



hongkong.com Corporation (GEM Stock 8006) is a chinadotcom company (NASDAQ:CHINA)

## ANNUAL REPORT 2004 ..... |

**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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**ATTENTION TO ALL MEMBERS:** *The Company made a clarification announcement dated 22nd March, 2005 in relation to the transaction described in the paragraph headed "Connected Transactions – Continuing Connected Transaction – Beijing He He and Newpalm (China)" in the Report of the Directors. Disclosure of the transaction in the Report of the Directors should be read together with the disclosure set out in the announcement. The Board has noted that the auditors of the Company have confirmed the matters stated in Rule 20.38 of the GEM Listing Rules in connection with the transaction.*

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Ch'ien Kuo Fung, Raymond (*Chairman*)  
Yip Hak Yung, Peter (*Vice-Chairman*)  
Zhou Shun Ao (*Vice-Chairman*)  
Chan Kai Yu, Rudy (*Chief Executive Officer*)  
Keith Geoffrey Oliver  
Wang Xiao Hui

#### Independent Non-Executive Directors

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

### COMPANY SECRETARY

Deng Jun

### QUALIFIED ACCOUNTANT

Ho Yi Man, Agnes, FCCA, CPA

### COMPLIANCE OFFICER

Keith Geoffrey Oliver

### AUDIT COMMITTEE

Wong Sin Just (*Committee Chairman*)  
Chou Kei Fong, Silas  
Wang Cheung Yue, Fred  
Chia Kok Onn

### COMPENSATION COMMITTEE

Ch'ien Kuo Fung, Raymond (*Committee Chairman*)  
Wong Sin Just  
Chou Kei Fong, Silas  
Wang Cheung Yue, Fred  
Chia Kok Onn

### NOMINATING COMMITTEE

Chia Kok Onn (*Committee Chairman*)  
Wong Sin Just  
Chou Kei Fong, Silas  
Wang Cheung Yue, Fred

### AUTHORIZED REPRESENTATIVES

Chan Kai Yu, Rudy  
Keith Geoffrey Oliver

### 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  
Strathvale House  
North Church Street  
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](http://www.corp.hongkong.com)

## FINANCIAL HIGHLIGHTS

## RESULTS

	Year ended 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover					
Continuing operations	<b>231,411</b>	181,738	44,154	80,730	79,498
Discontinued operation	<b>3,890</b>	5,925	10,441	5,796	–
	<b>235,301</b>	187,663	54,595	86,526	79,498
Net profit from ordinary activities attributable to shareholders	<b>58,133</b>	105,143	27,139	28,441	4,419

## ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Assets	<b>1,815,254</b>	1,830,916	2,146,832	1,589,098	1,291,652
Liabilities	<b>(292,509)</b>	(389,737)	(808,090)	(292,435)	(44,268)
Minority interests	<b>(30,670)</b>	(5,525)	(5,640)	(5,873)	–
Net assets	<b>1,492,075</b>	1,435,654	1,333,102	1,290,790	1,247,384

## KEY FINANCIAL DATA

	Year ended 31st December,				
	2004 HK cents	2003 HK cents	2002 HK cents	2001 HK cents	2000 HK cents
Earnings per share	<b>1.41</b>	2.54	0.66	0.69	0.11

	As at 31st December,				
	2004 HK cents	2003 HK cents	2002 HK cents	2001 HK cents	2000 HK cents
Net assets per share	<b>36.00</b>	34.73	32.27	31.24	31.54

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Dr. Ch'ien Kuo Fung, Raymond (Chairman, age 53)**

Dr. Ch'ien was appointed to the Board on 25th November, 1999. He is Chairman of the Board of the Company and Executive Chairman of chinadotcom corporation, the ultimate holding company of the Company. He was appointed as Chief Executive Officer of chinadotcom corporation with effect from 2nd March, 2005. Dr. Ch'ien is also Chairman of MTR Corporation Limited and serves on the boards of HSBC Holdings plc, the Hongkong and Shanghai Banking Corporation Limited, Inchcape plc., Convenience Retail Asia Limited, VTech Holdings Limited and The Wharf (Holdings) Limited. In public service, Dr. Ch'ien is Chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption; Chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. He 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. He also served as Chairman of the Industry and Technology Development Council from 1993 to 1999. Dr. Ch'ien received a doctoral degree in Economics from the University of Pennsylvania in 1978. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal.

**Yip Hak Yung, Peter (Vice-Chairman, age 52)**

Mr. Yip was appointed to the Board on 15th October, 1999. He is Vice Chairman of both the Company and chinadotcom corporation, the ultimate holding company of the Company. Mr. Yip has over two decades of successful entrepreneurial experience in the media and telecommunications industries. Prior to establishing chinadotcom corporation, Mr. Yip founded a systems integration company which was sold to SHL Systemshouse, a company subsequently acquired by MCI. He previously held senior management positions at KPMG Consulting and Wharton Applied Research. Mr. Yip received his Master of Business Administration (MBA) from Wharton School at the University of Pennsylvania, and his Master's of Science in Electrical Engineering (M.S.E.E.) and Bachelor's of Science in Electrical Engineering (B.S.E.E.) from the University of Pennsylvania.

**Zhou Shun Ao (Vice-Chairman, age 56)**

Mr. Zhou was appointed to the Board on 7th December, 1999. He is also a director of chinadotcom corporation, the ultimate holding company of the Company. Mr. Zhou has over 30 years experience with Xinhua News Agency, serving as Deputy Director of the Department for Business Development, General Manager of the China Media Development Corporation, President of China Global Public Relations Corporation. Mr. Zhou has also served as Executive Deputy General Manager of Xinhua News Agency and has extensive media experience across China.

**Chan Kai Yu, Rudy (Chief Executive Officer, age 43)**

Mr. Chan was appointed to the Board on 3rd February, 2000. As CEO, 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.,



Dr. Ch'ien Kuo Fung, Raymond



Yip Hak Yung, Peter



Zhou Shun Ao



Chan Kai Yu, Rudy

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

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, the University of Pennsylvania. Mr. Chan is an Independent Non-executive Director of Softbank Investment International (Strategic) Limited.

**Keith Geoffrey Oliver (age 58)**

Mr. Oliver was appointed to the Board on 26th October, 2004. He is also the Compliance Officer of the Company and Chief Financial Officer of chinadotcom corporation, the ultimate holding company of the Company. As the Compliance Officer, Mr. Oliver advises on compliance issues within the Company. Being the Chief Financial Officer of chinadotcom corporation, Mr. Oliver manages the overall financial systems and internal controls of the chinadotcom group. He is also responsible for strategic planning and driving integration within the group. Mr. Oliver has over 20 years of experience in finance and financial management. Prior to that, Mr. Oliver spent 18 years with Philip Morris, principally with Philip Morris Asia, where he held various key positions such as Regional Controller and Regional Vice President of Finance. After Philip Morris Asia, Mr. Oliver joined Kraft Foods Asia Pacific as Area Director for 4 years. Mr. Oliver graduated from University of Melbourne with a degree of Bachelor of Commerce.

**Wang Xiao Hui (age 39)**

Mr. Wang was appointed to the Board on 26th October, 2004. He is also a Director & Chief Executive Officer of chinadotcom Communications Technology Development (Beijing) Limited ("China Portal"), an indirect wholly owned

subsidiary of the Company. Before this, Mr. Wang was Vice President of Xinhua Financial Network Ltd., interpreter in the Foreign Affairs Department, Director of the Overseas Department of the News and Information Center, Manager of London Bureau of Xinhua News Agency. Mr. Wang graduated from Nankai University and had studied in the University of Hawaii and the People's University of China.

**INDEPENDENT NON-EXECUTIVE DIRECTORS****Chou Kei Fong, Silas (age 58)**

Mr. Chou was appointed to the Board on 25th November, 1999. He 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. 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 39)**

Mr. Wong was appointed to the Board on 25th November, 1999. He is the Executive and Co-Chairman of E2-Capital (Holdings) Limited, Executive Vice-Chairman and Chief Executive Officer of Softbank Investment International (Strategic) Limited, Chairman of SBI E2-Capital Asia Holdings Limited and Independent non-Executive Director of Capital Strategic Investment Limited, Alternate Director to Ong Tiang Lock of Intelligent Edge Technologies Berhad and Non-Executive of Westcomb Financial Group Limited. Mr. Wong possesses over 10 years of investment banking and venture capital experience and has held positions with a number of premier international investment banks. Mr. Wong holds a degree of Bachelor of Engineering from the Imperial College of Science, Technology and Medicine in London and is an associate of the Institute of Chartered Accountants, England and Wales.



Keith Geoffrey Oliver



Wang Xiao Hui



Chou Kei Fong, Silas



Wong Sin Just

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

**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 and Director of the Board of the Hong Kong International Film Festival Society Limited.

**Chia Kok Onn (age 51)**

Mr. Chia was appointed to the Board on 22nd July, 2003. He has more than 25 years of diverse background ranging from US-Asia venture capital investing, start-up company and corporate operational management experience in the technology sectors. Mr. Chia was Managing Director of Walden International, an international venture capital group. Before Walden International, Mr. Chia was Vice President, Asia-Pacific and member of the original core team at Premisys Communications, Inc., (NASDAQ: PRMS), a successful venture capital backed technology start-up. He also spent over a dozen years in various management roles at Hewlett-Packard Europe/Asia-Pacific and Apple Computer Asia. He holds a MBA degree from Strathclyde University, Scotland and BEng (Hons) Electronic Engineering degree from Sheffield University, England.

**SENIOR MANAGEMENT****Albert Lam (age 46)**

Mr. Lam is the Chief Operating Officer of the Company. He is responsible for formulating and executing the strategy and direction of the Company at the operating level. At

present, Mr. Lam is the Chief Executive Officer of Newpalm (China) Information Technology Co. Ltd. ("Newpalm"), a leading mobile valued added services provider in China and an indirect wholly-owned subsidiary of the Company. Mr. Lam has over 23 years of experience in the telecommunications and IT industries in North America and Greater China, of which more than seven years were with Motorola Inc. Prior to joining the Company, he was Vice President of Motorola Asia Pacific and General Manager of the Taiwan PCS Division. Mr. Lam was the Chief Operating Officer of Newpalm until December 2002 where he helped establishing strong relationships with the local provincial operators. In addition, Mr. Lam has worked with Northern Telecom (Nortel) for 10 years and gained a broad range of experience in engineering, business developing, marketing and ventures management. Mr. Lam holds a Master of Business Administration (MBA) from the University of Calgary, Calgary, Alberta and a Bachelor degree of Applied Science from University of Toronto.

**Leung Ming Shu (age 29)**

Mr. Leung is the Chief Financial Officer of the Company. He is responsible for managing the overall financial systems and internal controls of the Company. Prior to that, he worked for the merger and acquisition team of chinadotcom corporation, the ultimate holding company of the Company and was actively involved in most of the recent software acquisitions made by chinadotcom corporation. Having been a senior consultant and accountant for the corporate finance and business assurance practices of PricewaterhouseCoopers (previously "Andersen & Co" and "Price Waterhouse" respectively) covering a broad range of industries and clients, Mr. Leung brings extensive financial and strategic management experience to the Company. Mr. Leung received a 1st class honor degree in Accountancy from the City University of Hong Kong and a master degree in Accountancy from the Chinese University of Hong Kong. He is also an associate member of the Association of Chartered Certified Accountants, the United Kingdom.



