which was one of the first five IVR licensees with China Mobile, the company has also launched new IVR services through its own platforms with both China Mobile and China Unicom. Although such services have only been commercialized for a few months, it has been tracking well and expected to generate increasing returns for the business.

During the Half-Yearly Period, the company continued to invest in the establishment of provincial direct connectivity in China's WAP market. In addition to the nation wide connectivity, the company has increased the number of provincial WAP sites to fourteen, with Beijing Mobile, Shandong Mobile, Xinjiang Unicom as the newly-added markets in the second quarter. Icons, screensavers and ringtones are expected to be mainstream WAP products.

In addition to the company's dedicated sale force in each individual provinces and local offices of China Mobile and China Unicom, the company has also made tremendous efforts on the development of non-operator sales and marketing channels. During the Half-Yearly Period, the company has pursued an important initiative to increase the number of its services embedded on SIM Tool Kit (STK) cards offered by China Mobile and China Unicom. STK cards are enhanced SIM cards that offer a variety of embedded services, which enable users to access such services with ease. By the end of the Half-Yearly Period, the company has been selected by 13 provincial China Mobile operators and 6 provincial China Unicom operators to embed its services onto their STK cards.

Similarly, collaboration with handset vendors to embed the company's service and products into mobile phones is another innovative way to reach potential subscribers. During the Half-Yearly Period, more products are contracted to be embedded in handsets from Motorola (China) Electronics Ltd., Bird Communication Equipment Co. Ltd. and TCL Mobile Communication Co. Ltd. Moreover, the company has successfully established the partnership relationship with a new handset vendor, Lenovo Mobile Communication Technology Ltd. (previously "Legend Mobile").

The company also provides wireless interactive services for Phoenix Satellite TV through a revenue sharing arrangement. It offers wireless services based on their content. The company has contracted with Phoenix TV to integrate its wireless services in seven different channels by the end of the Half-Yearly Period.

Finally, to further enhance and differentiate its services, the company has entered into collaborative relationships with local and international media companies to customize, localize, market and distribute their content through various wireless technology platforms. As of 30th June, 2004, the company has established some licensing arrangements with leading domestic and international media companies.

Portals

During this quarter, the global traffic ranking of the portal unit achieved notable advancement and reached a remarkable 23rd place on Alexa.com Global 500 websites listing. As an achievement of its strengthening brand management, China.com was named "One of the Most Valuable 500 Brands in China" by the World Economic Forum ("WEF") in June 2004.

The company executed an exclusive agreement with the Organizing Committee of the 10th National Games in April 2004, whereby the China.com portal was conferred with the title of "Partner of the 10th National Games" and "Honor Certified Partner of the 10th National Games". The general manager of our portal unit was nominated as an honorary member of the Organizing Committee of the 10th National Games, and was invited to attend its emblem press release event on 24th April, 2004 in Nanjing. The official website of the 10th National Games (www.10thgames.org.cn) was launched by our portal team during the Half-Yearly Period.

The company continued to restructure its various channels and contents based on the customer segmentation and users preference. With more mature audience as the core target, the Automobile and Technology channels have been fully upgraded. The Entertainment channel has been revamped to include more up-to-date entertainment news and information about celebrities in Hong Kong and overseas. As a result of such revamp, the Entertainment channel has become the second highest page-views channel within the China.com portal.

The portal designed and launched several new online programs during this Half-Yearly Period, including a chat room focusing on daily news and hot topics, a photo competition in collaboration with the annual car exhibition held in Beijing in June 2004. Utilizing Yahoo's top search engine technology, an exclusive online search function was launched successfully on our website in May 2004.

"China e-home", a new product designed for enterprise customers was launched, and a distribution conference was held in Qingdao to attract distributors.

Media and Travel

Advertising revenues for the media and travel division have improved significantly since the beginning of the year and also when compared to the same period last year.

The company also managed to generate supplementary income by providing pre-press services to clients such as Rotary International, National Healthcare Group and Singapore Medical Association. During the Half-Yearly Period, the company had won tenders from various associations and government agencies to publish official publications and dailies for the following:

1. Official Great Singapore Sale Guide – Singapore Retailers Association
2. Official PATA Travel Mart Dailies – Pacific Asia Travel Association
3. Official TIME Dailies – Department of Tourism Indonesia

On new initiatives, the company had launched a new organic growth event, International Feng Shui Convention (IFSC 2004), in May 2004 in Singapore. This exhibition was a great success in terms of attendance as well as customers' participation rate.