Wang Cheung Yue, Fred



Chia Kok Onn



Albert Lam



Leung Ming Shu



## CHAIRMAN'S STATEMENT

With temperate satisfaction, I report another profitable year for hongkong.com Corporation. This was achieved despite the regulatory buffeting taken by the Mobile Value Added Services ("MVAS") industry in China during the second half. Whilst no one can be happy with a fall in profits between 2003 and 2004, we are glad to have weathered the storm and continue to channel resources into our core lines of business. Allow me to take this opportunity to share with you some of the financial and business highlights in 2004:

- Turnover was HK\$235.3 million, an increase of 25% compared to 2003
- Gross profit was HK\$177.6 million, up 25% compared to 2003
- Sustained high gross margin of 75% for 2004 while that for 2003 was 76%
- Net profit from ordinary activities attributable to shareholders from continuing operations was HK\$67.6 million, compared to HK\$109.1 million in 2003
- Cash flows generated from operations remained strong as the net profit from ordinary activities attributable to shareholders from continuing operations included HK\$28.7 million of acquisitions related non-cash amortization of intangible assets and goodwill as well as a HK\$20.7 million decrease in investment income due to cash outlays for acquisitions made during the year.
- Basic earnings per share ("EPS") were 1.41 HK cents compared to 2.54 HK cents in 2003
- Balance sheet remained strong with net cash and interest-bearing securities at over HK\$1.0 billion as of 31st December, 2004, after acquisition payments amounting to HK\$425.9 million during the year
- Successfully acquired Beijing He He Technology Company Limited ("Go2joy") from our parent company, chinadotcom corporation, to strengthen our MVAS division and capture some operational synergies
- Began to reposition our portal network with enhanced vertical focus in military, automobile and sports channels
- Appointed as exclusive online partner for the 10th National Games of the People's Republic of China to be held in October 2005
- Entered the online game sector via a strategic investment in Beijing 17game Network Technology Co. Ltd. ("17game")

The operating environment for the MVAS industry turned harsh in the second half of 2004, with many sanctions and new restrictions imposed by the regulators and mobile operators. Our Short Message Service ("SMS") was seriously impacted. However, from a longer-term perspective, we view this as a positive development which helps to raise the standard of industry practices and create a more open and fair playing field for Services Providers ("SP"s). Our MVAS business showed signs of recovery towards the end of 2004. Some of the newer products, such as WAP, have resumed their upward trajectory recently. We expect regulatory volatility to remain characteristic of China's mobile communications industry for some time to come, so being nimble and able to proactively manage risks are essential factors of business sustainability. The addition of Go2joy provides an additional distribution platform for our MVAS products, given its exclusive partnership with the state-owned national TV station in China for selected popular TV programmes. It also broadens our MVAS business portfolio through Go2joy's exclusive mobile payment partnership with Union Mobile Pay ("Umpay").

Advertising revenue for our portal network showed an encouraging turnaround in 2004. We expect to see further improvements as we implement a repositioning strategy with sharpened vertical focus, extending our comparative advantages in channels such as military, automobile and sports. Significant investments will be made in 2005 in content development, developing strategic partnerships and sponsorship programs. In the process, the china.com portal will become increasingly symbiotic with our MVAS and online games businesses.

## CHAIRMAN'S STATEMENT

The Corporation gained a foothold in China's online gaming sector through a strategic investment in 17game in 2004. 17game currently operates two online games in China: Travia and Droiyon, and plans to launch additional titles in 2005. The results of the beta tests of Travia in Q4 2004 were encouraging and the game was launched commercially in January 2005.

Our goal in the MVAS and Internet industries of China is to do a few things better than anyone else. We are committed to making sharply focused and objective-driven investments in people, services and intellectual properties to achieve this goal. This will entail a cultural shift from being a relatively competent "me too" to being innovative and winning.

The rooster ushers in a new dawn. hongkong.com can do well to emulate this spirit in 2005. I wish all colleagues will rise to the challenges of the New Year and thank shareholders for your continuing confidence in the people of hongkong.com Corporation.

**Dr. Ch'ien Kuo Fung, Raymond**  
*Chairman*

Hong Kong, 28th February, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

**FINANCIAL REVIEW****Turnover and gross profit**

The Group continued to be profitable this year, as it has been since its listing on GEM on 9th March, 2000. A turnover of HK\$235,301,000 was recorded for the year ended 31st December, 2004, representing a HK\$47,638,000, or a 25% increase as compared with last year. The increase was primarily attributable to (1) the increase of HK\$36,382,000 in MVAS revenue when compared to 2003, as a result of the acquisition of two MVAS units, Newpalm and Go2joy, in April 2003 and in August 2004, respectively; and (2) the increase of HK\$10,400,000 in revenue from the china.com portal in 2004 on a full year basis when compared to 2003, given that the Group began operating the china.com portal during the third quarterly period in 2003.

Gross profit increased by HK\$35,794,000 to HK\$177,556,000 for the year ended 31st December, 2004, when compared with HK\$141,762,000 last year. Gross profit margin remained relatively unchanged in 2004 at 75%, when compared with 76% in 2003. The overall gross profit margin for the Group remained high in 2004 as a significant portion of the subscription revenue was generated from our own intellectual property with low or no external direct cost of revenue.

**Other revenue and gains, net**

Other revenue and gains fell by 36% to HK\$32,962,000 for the year ended 31st December, 2004, compared with HK\$51,625,000 in 2003. The reduction was primarily due to the decrease in interest income from interest-bearing debt securities by HK\$20,742,000 as a result of decreasing balances of debt securities, a more conservative investment strategy, and a lower interest rate environment.

**Selling and distribution expenses**

Selling and distribution expenses increased by 34% to HK\$12,298,000 compared with HK\$9,197,000 in 2003. This was mainly attributable to the operation of the MVAS businesses for a full calendar year during 2004. The MVAS business had commenced operations only in 2003, and were operated for only a portion of that year.

**General and administrative expenses**

General and administrative expenses increased by 43% to HK\$99,947,000 in 2004 versus HK\$69,736,000 in 2003. The increase was primarily due to the full year operations of both the MVAS business and the china.com portal in 2004 which resulted in additional expenses of HK\$25,318,000 and HK\$10,064,000, respectively. These additional expenses were partially offset by the continual tight cost control management adopted by the Group.

**Other operating expenses, net**

Other operating expenses, net, increased by HK\$29,737,000 to HK\$36,101,000 in 2004, compared to other operating expenses, net, of HK\$6,364,000 in 2003. The additional expenses were primarily due to (1) an increase in the amortisation expense of HK\$19,961,000 in respect of the additional goodwill of the Group's MVAS business as a result of the full payment of the acquisition consideration of Newpalm as well as the acquisition consideration paid and payable in respect of Go2joy; (2) an increase in the amortisation expense of intangible assets of HK\$3,356,000 for the newly acquired MVAS and online businesses; and (3) impairment of goodwill related to the discontinued operation amounting to HK\$4,632,000.

**Share of profits and losses of associates and a jointly-controlled entity**

In 2004, the Company recorded a share of profits of associates of HK\$44,000 and loss of a jointly-controlled entity of HK\$924,000, compared to a share of profits of associates of HK\$281,000 for 2003. The decrease was due to the share of loss of a jointly-controlled entity, 17game, during the year, which is engaged in the online game business in Mainland China. 17game was still in the developing stage during 2004. The Group acquired 11.11% equity interest in 17game in August 2004 and equity accounted for its results from August to November 2004. It is being accounted for as a jointly-controlled entity due to the fact that the Group had joint control over 17game, via board representation and certain super majority provisions, during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Tax

Tax income decreased to HK\$95,000 in 2004 compared to tax income of HK\$2,520,000 in 2003. The net decrease in tax income was mainly because there was a deferred tax income arising from Newpalm amounting to HK\$2,246,000, which generated temporary differences in 2003 but there is no such deferred tax income in 2004.

### Minority interests

Loss shared by minority interests increased to HK\$1,965,000 in 2004 compared to HK\$115,000 in 2003. The increase represented minority interests' share of loss of 17game. The Group increased its shareholding in 17game to 36.5% during Q4 2004 and has consolidated its results from the date when certain potential voting rights, in form of share call options, became presently exercisable, in accordance with Interpretation 18 "Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests" issued by the Hong Kong Institute of Certified Public Accountants.

### Net profit from ordinary activities attributable to shareholders

Net profit from continuing ordinary activities attributable to shareholders was HK\$67,598,000 in 2004 when compared with HK\$109,051,000 in 2003.

### Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK\$1,492,075,000 shareholders' funds as at 31st December, 2004. Shareholders' funds as at 31st December, 2003 were HK\$1,435,654,000. Total assets amounted to HK\$1,815,254,000 as at 31st December, 2004 as compared to HK\$1,830,916,000 as at 31st December, 2003, of which HK\$390,104,000 were cash and cash equivalents versus HK\$137,154,000 as at 31st December, 2003 and HK\$739,842,000 were interest-bearing debt securities versus HK\$1,214,648,000 as at 31st December, 2003.

### Capital structure

Except for an increase in the Group's bank borrowings by HK\$85,801,000 to HK\$117,293,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2004 as compared with that as at 31st December, 2003.

As at 31st December, 2004, the Group's bank borrowing of HK\$117,293,000 was repayable within one year. All the bank borrowings are denominated in United States Dollars.

### Charges on the Group's assets

As at 31st December, 2004, an amount of HK\$137,461,000, (2003: HK\$37,165,000) of investments in interest-bearing securities was held by banks as collateral for securing the Group's bank borrowings of HK\$117,293,000 (2003: HK\$31,492,000). Neither time deposits nor bank balances (2003: Nil) were pledged to banks as guarantee.

### Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds increased from 2% as at 31st December, 2003 to 8% as at 31st December, 2004. The change was due to the additional bank borrowings of HK\$85,801,000 during the year.

The Group's net cash and investments in interest-bearing securities was HK\$1,012,653,000 (2003: HK\$1,320,310,000), comprising of cash and cash equivalents of HK\$390,104,000 (2003: HK\$137,154,000), interest-bearing debt securities of HK\$739,842,000 (2003: HK\$1,214,648,000) and interest-bearing bank borrowings of HK\$117,293,000 (2003: HK\$31,492,000).

### Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2004, no related hedges were made by the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

### BUSINESS REVIEW

In 2004, the Group received the Deloitte Technology Fast 500 Asia Pacific award. The award program was designed to recognize top 500 fast-growing technology companies from 10 regions throughout Asia Pacific, that have managed to achieve strong three-year revenue growth. The Group believes that the award reflects the Group's commitment to achieving strong and sustainable growth.

### Mobile Value Added Services

In August 2004, the Group acquired Go2joy from chinadotcom corporation, the Group's parent company. Go2joy is a MVAS service provider in China which has an exclusive partnership with the state-owned national TV station in China with respect to certain selected popular TV programmes and exclusive mobile payment partnership with Umpay. Through Go2joy, the Group offers entertainment-oriented MVAS over multiple MVAS platforms including SMS, Interactive Voice Response Service ("IVRS"), and Multimedia Messaging Service ("MMS"). Go2joy offers innovative MVAS products in cooperations with media and content providers.

Go2joy was granted one of the first five nation-wide IVR licenses issued by China Mobile. The Group believes that the acquisition of Go2joy not only strengthened the Group's IVR capabilities, but also helped to position the Group to capture growth opportunities in IVR and other 2.5G services. Synergistic opportunities generated via this acquisition included the cross-selling and product-bundling of services to the subscriber bases of Go2joy and the Group's pre-existing MVAS customer base.

During the second half of the year, the Group's SMS business was negatively impacted by tighter regulatory controls and enforcement by the mobile operators. Various service providers, including Go2joy, were sanctioned and required to connect with the Mobile Information Service Center ("MISC") platform, a centralized services monitoring and billing system for SPs operated by China Mobile. The actions were undertaken to improve compliance with the policies of the mobile operators and improve customer service standards. Despite this temporary negative impact, the Group believes such regulatory actions will help create a healthier operating environment in the medium to long term and will accelerate industry consolidation which ultimately benefits key players in the market.

The Group re-allocated resources from SMS to 2.5G in 2004 in efforts to improve its 2.5G services, such as Wireless Application Protocol ("WAP") and MMS. The MVAS unit received approval from China Mobile to expand WAP direct connectivity to seven provinces in China. Recently, two of our WAP products were ranked amongst the top five positions in the ringtone and picture categories on China Mobile's WAP portal respectively. MMS revenue increased 187% between Q3 and Q4. Revenue from 2.5G services amounted to 31% of total MVAS revenue in Q4, a jump over 29% in Q3.

In addition to current mobile operators, we have started to work with China Netcom and China Telecom to provide MVAS offerings to their Personal Handy Phone Service ("PHS") users. Both China Netcom and China Telecom are national fixed line telecommunication operators. We have completed the system connection, service testing and billing arrangements of SMS and IVR services with China Netcom. Cooperation with China Telecom is in process. We believe that our MVAS unit's successful MVAS implementation experience and market expertise will result in a strong foundation in making MVAS offerings available to PHS users.

## MANAGEMENT DISCUSSION AND ANALYSIS

Our MVAS unit was selected as the exclusive MVAS provider for *Snow Wolf Lake's* (雪狼湖) China Tour. *Snow Wolf Lake* has been a top musical show for seven years and stars Jacky Cheung, one of China's most famous singers. Products developed for this Tour utilize various MVAS technologies, including MMS, WAP, IVR and ring back tone, and a series of marketing activities were conducted in Beijing. The show and our MVAS products were promoted through diversified channels, including billboards, bus body, bus shelter and TV ads, and received very positive feedback from customers. The Tour will run through 2005 and will visit numerous Chinese cities and provinces including Shanghai and Jiangsu, Sichuan and Hubei provinces. In Q4, we continued to explore the forming strategic partnerships with several national satellite TV stations in order to enhance and diversify our MVAS content and attract new users.

### Portal

During 2004, the china.com portal made good progress in increasing advertising revenue and re-establishing itself as an influential portal player in China. On a full year basis, advertising revenue increased more than double between 2003 and 2004. The portal's strategic plan for 2005 targets growth in terms of users and market influence by, in part, leveraging on the relationships we have built with our users. The strategic plan includes an increase in resources committed to the improvement of content and services, as well as marketing and event participation.

The china.com portal was named the exclusive online partner of the 10th National Games of the People's Republic of China ("The Games") in April 2004. Since then, the portal unit has launched a series of marketing and promotional events in collaboration with the Organising Committee of The Games. The Games will be held in Jiangsu Province in October 2005. In Q2 2004, the portal unit provided technical support to the official website for The Games ([www.10thgames.org.cn](http://www.10thgames.org.cn)) which was launched in June 2004. Subsequently, the portal unit has carried out various promotional campaigns, such as an online quiz and mobile applications activities to increase market awareness and public interest. In Q4 2004, a press conference was held to celebrate the one year count-down to The Games as well as the launch of the commercial website for The Game (<http://titan.china.com>) which the Group developed. More advertising and marketing events are in the pipeline for 2005.

In addition to special projects like The Games, china.com's editorial team undertook several other projects during 2004. Several channels were launched or revamped, including the Home4U, MM Show, and Soccer Channels, to enhance the coverage, depth and timeliness of the content with the aim of improving users' experience and participation. The Group completed a full revamp of the portal's most popular verticals, namely the Military, Automobile, Sports, and Entertainment Channels.

The portal unit organized and actively participated in a number of events, including a photo competition associated with the annual car exhibition held in Beijing, the Qingdao Beer Festival, the 1st Chinastar Pop Competition and the International Figure Skating Competition.

Leveraging on its distinctive URL of [www.china.com](http://www.china.com), the portal unit has boosted traffic to the site according to the rankings and increased its international recognition. In June 2004, [www.china.com](http://www.china.com) was named "One of the Most Valuable 500 Brands in China" by the World Economic Forum.

The portal unit plays a significant role in generating synergies among other related businesses within the Group. During Q4 2004, the portal unit launched various joint online promotional activities with the MVAS unit, including for the China Tour of *Snow Wolf Lake* (雪狼湖). It also launched a new paid email service ([vip.china.com](http://vip.china.com)) which allows users to retrieve emails through MMS provided by the Group's MVAS division. The portal also commenced an online user-recruitment campaign for the open beta test of Travia, 17game's new 3D Massively Multiplayer Online Role-playing Game ("MMORPG").

### Media and Travel

TTG operates the Group's Media and Travel business and celebrated its 30th anniversary during 2004. TTG's 2004 results were encouraging. TTG generated increased revenues compared to 2003, largely attributable to higher revenues from its publication business as a result of increased advertising sales.

Incremental revenues were also generated through ad hoc projects and supplements, such as publishing dailies at major travel trade events, producing special travel supplements and completing pre-press printing jobs for external clients.

## MANAGEMENT DISCUSSION AND ANALYSIS

TTG was appointed the official media provider by major travel associations such as the Pacific Asia Travel Association (PATA) and ASEANTA for a number of projects relating to the travel and tourism industry.

During 2004, several national tourist organisations and government bodies in the region appointed TTG as the official publisher for events organized by them. The appointments included: Lao, PDR — ASEAN Tourism Forum in January, Tourism Malaysia — Commonwealth Travel Mart in March, Singapore Tourism Board — Great Singapore Sale in July, Department of Tourism, Indonesia — TIME in September, and the Taiwan Visitors Association — ITF in November.

### Online Games

Online games is an emerging sector which many people think has great potential in China. The Group entered this sector in 2004 by making a strategic investment in 17game under a convertible loan arrangement. In the second half of 2004, upon the conclusion of the beta tests of Travia, the Group converted its loan to 17game into equity. As of 31st December, 2004, the Group holds 36.5% of 17game, with the option to acquire up to 100% on an earn-out basis, depending on operating performance.

17game commercializes online games in the China market which includes marketing and promotional strategies. It has an extensive distribution network in China, including both online and offline channels, and collaborates with two of the largest data centre services operators in China, China Netcom and China Telecom, to establish its infrastructural network.

17game is currently preparing to launch Yulgang during 2005, a MMORPG game based on a very popular comic book published in Korea. Yulgang was recently launched commercially in the Korean market, and is one of the most popular online games in Korea.

The Group will be exploring cross-selling and cooperation opportunities between 17game and its other business divisions in the area of marketing and promotion, community building and MVAS product sales, in an effort to develop its online game business and improve online game profits.

### Material acquisitions and significant investment

On 5th July, 2004, CDC Mobile IVR Corporation (“CDC Mobile IVR”), a British Virgin Islands company and an indirect wholly-owned subsidiary of the Group, entered into a share purchase agreement with CDC International Mobile Limited (“CDC International”) to acquire Go2joy. Please refer to the section headed “Business Review” for details.

CDC International is a direct wholly-owned subsidiary of chinadotcom Mobile Interactive Corporation (“chinadotcom Mobile”). chinadotcom Mobile is the parent company of China M Interactive (BVI) Limited (“China M Interactive”), the substantial shareholder of the Group. CDC International is regarded as an associate of China M Interactive and a connected person of the Group under the GEM Listing Rules. Details of this connected transaction has been disclosed in accordance with the announcement requirements set out in Rule 19.06(2) and Rule 20.13(1) of the GEM Listing Rules.

During 2004, the Group made a strategic investment in 17game. In Q1, Prime Leader Holdings Limited (“Prime Leader”), a British Virgin Islands company and an indirect wholly-owned subsidiary within the Group, entered into the Senior Secured Convertible Loan Agreement with Equity Pacific Limited (“Equity Pacific”), a British Virgin Islands company and an offshore holding company of 17game, its shareholders and 17game, pursuant to which the Group provided, through Prime Leader, a senior secured loan up to US\$3,200,000 to Equity Pacific convertible into ordinary shares of Equity Pacific upon fulfillment of certain due diligence and financial conditions. In Q4, Prime Leader converted all of the outstanding loan in the total amount of US\$3,200,000 into 12,000 ordinary shares of Equity Pacific. Additionally, Prime Leader also acquired 3,333 ordinary shares from Skynet Global Limited, a British Virgin Islands company wholly owned by Mr. Dai Hong, the majority shareholder of Equity Pacific and 17game in Q3. As of 31st December, 2004, the Group indirectly holds 15,333 ordinary shares of Equity Pacific, representing 36.5% of the total issued share capital of Equity Pacific.

### Employee information

As at 31st December, 2004, the Group had 617 (2003: 338) full-time employees of which 15 (2003: 19) were based in Hong Kong, 563 (2003: 279) in China and 39 (2003: 40) in Singapore. The Group has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31st December, 2004.

### 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 15 to the financial statements. The Company and its subsidiaries (the "Group") are principally engaged in the operation of two PRC-based mobile value-added service providers, Newpalm (China) Information Technology Co. Ltd. ("Newpalm (China)") and Beijing He He Technology Company Limited ("Beijing He He") (also known as "Go2joy"); two Internet portals under the domain names of www.hongkong.com and www.china.com; one Singapore-based travel-trade publishing company, TTG Asia Media Pte Ltd. Through the Group's editorial team, technology platform and the cooperation with an extensive group of content providers, the Group offers a broad range of content value-added community services and e-commerce capabilities through online, offline and wireless media in Hong Kong and Mainland China.

Except for the discontinuance of its operation under its technology segment as further detailed in note 5 to the financial statements, 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, 2004, and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 67.

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

### FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 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 27 and 28 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31st December, 2004, the Company's reserves available for distribution amounted to HK\$952,347,000.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 39% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Group's five largest suppliers accounted for 44% of the total purchases for the year and purchases from the largest supplier included therein amounted to 14%.