OUTLOOK

The Group will continue to pursue its strategic goal in excelling in the mobile value added services sector in the upcoming quarters.

Consistent with the Group's objective in achieving a more diversified revenue mix, the Company had strengthened both the product development and marketing promotional efforts on new wireless value added services since early Q2 2004 and started achieving promising returns. For instance, the Company has launched six new IVR products via China Mobile's platform during the second quarter which collectively contribute to the huge jump in IVR revenue and equipped the Company with a strong product platform for cross-selling and product-bundling with other existing products.

Another encouraging synergistic achievement was the cooperation with the Group's ultimate holding company chinadotcom's wholly-owned subsidiary Go2joy on a new IVR product offering via China Mobile's platform. This state-of-art entertainment-oriented IVR product, leveraged on both the strengths of the Company's product development expertise and extensive sales network as well as Go2joy's first mover advantage in terms of platform connectivity and competitive revenue-sharing ratio with China Mobile, is capturing market share rapidly and is ranked as the highest revenue-generating product among all non-SMS type new service offerings. Going forward, the Group will expect to further capitalize on the operational synergies between the Company and Go2joy in view of our recent announcement on 7th July, 2004 regarding the proposed injection of Go2joy into the Group. Subject to the independent shareholders' approvals, the deal will allow us to start financial consolidation of the earnings-accretive acquisition no later than September, 2004.

Enhanced synergies between Newpalm, Go2joy and the www.china.com portal are anticipated as a result of the co-location of Newpalm and the portal unit into a single premises recently, new interactive products to be launched through the www.china.com portal, and the further cooperation within the two MVAS operations after the completion of the Go2joy transferal into the Group.

On our portal division, two new channels will be launched with specialization in soccer and English information respectively. And other cooperation projects will also be taking place – the Qingdao Beer Festival青島啤酒節, the Wecker Match & Auto Festival老爺車比賽, the Miss Oriental Competition東方小姐選美比賽, and the national online & overseas donation of the 10th National Games.

Regarding our media & travel unit, the outlook for the publishing business remains very positive as forward bookings are ahead compared to the same period last year. Furthermore, in order to maintain a strong stream of diversified revenue, the division will further invest in another big event in August 2004 – International Travel Show, Thailand (ITS). Together with other recurring events such as Director Marketing Asia (DM Asia), Incentive Travel & Conventions, Meetings Asia (ITCMA) and Corporate Travel World (CTW), event organizing revenue are expected to be promising for the rest of the year.

On the games sector, 17game is tracking according to the strategic plan and direction. The Group is exploring a more cohesive and effective model of business cooperation opportunity with 17game. The outlook for the online games sector remains positive and the Group is prepared to take advantage of the boom in this sector with the flexible cooperation and investment structure with 17game.

The Group's financial position remains strong with over HK\$1 billion net cash and investment in interest-bearing securities. Along with the strong operating cashflow from profitable operations, the management team plans to utilize this fund through operational reinvestments to generate further organic growth and look for suitable acquisition opportunities that will create synergistic benefit to long term shareholders' value.

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

As of 30th June, 2004, the interests 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 pursuant to the required standard of dealings by the Directors as referred to in rule 5.46 of 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

Name of Directors	Date of grant	Exercise price HK\$	Number of share options outstanding as at 1st January, 2004	Number of share options outstanding as at 30th June, 2004
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000	10,000,000
	10th April, 2001	0.286	3,000,000	3,000,000
	5th June, 2003	0.626	4,000,000	4,000,000
Chan Kai Yu, Rudy	9th March, 2000	1.880	60,000,000	60,000,000
	5th October, 2000	0.582	10,000,000	10,000,000
	10th April, 2001	0.286	20,000,000	20,000,000
	5th June, 2003	0.626	4,000,000	4,000,000
Chou Kei Fong, Silas	9th March, 2000	1.880	1,000,000	1,000,000
	10th April, 2001	0.286	600,000	600,000
	5th June, 2003	0.626	1,000,000	1,000,000
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000	2,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000	1,000,000
	10th April, 2001	0.286	600,000	600,000
	5th June, 2003	0.626	2,500,000	2,500,000
Yip Hak Yung, Peter	9th March, 2000	1.880	6,000,000	6,000,000
	10th April, 2001	0.286	2,400,000	2,400,000
	5th June, 2003	0.626	4,000,000	4,000,000
Zhou Shun Ao	9th March, 2000	1.880	6,000,000	6,000,000
	10th April, 2001	0.286	2,400,000	2,400,000
Kwok Yee Leen, Elaine	5th June, 2003	0.626	1,500,000	1,500,000
Xiao Xiangyang, John	5th June, 2003	0.626	4,000,000	4,000,000

Note: All the share options may be exercised in accordance with the terms of the relevant share option schemes at any time during the period commencing from one year after the date of grant of options to the year ending 10 years after the date of grant of options. The consideration for the grant was HK\$1.00. These share options vest over a period of four years.

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	911,773	1,116,667	Personal/ beneficiary	1.94%
Chan Kai Yu, Rudy	–	154,265	Personal/ beneficiary	0.15%
Yip Hak Yung, Peter	16,280,586	2,981,442	Interest of children or spouse (note 1)	18.40%
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	–	21,657	Personal/ beneficiary	0.02%
Xiao Xiangyang, John	–	319,000	Personal/ beneficiary	0.31%

Notes:

- (1) 11,835,686 Class A common shares and 2,981,442 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. 4,444,900 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 shares options under the SFO.

Options to subscribe for Class A common shares in chinadotcom corporation

Name of Directors	Date of grant	Option Exercise period	Exercise price US\$	Number of share options outstanding as at 1st January, 2004	Number of share options outstanding as at 30th June, 2004
Ch'ien Kuo Fung, Raymond	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	66,667	66,667
	17th October, 2000	17th January, 2001 to 16th October, 2010	6.8125	100,000	100,000
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000	30,000
	27th April, 2001	27th July, 2001 to 26th April, 2011	2.7400	400,000	220,000 (note 1)
	13th July, 2001	13th October, 2001 to 12th July, 2011	2.9700	400,000	400,000
	11th May, 2004	27th July, 2004 to 10th May, 2014	7.7770	-	300,000
Chan Kai Yu, Rudy	15th November, 1999	25th November, 2000 to 14th November, 2009	14.5000	38,000	38,000
	15th April, 2000	25th February, 2001 to 14th April, 2005	14.2375	4,500	4,500
	29th July, 2000	25th February, 2001 to 28th July, 2010	15.7500	4,500	4,500
	17th October, 2000	25th November, 2000 to 14th November, 2009	6.8125	8,265	8,265
	11th July, 2001	11th October, 2001 to 10th July, 2011	2.3810	20,000	20,000
	2nd January, 2004	28th January, 2005 to 1st January, 2014	8.0700	-	39,500
	2nd January, 2004	1st January, 2006 to 1st January, 2014	8.0700	-	39,500

Name of Directors	Date of grant	Option Exercise period	Exercise price US\$	Number of share options outstanding as at 1st January, 2004	Number of share options outstanding as at 30th June, 2004
Yip Hak Yung, Peter	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	60,000	60,000
	12th July, 1999	12th July, 2000 to 11th July, 2009	5.0000	*1,881,442	*1,881,442
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000	30,000
	6th June, 2002	6th June, 2002 to 5th June, 2012	2.8200	*200,000	*200,000
	3rd June, 2003	30th June, 2003 to 2nd June, 2013	4.9500	*200,000	*200,000
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	*100,000	*100,000
	25th March, 2004	31st December, 2004 to 24th March, 2014	8.2500	-	*600,000
Zhou Shun Ao	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	**60,000	**60,000
	15th April, 2000	15th January, 2001 to 14th April, 2005	14.2375	9,000	9,000
	29th July, 2000	29th January, 2001 to 28th July, 2010	15.7500	9,000	9,000
	20th October, 2000	20th January, 2001 to 19th October, 2010	8.1250	60,000	60,000
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000	30,000

Name of Directors	Date of grant	Option Exercise period	Exercise price US\$	Number of share options outstanding as at 1st January, 2004	Number of share options outstanding as at 30th June, 2004
Kwok Yee Leen, Elaine	11th September, 2002	11th September, 2003 to 10th September, 2012	2.0600	9,500	7,032 <i>(note 2)</i>
	11th October, 2002	11th January, 2003 to 10th October, 2012	1.9500	5,500	2,500 <i>(note 2)</i>
	16th June, 2003	16th June, 2004 to 15th June, 2013	5.1600	9,000	9,000
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	5,000	3,125 <i>(note 2)</i>
Xiao Xiangyang, John	16th June, 2003	16th June, 2004 to 15th June, 2013	5.1600	19,000	19,000
	2nd January, 2004	28th January 2004 to 1st January, 2014	8.0700	-	300,000

* These share options were granted to APOL.