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*)

Chan Kai Yu, Rudy (*Chief Executive Officer*)

Keith Geoffrey Oliver

(appointed on 26th October, 2004)

Wang Xiao Hui

(appointed on 26th October, 2004)

Xiao Xiangyang, John

(resigned on 15th July, 2004)

Kwok Yee Leen, Elaine

(resigned on 26th October, 2004)

**Independent non-executive directors**

Chou Kei Fong, Silas

Wong Sin Just

Wang Cheung Yue, Fred

Chia Kok Onn

In accordance with article 99 of the Company's articles of association, Mr. Keith Geoffrey Oliver and Mr. Wang Xiao Hui 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, Dr. Ch'ien Kuo Fung, Raymond, Mr. Zhou Shun Ao and Mr. Wang Cheung Yue, Fred will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

**Emoluments of the directors and the five highest paid individuals**

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 9 and 10 to the financial statements, respectively.

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

**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 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, 2004, none of these service agreements had been terminated by either party.

Each of Mr. Zhou Shun Ao, Mr. Chan Kai Yu, Rudy, Mr. Keith Geoffrey Oliver and Mr. Wang Xiao Hui has entered into a service agreement with the Company for an initial term of two years commencing 7th December, 1999, 3rd February, 2000, 26th October, 2004 and 26th October, 2004, 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. Mr. Chia Kok Onn entered into a service agreement with the Company for acting as a member of the audit committee and the compensation committee of the Board of the Company for an initial term of two years commencing from 10th February, 2004. The remaining independent non-executive directors have not entered into any service contract with the Company but are all subject to an initial term of 2 years and rotational retirement and re-election in accordance with the articles of association of the Company. Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers the independent non-executive directors to be independent. As at 31st December, 2004, none of these service agreements had been terminated by either party.

## REPORT OF THE DIRECTORS

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, either directly or indirectly, 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, 2004, 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 required 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	89,000,000	Personal/ beneficiary	2.23%
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	1,800,000	6,600,000	Personal/ beneficiary	0.20%

## REPORT OF THE DIRECTORS

*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 28 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	911,773	1,116,667	Personal/ beneficiary	1.83%
Chan Kai Yu, Rudy	–	154,265	Personal/ beneficiary	0.14%
Yip Hak Yung, Peter	16,280,586	2,981,442	Interest of children or spouse (note 1)	17.36%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.08%
Zhou Shun Ao	–	108,000	Personal/ beneficiary	0.10%
Keith Geoffrey Oliver	–	250,000	Personal/ beneficiary	0.23%

*Note:*

- (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.

## REPORT OF THE DIRECTORS

## Options to subscribe for Class A common shares in chinadotcom corporation

Name of director	Date of grant	Exercise price US\$	Option exercise period	Number of share options				
				Balance as at 1st January, 2004	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31st December, 2004
Ch'ien Kuo Fung, Raymond	22/6/1999	3.3750	22/6/2000-21/6/2009	66,667	-	-	-	66,667
	17/10/2000	6.8125	17/1/2001-16/10/2010	100,000	-	-	-	100,000
	9/1/2001	4.2813	9/1/2001-8/1/2011	30,000	-	-	-	30,000
	27/4/2001	2.7400	27/7/2001-26/4/2011	400,000	-	180,000	-	220,000
						Note (1)		
	13/7/2001	2.9700	13/10/2001-12/7/2011	400,000	-	-	-	400,000
	11/5/2004	7.7700	27/7/2004-10/5/2014	-	300,000	-	-	300,000
Chan Kai Yu, Rudy	15/11/1999	14.5000	25/11/2000-14/11/2009	38,000	-	-	-	38,000
	15/4/2000	14.2375	25/2/2001-14/4/2005	4,500	-	-	-	4,500
	29/7/2000	15.7500	25/2/2001-28/7/2010	4,500	-	-	-	4,500
	17/10/2000	6.8125	25/11/2000-14/11/2009	8,265	-	-	-	8,265
	11/7/2001	2.3810	11/10/2001-10/7/2011	20,000	-	-	-	20,000
	2/1/2004	8.0700	28/1/2005-1/1/2014	-	39,500	-	-	39,500
	2/1/2004	8.0700	1/1/2006-1/1/2014	-	39,500	-	-	39,500
Yip Hak Yung, Peter	22/6/1999	3.3750	22/6/2000-21/6/2009	60,000	-	-	-	60,000
	12/7/1999	5.0000	12/7/2000-11/7/2009	1,881,442*	-	-	-	1,881,442*
	9/1/2001	4.2813	9/1/2001-8/1/2011	30,000	-	-	-	30,000
	6/6/2002	2.8200	6/6/2002-5/6/2012	200,000*	-	-	-	200,000*
	3/6/2003	4.9500	30/6/2003-2/6/2013	200,000*	-	-	-	200,000*
	16/6/2003	5.1600	16/9/2003-15/6/2013	100,000*	-	-	-	100,000*
	25/3/2004	8.2500	31/12/2004-24/3/2014	-	600,000*	-	-	600,000*
Zhou Shun Ao	22/6/1999	3.3750	22/6/2000-21/6/2009	60,000**	-	60,000	-	-
						Note (2)		
	15/4/2000	14.2375	15/1/2001-14/4/2005	9,000	-	-	-	9,000
	29/7/2000	15.7500	29/1/2001-28/7/2010	9,000	-	-	-	9,000
	20/10/2000	8.1250	20/1/2001-19/10/2010	60,000	-	-	-	60,000
	9/1/2001	4.2813	9/1/2001-8/1/2011	30,000	-	-	-	30,000
Keith Geoffrey Oliver	28/1/2004	11.750	28/1/2005-27/1/2014	-	38,000	-	-	38,000
	19/8/2004	4.330	19/2/2005-18/8/2014	-	212,000	-	-	212,000
Kwok Yee Leen, Elaine (resigned on 26/10/2004)	11/09/2002	2.0600	11/9/2003-10/9/2012	9,500	-	4,031	-	5,469
	11/10/2002	1.9500	11/1/2003-10/10/2012	5,500	-	5,500	-	-
	16/06/2003	5.1600	16/6/2004-15/6/2013	9,000	-	-	-	9,000
	16/06/2003	5.1600	16/9/2003-15/6/2013	5,000	-	1,875	-	3,125
					Note (3)			
Xiao Xiangyang, John (resigned on 15/7/2004)	16/06/2003	5.1600	16/6/2004-15/6/2013	19,000	-	6,333	12,667	-
						Note (4)		
	2/1/2004	8.0700	28/1/2004-1/1/2014	-	300,000	-	300,000	-
							Note (4)	

\* These share options were granted to APOL.

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

## REPORT OF THE DIRECTORS

*Notes:*

- (1) Dr. Ch'ien Kuo Fung, Raymond exercised his right to subscribe for 20,000 Class A common shares 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. Out of the 180,000 of such Class A common shares, 140,000 of such shares were sold on or around the date of the exercise of such share options.
- (2) Mr. Zhun Shun Ao exercised his right to subscribe for 60,000 Class A common shares on 16th December, 2004. Such shares were sold on or around the date of the exercise of such share options.
- (3) Ms. Kwok Yee Leen, Elaine exercised her right to subscribe for 1,250 Class A common shares on 29th March, 2004; 1,875 Class A common shares on 31st March, 2004; 2,187 Class A common shares on 6th April, 2004; 2,031 Class A common shares on 17th June, 2004; 1,250 Class A common shares on 12th July, 2004; 782 Class A common shares on 13th September, 2004; 1,250 Class A common shares on 11th October, 2004 and 781 Class A common shares on 13th December, 2004. All these shares were sold on or around the date of the exercise of share options.
- (4) Mr. Xiao Xiangyang, John exercised his right to subscribe for 6,333 Class A common shares on 20th July, 2004 after his resignation as a director of the Company. Such shares were sold on or around the date of the exercise of such share options. The remaining balance of share options lapsed on 21st July, 2004.

Save as disclosed above and the share option scheme disclosures in note 28 to the financial statements, as at 31st December, 2004, none of the directors, chief executive and their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

At 31st December, 2004, 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 shares:

Name	Number of shares	Capacity and nature of interests	Appropriate percentage of interests (%)
China M Interactive (BVI) Limited	3,361,828,000	Directly beneficial owner	81.12%

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 28 to the financial statements, as at 31st December, 2004, the Company had not been notified of any substantial shareholders' interests which are required to be recorded in the register kept under Section 336 of the SFO.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 28 to the financial statements.

The directors have obtained 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:

	<b>Number of options granted during the year</b>	<b>Theoretical value of share options HK\$</b>
<b>2002 Scheme:</b>		
Other employees – in aggregate	25,498,000	8,443,000

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 2.562% - 3.305% 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 ranging from 0.760% - 0.793% 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.

### 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.

## REPORT OF THE DIRECTORS

**CONNECTED TRANSACTIONS**

During the year, the Group had the following connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules.

**Connected Transaction – Acquisition of Group Team Investments Limited**

On 5th July, 2004, CDC Mobile IVR Corporation (“CDC Mobile IVR”), a British Virgin Islands company and an indirect wholly-owned subsidiary of the Company, entered into a share purchase agreement (the “Purchase Agreement”) with CDC International Mobile Limited (“CDC International”), pursuant to which CDC Mobile IVR has agreed to acquire from CDC International the operations of Beijing He He by purchasing from CDC International the 1,500 ordinary shares of Group Team Investments Limited (“Group Team”) of par value US\$1.00 per share, representing 100% of the total issued and outstanding share capital of Group Team (the “Shares”) for a maximum consideration of US\$60,000,000. Double Keen Limited, a wholly-owned subsidiary of Group Team, beneficially owns the entire equity interests in Beijing He He, a company registered in the Peoples’ Republic of China (the “PRC”) and engaged in providing entertainment-related mobile value-added services on its short message service and interactive voice response service platforms connected to China Mobile’s and China Unicom’s networks. On 20th April, 2004, CDC International completed the acquisition of the Shares pursuant to the share purchase agreement dated 25th February, 2004 entered into between CDC International, the previous shareholders of Group Team and other parties identified therein. The consideration was calculated and payable in the following manners:

- (a) US\$9,600,000 in cash as the first instalment upon closing of the Purchase Agreement (the “First Instalment”);
- (b) such amount in cash as the second instalment equal to the Second Instalment (as defined in the announcement of the Company dated 7th July, 2004) actually paid by CDC International under the Previous Agreement (as defined in the announcement of the Company dated 7th July, 2004) within 5 business days upon certification in writing by CDC International of the completion of the payment of the Second Instalment; and
- (c) such amount in cash as the third installment equal to the Third Instalment (as defined in the announcement of the Company dated 7th July, 2004) actually paid by CDC International under the Previous Agreement within 5 business days upon certification in writing by CDC International of the completion of the payment of the Third Instalment.