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

Notes:

- (1) Dr. Ch'ien Kuo Fung, Raymond exercised his right to subscribe for 20,000 Class A common shares at a subscription price of US\$2.7400 each on 14th January, 2004, 28th January, 2004, 11th February, 2004, 25th February, 2004, 10th March, 2004, 24th March, 2004, 14th April, 2004, 28th April, 2004 and 12th May, 2004 respectively of which 140,000 Class A common shares were sold.
- (2) Ms. Kwok Yee Leen, Elaine exercised her right to subscribe for 1,250, 500 and 1,250 Class A common shares at a subscription price of US\$1.9500 each on 29th March, 2004, 6th April, 2004 and 17th June, 2004 respectively; 1,875 Class A common shares at a subscription price of US\$5.1600 each on 31st March, 2004 and 1,687 and 781 Class A common shares at a subscription price of US\$2.06 each on 6th April, 2004 and 17th June, 2004 respectively. These shares were all sold.

Save as disclosed above, as at 30th June, 2004, 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.

As at 30th June, 2004, no person other than a director or chief executive had any interests or short positions in the shares and underlying shares of the Company as required to be recorded in the register pursuant to section 336 of the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 30th June, 2004, the interests and short positions of the substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

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	81.28%

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. Each of chinadotcom Mobile Interactive Corporation and chinadotcom corporation are deemed to be interested in the 3,361,828,000 shares in the Company under the SFO.

Save as disclosed above, as at 30th June, 2004, the Company had not been notified of any substantial shareholders' interests or short positions representing 5% or more of the Company's issued share capital.

SHARE OPTION SCHEMES

(a) Pre-IPO Scheme

As at 30th June, 2004, options comprising an aggregate of 95,362,200 underlying shares to subscribe for shares in the Company at an exercise price of HK\$1.88 for each share (granted on 9th March, 2000 under the Pre-IPO Scheme) were outstanding. Details of grants of Pre-IPO share options to the Directors are set out in the previous section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in this report. No options have been granted under the Pre-IPO Scheme as the right to do so was terminated upon listing of the Company on GEM.

Details of the share options outstanding under the Pre-IPO Scheme during the Half-Yearly Period are set out below:

Type of grantees	As at 1st January, 2004	Lapsed during the Half-Yearly Period	As at 30th June, 2004
Directors	84,000,000	–	84,000,000
Employees	754,980 (i)	(716,240) (ii)	38,740
Other Eligible Person	11,383,460 (i)	(60,000) (iii)	11,323,460
	<u>96,138,440</u>	<u>(776,240)</u>	<u>95,362,200</u>

Notes:

- (i) 16,100 options held by a former employee of the Company were transferred to other companies within chinadotcom group during the Half-Yearly Period.
- (ii) These options were lapsed when the holders of such options ceased employment with the Company.
- (iii) These options were lapsed when the holders of such options ceased employment with chinadotcom group.
- (iv) The underlying shares of the outstanding Pre-IPO share options as at 30th June, 2004 represent 2.31% of the issued share capital of the Company.

All the above outstanding options granted under the Pre-IPO Scheme may be exercised in accordance with the terms of the Pre-IPO Scheme within 10 years after the date of grant of options:

Period since date of grant	Percentage of shares comprised in options which become exercisable
Date of grant – first anniversary	Zero
First anniversary – second anniversary	Up to 25 per cent
Second anniversary – third anniversary	Up to 50 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Third anniversary – fourth anniversary	Up to 75 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Fourth anniversary and thereafter	All shares in respect of which the option has not been previously exercised

No options under the Pre-IPO Scheme have been exercised or cancelled during the Half-Yearly Period.

(b) Post-IPO Scheme

As at 30th June, 2004, options granted under the Post-IPO Scheme comprising an aggregate of 43,049,778 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.286 to HK\$1.310 for each share were outstanding. Details of grants of post-IPO share options to the Directors are set out in the previous section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in this report. The Post-IPO Scheme was terminated on 30th April, 2002 and replaced by the 2002 Share Option Scheme.

Details of the share options outstanding under the Post-IPO Scheme during the Half-Yearly Period are as follows:

Type of grantees	Date of grant of share options	Exercise price of share options HK\$	As at 1st January, 2004	Transfer of Eligible Person during the Half-Yearly Period	Exercised during the Half-Yearly Period	Lapsed during the Half-Yearly Period	As at 30th June, 2004
Ch'ien Kuo Fung, Raymond	10th April, 2001	0.286	3,000,000	-	-	-	3,000,000
Chan Kai Yu, Rudy	5th October, 2000	0.582	10,000,000	-	-	-	10,000,000
	10th April, 2001	0.286	20,000,000	-	-	-	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
Employees	7th April, 2000 – 19th June, 2000	1.310 – 1.977	629,160	(500,000) (i)	-	(129,160) (ii)	-
	14th August, 2000 – 28th March, 2002	0.286 – 0.876	4,965,958	(1,426,240) (i)	(921,417) (iii)	(494,763)	2,123,538
Other Eligible Person	19th June, 2000	1.310	-	500,000 (i)	-	-	500,000
	18th August, 2000 – 28th February, 2002	0.286 – 0.870	-	1,426,240 (i)	-	-	1,426,240
			<u>44,595,118</u>		<u>(921,417)</u>	<u>(623,923)</u>	<u>43,049,778</u>

Notes:

- (i) This represents options were held by a number of former employees being transferred to other companies within chinadotcom group during the Half-Yearly Period.
- (ii) These options were lapsed when the holders of such options ceased employment with the Company.

- (iii) The weighted average closing price of 921,417 shares immediately before the date on which the options were exercised was HK\$0.947.
- (iv) The underlying shares of the outstanding Post-IPO share options as at 30th June, 2004 represent 1.04% of the issued share capital of the Company.

All the above outstanding options granted under the Post-IPO Scheme may be exercised in accordance with the terms of the Post-IPO Scheme within 10 years after the date of grant of options.

Period since date of grant	Percentage of shares comprised in options which become exercisable
Date of grant – first anniversary	Zero
First anniversary – second anniversary	Up to 25 per cent
Second anniversary – third anniversary	Up to 50 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Third anniversary – fourth anniversary	Up to 75 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Fourth anniversary and thereafter	All shares in respect of which the option has not been previously exercised

Save as disclosed above, no options granted under Post-IPO Scheme have been exercised and cancelled during the Half-Yearly Period.

(c) 2002 Share Option Scheme

As at 30th June, 2004, options granted under the 2002 Share Option Scheme comprising an aggregate of 38,996,699 underlying shares to subscribe for shares in the Company at a range of exercise price between HK\$0.171 to HK\$0.716 for each share were outstanding. Details of grants under the 2002 Share Option Scheme to the Directors are set out in the previous section headed "INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in this report.

Details of the share options outstanding under the 2002 Share Option Scheme during the Half-Yearly Period are as follows:

Type of grantees	Date of grant of share options	Exercise price of share options HK\$	As at 1st January, 2004	Transfer of	Granted during the Half-Yearly Period	Exercised during the Half-Yearly Period	Lapsed during the Half-Yearly Period	As at 30th June, 2004
				Eligible Person during the Half-Yearly Period				
Ch'ien Kuo Fung, Raymond	5th June, 2003	0.626	4,000,000	-	-	-	-	4,000,000
Chan Kai Yu, Rudy	5th June, 2003	0.626	4,000,000	-	-	-	-	4,000,000
Chou Kei Fong, Silas	5th June, 2003	0.626	1,000,000	-	-	-	-	1,000,000
Wong Sin Just	5th June, 2003	0.626	2,500,000	-	-	-	-	2,500,000
Yip Hak Yung, Peter	5th June, 2003	0.626	4,000,000	-	-	-	-	4,000,000
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000	-	-	-	-	2,000,000
Kwok Yee Leen, Elaine	5th June, 2003	0.626	1,500,000	-	-	-	-	1,500,000
Xiao Xiangyang, John	5th June, 2003	0.626	4,000,000	-	-	-	-	4,000,000
Employees	19th August, 2002	0.200	284,144	-	-	(29,060) (iii)	(38,745) (iv)	216,339
	2nd December, 2002	0.208	103,340	-	-	(25,835) (iii)	(77,505) (iv)	-
	24th February, 2003	0.171	309,980	-	-	(77,495) (iii)	(38,745) (iv)	193,740
	29th May, 2003	0.716	645,820	(180,840) (i)	-	-	-	464,980
	5th June, 2003	0.626	1,500,000	(1,200,000) (i)	-	-	-	300,000
	22nd December, 2003	0.634	426,220	-	-	-	-	361,640
	1st April, 2004	0.712	-	-	219,580 (ii)	-	(64,580) (iv)	219,580
Other Eligible Person	29th May, 2003	0.716	-	180,840	-	-	(90,420) (iv)	90,420
	5th June, 2003	0.626	13,150,000	1,200,000	-	-	(200,000) (iv)	14,150,000
			<u>39,419,504</u>		<u>219,580</u>	<u>(132,390)</u>	<u>(509,995)</u>	<u>38,996,699</u>

Notes:

- (i) This represents options were held by a number of former employees of the Company who were transferred to other companies within chinadotcom group during the Half-Yearly Period.