The Directors are of the view that the transaction contemplated under the Purchase Agreement will benefit the Company for the following reasons:

- Beijing He He is one of the five first movers in having direct IVR platform connectivity to China Mobile in the PRC.
- The operations of Beijing He He complement Newpalm (China)’s lack of strengths in media partnership, IVR and ringbacktone platform.
- By eliminating regulatory restrictions on connected transactions, the acquisition by the Company of the operations of Beijing He He will facilitate more cooperation between Newpalm (China) and Beijing He He in developing, promoting and providing mobile value-added services.
- Newpalm (China)’s existing customer base and distribution channel can be leveraged to expand the market share of Beijing He He’s IVR and other MVAS products.

CDC International is a direct wholly owned subsidiary of chinadotcom Mobile Interactive Corporation (“chinadotcom Mobile”). chinadotcom Mobile is the parent company of China M Interactive (BVI) Limited (“China M Interactive”), the substantial shareholder of the Company. CDC International is regarded as an associate of China M Interactive and a connected person of the Company under the GEM Listing Rules. Details of this discloseable and connected transaction has been disclosed in accordance with Rule 19.06(2) and Rule 20.13(1) of the GEM Listing Rules.

## REPORT OF THE DIRECTORS

### ***Continuing Connected Transaction – Beijing He He and Newpalm (China)***

On 7th May, 2004, it was announced that Newpalm (China), a PRC wholly foreign-owned enterprise wholly owned by Palmweb Inc which was then an indirect wholly-owned subsidiary of the Company, entered into a co-operative agreement (the “Co-operative Agreement”) with Beijing He He Technology Company Limited (“Beijing He He”) pursuant to which Newpalm (China) would cooperate with Beijing He He in providing entertainment related mobile value-added services on the interactive voice response service (“IVR”) platform established by Beijing He He, which platform should be connected to China Mobile’s network. In return, Newpalm (China) would be entitled to share with Beijing He He the revenues derived by Beijing He He from such services in a manner as set forth in the announcement dated 7th May, 2004. The services to be provided by Newpalm (China) were expected to be extended for a period of time and the revenues by the Company derived under the Co-operative Agreement will not exceed the proposed Annual Caps (as defined in the announcement dated 7th May, 2004) for each of the three contracting years of the Co-operative Agreement ending 31st May, 2007 as stated in Appendix I thereto.

The fees payable to Newpalm (China) by Beijing He He under the Co-operative Agreement is determined by arm’s length negotiations between Newpalm (China) and Beijing He He with reference to the estimated monthly IVR revenue with an estimated monthly growth rate of 10% for the first contracting year, and thereafter 8% and 5% per annum respectively, after deduction of China Mobile’s 15% charges and Beijing He He’s share of 30% to 50% of the IVR revenue after deduction of China Mobile’s charge. Such fee should be paid by Beijing He He directly to Newpalm (China)’s bank account. The first payment to Newpalm (China) under the Co-operative Agreement would be made in the third month upon the commencement of provision of the entertainment related mobile value-added services on the IVR platform and the payment for each of the following months’ Newpalm (China) services will be made within sixty (60) days thereafter.

Beijing He He is 100% beneficially owned by Double Keen Limited, an indirect wholly-owned subsidiary of chinadotcom Mobile Interactive Corporation. chinadotcom Mobile Interactive Corporation is an associate of China M Interactive (BVI) Limited, the substantial shareholder of the Company. The transactions contemplated under the Co-operative Agreement constitutes a continuing connected transaction of the Company under Rule 20.14 of Chapter 20 of the GEM Listing Rules.

This transaction ceased to be a continuing connected transaction upon the passing of an ordinary resolution (a) to approve, ratify and confirm the Purchase Agreement (as defined under the heading of Discloseable and Connected Transaction – Acquisition of Group Term Investments Limited above), (b) to approve the acquisition and the transactions contemplated under the Purchase Agreement; and (c) to authorise the Directors of the Company to sign, execute, perfect, deliver or to give effect to and implement the Purchase Agreement and the acquisition by the shareholders at the extraordinary general meeting held on 18th August, 2004.

### **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 7 to the financial statements, respectively.

### **BOARD PRACTICES AND PROCEDURES**

During the year, the Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which became effective before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January, 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31st December, 2005.

### **SECURITIES TRANSACTIONS BY DIRECTORS**

During the year, the Company has not adopted a code of conduct regarding the directors’ securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company confirmed that they have complied with, or they are not aware of any non-compliance with, the required standard as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the accounting period covered by the financial statements.



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**REPORT OF THE DIRECTORS****AUDIT COMMITTEE**

The Company established an audit committee on 25th February, 2000 with the 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 oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy. During the year, the audit committee has met four times reviewing and supervising the financial reporting process. The Company's annual results for the year ended 31st December, 2004 have been reviewed by the audit committee of the Company.

**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, 28th February, 2005

## REPORT OF THE AUDITORS



To the members  
**hongkong.com Corporation**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 25 to 67 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 Institute of Certified Public 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, 2004 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

28th February, 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>TURNOVER</b>			
Continuing operations		<b>231,411</b>	181,738
Discontinued operation	5	<b>3,890</b>	5,925
		<b>235,301</b>	187,663
Cost of sales	6	<b>(57,745)</b>	(45,901)
Gross Profit		<b>177,556</b>	141,762
Other revenue and gains, net		<b>32,962</b>	51,625
Selling and distribution expenses		<b>(12,298)</b>	(9,197)
General and administrative expenses		<b>(99,947)</b>	(69,736)
Loss on disposal of discontinued operation		<b>(2,619)</b>	–
Other operating expenses, net		<b>(36,101)</b>	(6,364)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	7	<b>59,553</b>	108,090
Finance costs	8	<b>(2,600)</b>	(5,863)
Share of profits and losses of:			
Associates		<b>44</b>	281
Jointly-controlled entity		<b>(924)</b>	–
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>65,806</b>	106,531
Continuing operations		<b>(9,733)</b>	(4,023)
Discontinued operation	5	<b>56,073</b>	102,508
Tax	11	<b>95</b>	2,520
Continuing operations		<b>–</b>	–
Discontinued operation	5	<b>95</b>	2,520
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>56,168</b>	105,028
Minority interests		<b>1,965</b>	115
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>67,598</b>	109,051
Continuing operations		<b>(9,465)</b>	(3,908)
Discontinued operation	5	<b>58,133</b>	105,143
<b>EARNINGS PER SHARE</b>	13	<b>1.41 cents</b>	2.54 cents
– Basic		<b>1.40 cents</b>	2.53 cents
– Diluted			

## CONSOLIDATED BALANCE SHEET

31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	18,727	7,117
Interests in associates	16	–	809
Intangible assets	17	93,873	5,202
Goodwill	18	498,311	396,284
Long term investments	20	61,776	60,528
Pledged securities	20	–	37,165
Deferred tax assets	26	938	531
		<b>673,625</b>	<b>507,636</b>
<b>CURRENT ASSETS</b>			
Amount due from the ultimate holding company	19	697	–
Amounts due from fellow subsidiaries	19	5,424	6,193
Short term investments	20	540,605	1,116,955
Pledged securities	20	137,461	–
Accounts receivable	21	49,193	47,986
Prepayments, deposits and other receivables		18,145	14,992
Cash and cash equivalents	22	390,104	137,154
		<b>1,141,629</b>	<b>1,323,280</b>
<b>CURRENT LIABILITIES</b>			
Amounts due to fellow subsidiaries	19	4,013	1,491
Accounts payable	23	13,156	18,457
Other payables and accrued liabilities		42,223	14,873
Deferred revenue		10,170	3,500
Acquisition consideration payable	24	97,961	319,800
Interest-bearing bank borrowings	25	117,293	–
Tax payable		87	124
		<b>284,903</b>	<b>358,245</b>
<b>NET CURRENT ASSETS</b>		<b>856,726</b>	<b>965,035</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,530,351</b>	<b>1,472,671</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing	25	–	31,492
Deferred tax liabilities	26	7,606	–
		<b>7,606</b>	<b>31,492</b>
<b>MINORITY INTERESTS</b>		<b>30,670</b>	<b>5,525</b>
		<b>1,492,075</b>	<b>1,435,654</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	414,419	413,523
Reserves	29(a)	1,077,656	1,022,131
		<b>1,492,075</b>	<b>1,435,654</b>

Ch'ien Kuo Fung, Raymond  
Director

Chan Kai Yu, Rudy  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st December, 2004

	Notes	Issued share capital HK\$'000	Share premium account* HK\$'000	Goodwill reserve* HK\$'000	Investment revaluation reserve* HK\$'000	Reserve funds* HK\$'000	Exchange fluctuation reserve* HK\$'000	Retained profits/ losses* HK\$'000	Total HK\$'000
At 1st January, 2003		413,156	913,204	(31,215)	595	-	(271)	37,633	1,333,102
Issue of shares	27	367	937	-	-	-	-	-	1,304
Share issue expenses	27	-	(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		-	-	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 and 1st January, 2004		413,523	914,138	(31,193)	(3,347)	8,415	(243)	134,361	1,435,654
Issue of shares	27	896	2,094	-	-	-	-	-	2,990
Share issue expenses	27	-	(24)	-	-	-	-	-	(24)
Deficit on revaluation		-	-	-	(2,489)	-	-	-	(2,489)
Exchange realignment		-	-	-	-	-	477	-	477
Net gains and losses not recognised in the consolidated profit and loss account		-	-	-	(2,489)	-	477	-	(2,012)
Investment revaluation reserve released on disposal		-	-	-	(2,666)	-	-	-	(2,666)
Net profit for the year		-	-	-	-	-	-	58,133	58,133
Transfer from retained profits		-	-	-	-	1,418	-	(1,418)	-
At 31st December, 2004		414,419	916,208	(31,193)	(8,502)	9,833	234	191,076	1,492,075
Reserves retained by:									
Company and subsidiaries at 31st December, 2004		414,419	916,208	(31,193)	(8,502)	9,833	234	191,076	1,492,075
Company and subsidiaries Associates		413,523	914,138	(31,193)	(3,347)	8,415	(243)	137,679	1,438,972
At 31st December, 2003		-	-	-	-	-	-	(3,318)	(3,318)
At 31st December, 2003		413,523	914,138	(31,193)	(3,347)	8,415	(243)	134,361	1,435,654

\* These reserve accounts comprise the Group's consolidated reserves of HK\$1,077,656,000 at 31st December, 2004 (2003: HK\$1,022,131,000) in the consolidated balance sheet.