- (ii) 219,580 options were granted to 3 employees of the Company at an exercise price of HK\$0.712 per share. The closing price of the shares immediately before the date on which the options were granted was HK\$0.710.
- (iii) The weighted average closing price of 132,390 shares immediately before the date on which the options were exercised was HK\$1.010.
- (iv) These options were lapsed when the holders of such options ceased employment with the Company or chinadotcom group.
- (v) The underlying shares of the outstanding options under the 2002 Share Option Scheme as at 30th June, 2004 represent 0.94% of the issued share capital of the Company.

All the above outstanding options granted under the 2002 Share Option Scheme may be exercised in accordance with the terms of the 2002 Share Option Scheme within 10 years after the date of grant of options. The options vest over a period of 4 years.

Period since date of grant	Percentage of shares comprised in options which become exercisable
Date of grant – first anniversary	Zero
First anniversary – second anniversary	Up to 25 per cent
Second anniversary – third anniversary	Up to 50 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
Third anniversary – fourth anniversary	Up to 75 per cent (less the percentage of shares which arose upon the exercise of options between the first anniversary and the third anniversary)
Fourth anniversary and thereafter	All shares in respect of which the option has not been previously exercised

Save as disclosed above, no options granted under the 2002 Share Option Scheme have been cancelled during the Half-Yearly Period.

In assessing the value of the share options granted during the Half-Yearly Period, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodology to calculate the value of options and is one of the recommended options pricing models as set out in Rule 23.08 of the GEM Listing Rules. The variables of the Black-Scholes Model include, risk-free interest rate, expected life of the options, and expected volatility and expected dividend of the shares of the Company, if applicable.

The interest rate applied in the Black-Scholes Model is 2.562%, representing the 5-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options (the "Measurement Date"). The expected life of the options used is 5 years. The expected volatility of the expected share prices of the Company valued at 79.3% 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.

Using the Black-Scholes Model in assessing the value of 219,580 share options granted under the 2002 Share Option Scheme during the Half-Yearly Period, the options would have an aggregate value of approximately HK\$101,007, representing a value of HK\$0.46 per option.

The summary of the treatment of forfeiture of option prior to the expiry date is set out in Appendix V of the Prospectus under the section headed "Share Options".

It should be noted that the value of options calculated using the Black-Scholes Model is only an estimate of the value of share options granted during the Half-Yearly Period. Amongst other variables, it uses the time to expiry to determine a value based on the past performance of the share price as measured by the volatility factor. If, however, the Company's future financial and/or operating performance fluctuates, it is likely that the share price will be affected. In such case, the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Half-Yearly Period.

COMPETING INTERESTS

Beijing He He Technology Company Limited ("Beijing He He") is 100% beneficially owned by Double Keen Limited, an indirect wholly owned subsidiary of chinadotcom Mobile Interactive Corporation ("CMIC"). Newpalm (China) Information Technology Co. Ltd. ("Newpalm (China) ") is an indirect wholly owned subsidiary of the Company, which is an entity substantially owned indirectly through China M Interactive (BVI) Limited by CMIC.

Beijing He He is a mobile value-added service provider in the PRC with direct connectivity IVR platform with the mobile phone operator in China. It is principally engaged in the business of providing mobile value-added services in the PRC and has licenses to conduct SMS, IVR and ringbacktone business.

Newpalm (China) is a leading SMS and other mobile value-added services and application provider in the PRC.

Though the Company is actively seeking to develop operating synergies with Beijing He He, the Directors believe that, to the extent that the operations of Beijing He He is not under the control of the Company, the business of Beijing He He may potentially compete with the Company's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined under the GEM Listing Rules) have any interests in a business which competes or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the Half-Yearly Period.

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 four independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Chou Kei Fong, Silas, Wang Cheung Yue, Fred, and Chia Kok Onn. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

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

Hong Kong
2nd August, 2004