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		56,073	102,508
Adjustments for:			
Finance costs	8	2,600	5,863
Share of loss of a jointly-controlled entity		924	–
Share of profits and losses of associates		(44)	(281)
Loss on dissolution of a subsidiary		–	22
Loss on disposal of discontinued operation	5	2,619	–
Interest income on debt securities	7	(29,490)	(50,232)
Other interest income	7	(2,397)	(2,585)
Dividend income from an unlisted investment	7	(70)	–
Loss on disposal of debt securities	7	532	1,200
Depreciation	7	5,783	7,401
Amortisation of intangible assets	7	4,066	710
Amortisation of goodwill	7	24,613	5,200
Gain on disposal of an associate	7	(89)	–
Impairment of goodwill related to discontinued operation	7	4,632	–
Loss on disposal of fixed assets	7	501	1,301
Provision/(write-back of provision) for bad and doubtful debts	7	2,378	(1,284)
		<b>72,631</b>	<b>69,823</b>
Operating profit before working capital changes		72,631	69,823
Increase in amount due from the ultimate holding company		(697)	–
Decrease in amounts due from fellow subsidiaries		769	1,959
Decrease/(increase) in accounts receivable		11,643	(3,800)
Decrease in prepayments, deposits and other receivables		3,622	16,929
Increase in amounts due to fellow subsidiaries		2,500	333
Decrease in accounts payable		(16,823)	(8,704)
Decrease in other payables and accrued liabilities		(1,711)	(1,913)
Increase/(decrease) in deferred revenue		6,670	(5,941)
		<b>78,604</b>	<b>68,686</b>
Cash generated from operations		78,604	68,686
Overseas taxes paid		(94)	(26)
		<b>78,510</b>	<b>68,660</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income on debt securities		29,490	50,232
Other interest income		2,397	2,585
Dividend income from an unlisted investment		70	–
Purchases of fixed assets	14	(11,444)	(4,146)
Purchases of short term investments		(272,335)	(1,475,434)
Acquisition of a jointly-controlled entity		(6,240)	–
Acquisition of subsidiaries	30(a)	(70,851)	(96,410)
Payment of acquisition consideration		(319,800)	–
Proceeds from disposal of an associate		942	–
Disposal of subsidiaries	30(b)	(5,901)	–
Proceeds from disposal of fixed assets		44	–
Proceeds from disposal of short term investments		741,454	2,226,292
		<b>87,826</b>	<b>703,119</b>
Net cash inflow from investing activities		87,826	703,119

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital	27	2,990	1,304
Share issue expenses	27	(24)	(3)
New bank borrowings		319,801	–
Repayment of bank borrowings		(234,000)	(748,801)
Interest paid		(2,600)	(5,863)
Net cash inflow/(outflow) from financing activities		86,167	(753,363)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		137,154	118,709
Effect of foreign exchange rate changes, net		447	29
CASH AND CASH EQUIVALENTS AT END OF YEAR		390,104	137,154
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	22	212,425	109,729
Non-pledged time deposits with original maturity of less than three months when acquired	22	177,679	27,425
		390,104	137,154

**BALANCE SHEET**

31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	15	522,898	137,218
Long term investments	20	61,776	60,528
Pledged securities	20	–	37,165
		<b>584,674</b>	<b>234,911</b>
<b>CURRENT ASSETS</b>			
Short term investments	20	540,605	1,116,955
Pledged securities	20	137,461	–
Other receivables		3,440	8,937
Cash and cash equivalents	22	219,612	15,002
		<b>901,118</b>	<b>1,140,894</b>
<b>CURRENT LIABILITIES</b>			
Amount due to a fellow subsidiary	19	–	1
Other payables and accrued liabilities		1,733	1,268
Interest-bearing bank borrowings	25	117,293	–
		<b>119,026</b>	<b>1,269</b>
<b>NET CURRENT ASSETS</b>		<b>782,092</b>	<b>1,139,625</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,366,766</b>	<b>1,374,536</b>
<b>NON-CURRENT LIABILITY</b>			
Interest-bearing bank borrowing	25	–	31,492
		<b>1,366,766</b>	<b>1,343,044</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	414,419	413,523
Reserves	29(b)	952,347	929,521
		<b>1,366,766</b>	<b>1,343,044</b>

**Ch'ien Kuo Fung, Raymond**  
Director

**Chan Kai Yu, Rudy**  
Director



## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**1. CORPORATE INFORMATION**

During the year, the Group was primarily involved in the provision of mobile value-added services ("MVAS") 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 (discontinued during the year - note 5).

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also included Hong Kong Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of 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**

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004. 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 or a jointly-controlled entity, 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.

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**NOTES TO FINANCIAL STATEMENTS**

31st December, 2004

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Jointly-controlled entity**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserve, respectively. The Group's interest in a jointly-controlled entity is 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, associates and a jointly-controlled entity 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. In the case of associates and a jointly-controlled entity, any unamortised goodwill is included in the carrying amount thereof, rather than a separately identified asset on the consolidated balance sheet.

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, associates and jointly-controlled entity, 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.

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 and 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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 life
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	20% – 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, licences, partnership agreements and distribution networks acquired through the acquisition of subsidiaries is stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of one to seven years.

**Investments**

Long term investments are non-trading investments in 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 agreements**

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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 terms 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;
- (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;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

#### 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, associates and a jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, associates and a jointly-controlled entity 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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity 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 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, associates and a jointly-controlled entity, 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.

**NOTES TO FINANCIAL STATEMENTS**

31st December, 2004

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 a 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.

*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 the 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.

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for expected future cost of such paid leave earned during the year by the employees and carried forward.

**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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**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:

**Continuing operations**

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

**Discontinued operation**

The technology segment was engaged primarily in the sale of railway ticketing system hardware and software.

During the year, the Company discontinued its operation under the technology segment. Further details of the discontinued operation are set out in note 5 to the financial statements.

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 used for sales made to third parties at the then prevailing market prices or at mutually agreed terms.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 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

	Continuing Operations				Discontinued Operation				Eliminations		Consolidated	
	Subscription		Advertising		e-Commerce		Technology		2004	2003	2004	2003
	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
Segment revenue:												
Sales to external customers	168,017	131,635	58,980	46,664	4,414	3,439	3,890	5,925	-	-	235,301	187,663
Intersegment sales	-	-	-	3,120	1,441	1,521	-	-	(1,441)	(4,641)	-	-
<b>Total</b>	<b>168,017</b>	<b>131,635</b>	<b>58,980</b>	<b>49,784</b>	<b>5,855</b>	<b>4,960</b>	<b>3,890</b>	<b>5,925</b>	<b>(1,441)</b>	<b>(4,641)</b>	<b>235,301</b>	<b>187,663</b>
<b>Segment results</b>	<b>52,431</b>	<b>80,239</b>	<b>(11)</b>	<b>(8,487)</b>	<b>(5,834)</b>	<b>(4,742)</b>	<b>(2,581)*</b>	<b>(4,065)</b>	<b>-</b>	<b>-</b>	<b>44,005*</b>	<b>62,945</b>
Loss on disposal of discontinued operation											(2,619)	-
Goodwill impairment related to discontinued operation											(4,632)	-
Gain on disposal of an associate											89	-
Interest income and unallocated other revenue and gains											31,644	51,625
Unallocated expenses											(8,934)	(6,480)
<b>Profit from operating activities</b>											<b>59,553</b>	<b>108,090</b>
Finance costs											(2,600)	(5,863)
Share of profits and losses of:												
Associates											44	281
Jointly-controlled entity											(924)	-
<b>Profit before tax</b>											<b>56,073</b>	<b>102,508</b>
Tax											95	2,520
<b>Profit before minority interests</b>											<b>56,168</b>	<b>105,028</b>
Minority interests											1,965	115
<b>Net profit from ordinary activities attributable to shareholders</b>											<b>58,133</b>	<b>105,143</b>
Segment assets	707,027	530,758	41,104	163,237	106,690	58,412	-	22,492	(9,354)	(183,375)	845,467	591,524
Interests in associates	-	809	-	-	-	-	-	-	-	-	-	809
Investment in securities and unallocated assets											969,787	1,238,583
<b>Total assets</b>											<b>1,815,254</b>	<b>1,830,916</b>
Segment liabilities	569,455	338,899	84,373	324,586	81,176	58,357	-	23,729	(564,471)	(388,594)	170,533	356,977
Unallocated liabilities											121,976	32,760
<b>Total liabilities</b>											<b>292,509</b>	<b>389,737</b>
<b>Other segment information:</b>												
Depreciation and amortisation	29,342	5,256	2,103	3,863	1,039	1,206	1,978	2,986	-	-	34,462	13,311
Impairment of goodwill related to discontinued operation	-	-	-	-	-	-	4,632	-	-	-	4,632	-
Other non-cash expenses/(income), net	2,263	(622)	117	2,224	153	-	2,875	(1,148)	-	-	5,408	454
Capital expenditure												
Fixed assets <sup>#</sup>	8,452	6,775	4,589	445	4,973	87	53	13	-	-	18,067	7,320
Intangible Assets <sup>#</sup>	24,636	5,912	-	-	68,101	-	-	-	-	-	92,737	5,912

# Including fixed assets and intangible assets acquired through acquisitions of subsidiaries amounting to HK\$6,623,000 (2003: HK\$3,174,000) and HK\$92,737,000 (2003: 5,912,000), respectively.

\* Excluding loss on disposal of discontinued operation and goodwill impairment related to discontinued operation of the technology segment, the total segment results of the technology segment and the total consolidated segment results for the year inclusive such loss and impairment amounted to a loss of HK\$9,832,000 (2003: HK\$4,065,000) and a segment profit of HK\$36,754,000 (2003: HK\$62,945,000), respectively.



## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 4. SEGMENT INFORMATION (Continued)

## (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	
	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
<b>Segment revenue:</b>										
Sales to external customers	188,278	143,952	1,805	2,270	45,218	41,441	-	-	235,301	187,663
<b>Other segment information:</b>										
Segment assets	832,429	554,284	2,126,683	1,647,384	22,391	17,842	(1,166,249)	(388,594)	1,815,254	1,830,916
Capital expenditure										
Fixed assets <sup>‡</sup>	16,800	7,022	652	83	615	215	-	-	18,067	7,320
Intangible Assets <sup>‡</sup>	92,737	5,912	-	-	-	-	-	-	92,737	5,912

# Including fixed assets and intangible assets acquired through acquisitions of subsidiaries amounting to HK\$6,623,000 (2003: HK\$3,174,000) and HK\$92,737,000 (2003: 5,912,000), respectively.

\* Other Asian Countries included Singapore in 2004 (2003: principally Singapore and Taiwan)

## 5. DISCONTINUED OPERATION

In view of the Group's strategy to focus its effort in the MVAS business and the portal business, and to concentrate its resources on the development of such businesses, the Group decided to discontinue the operation of Beijing China-Railway Times Science & Technology Company Ltd., a company registered in the People's Republic of China ("PRC"), and its related affiliates (collectively "Times Software") during the last quarter of 2004 and the discontinuance was completed in December 2004, upon the disposal of Times software. Times Software was principally engaged in the sale of railway ticketing system hardware and software in Mainland China and was reported under the technology segment.

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

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 5. DISCONTINUED OPERATION (Continued)

The turnover, other revenue, expenses, and the result of the discontinued operation are as follows:

	2004 HK\$'000	2003 HK\$'000
TURNOVER	3,890	5,925
Cost of sales	(2,520)	(3,454)
Gross profit	1,370	2,471
Other revenue and gains, net	99	42
General and administrative expenses	(1,883)	(5,267)
Other operating expenses, net*	(6,700)	(1,269)
Loss on disposal of discontinued operation	(2,619)	–
LOSS FROM OPERATING ACTIVITIES	(9,733)	(4,023)
Finance costs	–	–
LOSS BEFORE TAX	(9,733)	(4,023)
Tax	–	–
LOSS BEFORE MINORITY INTERESTS	(9,733)	(4,023)
Minority interests	268	115
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(9,465)	(3,908)

\* Including impairment of goodwill related to the discontinued operation for the year of HK\$4,632,000 (2003: Nil).

The carrying amounts of the total assets and liabilities of the discontinued operation at the balance sheet date are as follows:

	2004 HK\$'000	2003 HK\$'000
Total assets	–	16,611
Total liabilities	–	(2,274)
Minority interests	–	(5,525)
Net assets	–	8,812

The net cash flows attributable to the discontinued operation for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Net cash (outflow)/inflow from operating activities	(133)	764
Net cash inflow from investing activities	99	42
	(34)	806

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 6. TURNOVER

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, sponsorships and offline advertising campaigns; (3) e-commerce revenue from direct mailings and online sales; and (4) technology revenue from the sales of railway ticketing system hardware and software (discontinued during the year – note 5).

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover:		
Mobile value-added services and applications income	168,017	131,635
Advertising services income	58,980	46,664
e-commerce services income	4,414	3,439
Sale of railway ticketing system hardware and software	3,890	5,925
	<b>235,301</b>	<b>187,663</b>

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		2,520	3,454
Auditors' remuneration		1,155	1,306
Minimum lease payments under operating leases in respect of land and buildings		7,371	4,903
Staff costs <sup>^</sup> :			
Salaries and allowances		54,010	38,527
Retirement benefits scheme contributions (defined contribution scheme) <sup>#</sup>		2,930	586
		<b>56,940</b>	<b>39,113</b>
Depreciation	14	5,783	7,401
Marketing and promotion expenses		12,298	9,197
Foreign exchange losses, net		1,319	–
Amortisation of intangible assets <sup>**</sup>	17	4,066	710
Goodwill:			
Amortisation for the year <sup>**</sup>	18	24,613	5,200
Impairment of goodwill related to discontinued operation	18	4,632	–
		<b>29,245</b>	<b>5,200</b>
Loss on disposal of debt securities		532	1,200
Gain on disposal of an associate		(89)	–
Loss on disposal of fixed assets		501	1,301
Provision/(write-back of provision) for bad and doubtful debts		2,378	(1,284)
Interest income on debt securities		(29,490)	(50,232)
Other interest income		(2,397)	(2,585)
		<b>(31,887)</b>	<b>(52,817)</b>
Dividend income from an unlisted investment		(70)	–
Foreign Exchange gains, net		–	(7)

\* Including directors' remuneration as disclosed in note 9 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.

<sup>^</sup> Staff costs of HK\$10,727,000 (2003: HK\$7,857,000) are included as cost of sales.

<sup>#</sup> At 31st December, 2004, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits schemes in future years (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 8. FINANCE COSTS

Interest on bank borrowings wholly repayable within five years

Group	
2004 HK\$'000	2003 HK\$'000
2,600	5,863

## 9. 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 Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Group	
2004 HK\$'000	2003 HK\$'000
375	597
Other emoluments:	
Salaries, allowances and benefits in kind	1,185
Retirement benefits scheme contributions	7
1,192	1,680
1,567	2,277

Fees included HK\$293,000 (2003: HK\$351,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The remuneration paid to executive directors, independent non-executive directors and a non-executive director were as follows:

	Fees* HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
<b>2004</b>				
Executive directors:				
Mr. Ch'ien Kuo Fung, Raymond	82	-	-	82
Mr. Chan Kai Yu, Rudy	-	127	1	128
Mr. Xiao Xiangyang, John	-	1,058	6	1,064
Other executive directors	-	-	-	-
	82	1,185	7	1,274
Independent non-executive directors:				
Mr. Chou Kei Fong, Silas	-	-	-	-
Mr. Wong Sin Just	78	-	-	78
Mr. Wang Cheung Yue, Fred	117	-	-	117
Mr. Chia Kok Onn	98	-	-	98
	293	-	-	293
	375	1,185	7	1,567

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

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 9. DIRECTORS' REMUNERATION (Continued)

	Fees* HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
2003				
Executive directors:				
Mr. Ch'ien Kuo Fung, Raymond	129	–	–	129
Mr. Chan Kai Yu, Rudy	–	1,526	12	1,538
Mr. Xiao Xiangyang, John	–	142	–	142
Mr. Zhou Shun Ao	117	–	–	117
Other executive directors	–	–	–	–
	246	1,668	12	1,926
Independent non-executive directors:				
Mr. Chou Kei Fong, Silas	–	–	–	–
Mr. Wong Sin Just	156	–	–	156
Mr. Wang Cheung Yue, Fred	156	–	–	156
Mr. Chia Kok Onn	39	–	–	39
	351	–	–	351
Non-executive director:				
Mr. Chan Wing Tak, Douglas	–	–	–	–
	597	1,668	12	2,277

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

There were no share options of the Company granted to the directors during the year. During the year ended 31st December, 2003, 23,000,000 share options of the Company were granted to certain directors in respect of their services to the Group under a share option scheme of the Company, further details of which are set out in note 28 to the financial statements. No value in respect of the share option granted in the prior year had been charged to the profit and loss account for that year, or is otherwise included in the above directors' remuneration disclosures.

During the year, 1,529,000 (2003: 333,000) share options to subscribe for Class A common shares in chinadotcom (the "CDC Share Option") were granted by chinadotcom to certain directors of the Company jointly-owned by the spouse of a director of the Company and a trust established for the benefit of the spouse and the children of the director under a stock option plan of chinadotcom in respect of the services of the directors to the chinadotcom group at nil consideration, which entitle the holders of the CDC Share Options to subscribe for shares of chinadotcom, subject to certain vesting provisions. No value in respect of the CDC Share Options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures (2003: Nil).

\* 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, as detailed above.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included one (2003: one) executive director of the Company, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	4,102	3,548
Performance related bonuses	42	206
Retirement benefits scheme contributions	75	108
	4,219	3,862

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

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	–
	4	4

During the year, 24,000,000 (2003: 1,500,000) share options were granted to the four (2003: 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 28 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 (2003: Nil), or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

**11. TAX**

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (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. The increased Singapore profits tax rate became effective from the year of assessment 2004, and so is applicable to the assessable profits arising in Singapore for the whole of the year ended 31st December, 2004.

	2004 HK\$'000	2003 HK\$'000
<b>Group:</b>		
Current – overseas tax		
Charge for the year	133	83
Overprovision in prior years	(76)	(120)
Deferred tax credit ( <i>note 26</i> )	(152)	(2,483)
	(95)	(2,520)

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**11. TAX (Continued)**

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries, associates and a jointly-controlled entity are domiciled to the tax expenses 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 – 2004**

	Mainland China		Hong Kong		Singapore		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>35,247</u>		<u>17,918</u>		<u>2,908</u>		<u>56,073</u>	
Tax at the statutory tax rate	11,632	33.0	3,135	17.5	640	22.0	15,407	27.5
Effect on opening deferred tax of decrease in rates	–	–	–	–	(79)	(2.7)	(79)	(0.1)
Adjustments in respect of current tax of previous periods	(76)	(0.2)	–	–	–	–	(76)	(0.1)
Tax concession	(28,867)	(81.9)	–	–	–	–	(28,867)	(51.5)
Income not subject to tax	(325)	(0.9)	(5,502)	(30.7)	(39)	(1.3)	(5,866)	(10.5)
Expenses not deductible for tax	15,663	44.4	1,031	5.8	97	3.3	16,791	29.9
Tax losses utilised from previous periods	–	–	–	–	(619)	(21.3)	(619)	(1.1)
Tax losses not recognised	1,878	5.3	1,336	7.4	–	–	3,214	5.7
Tax credit at the Group's effective rate	<u>(95)</u>	<u>(0.3)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(95)</u>	<u>(0.2)</u>

**Group – 2003**

	Mainland China		Hong Kong		Singapore		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>72,602</u>		<u>31,932</u>		<u>(2,026)</u>		<u>102,508</u>	
Tax at the statutory tax rate	23,959	33.0	5,588	17.5	(496)	(24.5)	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	(1,099)	(1.5)	(12,129)	(38.0)	–	–	(13,228)	(12.9)
Expenses not deductible for tax	83	0.1	4,500	14.1	–	–	4,583	4.5
Tax losses not recognised	–	–	2,041	6.4	496	24.5	2,537	2.5
Tax credit at the Group's effective rate	<u>(2,400)</u>	<u>(3.3)</u>	<u>–</u>	<u>–</u>	<u>(120)</u>	<u>(5.9)</u>	<u>(2,520)</u>	<u>(2.4)</u>

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**NOTES TO FINANCIAL STATEMENTS**

31st December, 2004

**11. TAX (Continued)**

Beijing He He Technology Company Limited ("Beijing He He"), a wholly-owned subsidiary of the Group, which is registered in the PRC, is subject to PRC corporate income tax. Under the PRC Income Tax Law, foreign investment enterprise satisfying certain criteria can enjoy preferential tax treatments. During the year, Beijing He He received a tax concession from the relevant tax authority that it would be exempted from PRC corporate income tax for the 2004 fiscal year.

Newpalm (China) information Technology Co., Ltd. ("Newplam China") another wholly-owned subsidiary of the Group, which is registered in the PRC, is subject to the PRC corporate income tax. Newpalm China received a tax concession from relevant tax authority in 2003 that it was fully exempted from PRC corporate income tax for the 2003 fiscal year. The approval of the tax exemption status for future fiscal year is subject to further confirmation from the relevant tax authority on a periodic basis.

**12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2004 dealt with in the financial statements of the Company, was HK\$25,911,000 (2003: HK\$38,524,000) (note 29).

**13. 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\$58,133,000 (2003: HK\$105,143,000) and the weighted average number of 4,137,425,709 (2003: 4,133,577,209) 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\$58,133,000 (2003: HK\$105,143,000). The weighted average number of ordinary shares used in the calculation is the 4,137,425,709 (2003: 4,133,577,209) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 20,942,532 (2003: 15,796,620) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.



## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**14. 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	1,799	205	4,749	38,442	1,530	46,725
Exchange realignment	9	8	(10)	1	–	8
Acquisition of subsidiaries (note 30(a))	–	191	2,788	3,486	158	6,623
Additions	2,625	508	3,249	5,062	–	11,444
Disposals	(310)	–	(239)	(863)	–	(1,412)
Disposals of subsidiaries (note 30(b))	(205)	(134)	(431)	(1,280)	(244)	(2,294)
<b>At 31st December, 2004</b>	<b>3,918</b>	<b>778</b>	<b>10,106</b>	<b>44,848</b>	<b>1,444</b>	<b>61,094</b>
Accumulated depreciation:						
At beginning of year	912	154	1,774	36,433	335	39,608
Exchange realignment	9	8	(10)	1	–	8
Provided during the year	900	26	1,975	2,381	501	5,783
Disposals	(170)	–	(15)	(682)	–	(867)
Disposal of subsidiaries (note 30(b))	(205)	(131)	(343)	(1,276)	(210)	(2,165)
<b>At 31st December, 2004</b>	<b>1,446</b>	<b>57</b>	<b>3,381</b>	<b>36,857</b>	<b>626</b>	<b>42,367</b>
Net book value:						
<b>At 31st December, 2004</b>	<b>2,472</b>	<b>721</b>	<b>6,725</b>	<b>7,991</b>	<b>818</b>	<b>18,727</b>
At 31st December, 2003	887	51	2,975	2,009	1,195	7,117

**15. INTERESTS IN SUBSIDIARIES**

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	590,897	205,217
	<b>590,898</b>	205,218
Provisions for amounts due from subsidiaries	(68,000)	(68,000)
	<b>522,898</b>	137,218

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. 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
			2004		2003		
			Direct	Indirect	Direct	Indirect	
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	–	100	Investment holding
Newpalm (China) Information Technology Co., Ltd. <sup>‡</sup>	PRC/ Mainland China	US\$6,000,000	–	100	–	100	Provision of short messaging services and other mobile value-added services and applications
Beijing NewPalm Information Technology Co., Ltd.*	PRC/ Mainland China	RMB10,000,000	–	100	–	100	Provision of short messaging services and other mobile value-added services and applications
Beijing Wisecom Information Technology Co., Ltd.*	PRC/ Mainland China	RMB10,000,000	–	100	–	100	Provision of short messaging services and other mobile value-added services and applications
Beijing China Net Communication Technology Service Limited*	PRC/ Mainland China	RMB10,000,000	–	100	–	100	Operation of a portal site, provision of content and Internet advertising services
Beijing He He Technology Co. Ltd.*	PRC/ Mainland China	RMB10,000,000	–	100	–	–	Provision of mobile value-added services and applications
chinadotcom Communications Technology Development (Beijing) Limited <sup>‡</sup>	PRC/ Mainland China	US\$850,000	–	100	–	100	Operation of a portal site, provision of content and Internet advertising services
Equity Pacific Limited <sup>^</sup>	British Virgin Islands	US\$42,000	–	36.5	–	–	Investment holding
Beijing 17Game Network Technology Co., Ltd. <sup>‡</sup>	PRC/ Mainland China	US\$150,000	–	36.5	–	–	Provision of online game services

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**15. INTERESTS IN SUBSIDIARIES (Continued)**

- \* 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.
- # These companies are registered as a wholly-foreign owned enterprise under the PRC law.
- ^ Pursuant to an option agreement, the Group was granted a call option to acquire part or all of the issued share capital of Equity Pacific Limited. In view of the potential voting right, which is presently exercisable, notwithstanding the Group only has 36.5% equity interest therein, the directors consider it is appropriate to consolidate the results of Equity Pacific Limited and its subsidiaries, including Beijing 17game Network Technology Co., Ltd.

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

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

Based on the earnings of the Group Team Group for the year ended 31st December, 2004, the Group recorded an acquisition consideration payable of approximately HK\$97,961,000 as at 31st December, 2004, in respect of the second instalment. At 31st December, 2004, no accrual of the third instalment was made as the amount could not be determined reliably.

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

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 15. INTERESTS IN SUBSIDIARIES (Continued)

- (ii) In August 2004, the Group entered into an acquisition agreement to acquire 11.11% equity interest in Equity Pacific Limited ("Equity Pacific"), for a consideration of approximately US\$800,000 (approximately HK\$6.24 million). Equity Pacific through its subsidiaries, including Beijing 17game Network Technology Co. Ltd., (collectively the "17game Group") are principally engaged in the business of providing online game services in Mainland China. During August to November 2004, the Group had accounted for its 11.11% equity interest in Equity Pacific as an interest in a jointly-controlled entity, as none of the Equity Pacific's shareholders had unilateral control over the economic activities of Equity Pacific due to certain supermajority voting provisions. In November 2004, the Group through the conversion of certain convertible loans to Equity Pacific, further increased its equity interest in Equity Pacific to 36.5% and pursuant to a call option agreement entered into with various shareholders of Equity Pacific, the Group could exercise certain call options to purchase some or all of the issued shares of Equity Pacific. In accordance with Interpretation 18 "Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests" issued by the HKICPA ("Interpretation 18") and taking into account the existence and effect of the call options, which contain potential voting rights, and after examining all the facts and circumstances that affect the potential voting rights, the Group commenced consolidating the 17game Group from the date when the call options became presently exercisable in November 2004.

## 16. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	814
Provision for impairment	–	(5)
	–	809

Particulars of the principal associate which was disposed of during the year were:

Name	Business structure	Place of registration and operations	Percentage of indirect ownership interest attributable to the Group		Principal activity
			2004	2003	
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.

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the result 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 director, result in particulars of excessive length.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**17. INTANGIBLE ASSETS**  
**Group**

	<b>Completed technologies</b> HK\$'000	<b>Licences</b> HK\$'000	<b>Partnership agreements</b> HK\$'000	<b>Distribution networks</b> HK\$'000	<b>Total</b> HK\$'000
Cost:					
At beginning of year	814	1,630	3,468	–	5,912
Acquisition of subsidiaries (note 30(a))	582	67,260	23,556	1,339	92,737
At 31st December, 2004	1,396	68,890	27,024	1,339	98,649
Accumulated amortisation:					
At beginning of year	102	175	433	–	710
Amortisation provided during the year	174	486	3,258	148	4,066
At 31st December, 2004	276	661	3,691	148	4,776
Net book value:					
At 31st December, 2004	1,120	68,229	23,333	1,191	93,873
At 31st December, 2003	712	1,455	3,035	–	5,202

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**18. GOODWILL****Group**

The amount of goodwill capitalised as an asset in the consolidated balance sheets arising from the acquisition of subsidiaries, is as follows:

	<b>Total</b> HK'000
Cost:	
At beginning of year	404,707
Acquisition of subsidiaries ( <i>note 30(a)</i> )	131,272
Disposal of subsidiaries	(12,085)
	<u>523,894</u>
At 31st December, 2004	
Accumulated amortisation and impairment:	
At beginning of year	8,423
Impairment provided during the year	4,632
Amortisation provided during the year	24,613
Disposal of subsidiaries	(12,085)
	<u>25,583</u>
At 31st December, 2004	
Net book value:	
At 31st December, 2004	<u>498,311</u>
At 31st December, 2003	<u>396,284</u>

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 amount 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, 2003 and 2004 was HK\$31,193,000.

As further detailed in note 15 to the financial statements, in August 2004, the Group acquired an 11.11% equity interest in Equity Pacific and which was subsequently increased to 36.5% upon the conversion of certain convertible loans to Equity Pacific in November 2004. Upon the consolidation of Equity Pacific and its subsidiaries in accordance with Interpretation 18, due to the existence of certain presently exercisable potential voting rights starting from November 2004, the goodwill arising from the acquisition was determined based on 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. In accordance with Interpretation 18, the proportion allocated to the Group and minority interests in preparing the consolidated financial statements under SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" was solely determined based on the present ownership interest.

The allocation of the cost of acquisition of Equity Pacific to the identifiable assets and liabilities of the 17game Group are preliminary pending the completion of the appraisal of certain intangible assets acquired, which is expected to be completed during the year ending 31st December, 2005. The fair values ascribed to the underlying intangible assets acquired and the corresponding goodwill arising on the acquisition of Equity Pacific may change with the completion of the appraisal.

**19. BALANCES WITH THE ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES**

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

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 20. INVESTMENTS

		<b>Group and Company</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Long term investments:			
Overseas publicly traded debt securities, at fair value	–		37,165
Overseas unlisted debt securities, at fair value	<b>61,776</b>		60,528
		<b>61,776</b>	97,693
Less: Securities pledged for a long term bank borrowing	–		(37,165)
		<b>61,776</b>	60,528
Short term investments:			
Overseas publicly traded debt securities, at fair value	<b>678,066</b>		1,116,955
Less: Securities pledged for short term bank borrowings	<b>(137,461)</b>		–
		<b>540,605</b>	1,116,955

During the years ended 31st December, 2004 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 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 25*).

As at 31st December, 2004, certain publicly traded debt securities of the Group of approximately HK\$137,461,000 (2003: HK\$37,165,000) were pledged to banks as collaterals under the repurchase agreement and the total return swap agreement mentioned above for securing certain short term bank borrowings of approximately HK\$117,293,000 (2003: a long term borrowing of approximately HK\$31,492,000) (*note 25*).

## 21. 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 seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management.

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

		<b>Group</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>47,675</b>		45,575
91 – 120 days	<b>963</b>		1,634
121 – 180 days	<b>555</b>		620
Over 180 days	–		157
		<b>49,193</b>	47,986

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	212,425	109,729	49,253	2,555
Time deposits	177,679	27,425	170,359	12,447
	<b>390,104</b>	137,154	<b>219,612</b>	15,002

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$145,808,000 (2003: HK\$96,448,000). The RMB is not freely convertible into other currencies. Currently, while the conversion of RMB into foreign currencies in the PRC for capital account items is still subject to significant regulatory restrictions, the PRC government now allows greater convertibility of RMB for current account transactions. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB and to buy, sell and/or remit foreign currencies at those banks authorised to conduct foreign exchange business upon presenting certain valid commercial documents.

## 23. ACCOUNTS PAYABLE

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	9,599	7,007
91 – 120 days	1,431	349
121 – 180 days	1,691	677
Over 180 days	435	10,424
	<b>13,156</b>	18,457

## 24. ACQUISITION CONSIDERATION PAYABLE

As further detailed in note 15 to the financial statements, the acquisition consideration payable as at 31st December, 2004, represented the second instalment of the acquisition consideration in connection with the acquisition of Beijing He He.

The acquisition consideration payable as at 31st December, 2003, represented the balance of the acquisition consideration in connection with the acquisition of a subsidiary, Palmweb Inc., which was fully settled during the current year.



## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 25. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans repayable:				
Within one year or on demand	117,293	–	117,293	–
In the second year	–	31,492	–	31,492
	117,293	31,492	117,293	31,492
Portion classified as current liabilities	(117,293)	–	(117,293)	–
Long term portion	–	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 20). During the years ended 31st December, 2003 and 2004, the Company entered into a repurchase agreement and/or a total return swap agreement with certain banks pursuant to which the Company sold certain debt securities to the banks at the Purchase Price and the banks agreed to sell back the same debt securities to the Company on the repurchase date (the "Repurchase Date"). Pursuant to the agreements, during the period between the date that the Company sold the debt securities to the banks (the "Purchase Date") and the Repurchase Date, the banks would pay to the Company any income in respect of the debt securities and the Company would pay to the banks interest calculated based on the Purchase Price and the number of days between the Purchase Date and the Repurchase Date at LIBOR plus 0.2% per annum or three months LIBOR plus 0.35% per annum. 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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**26. DEFERRED TAX**

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

**Deferred tax liabilities****2004 and 2003****Group**

	Fair value adjustments arising from acquisition of subsidiaries	
	2004 HK\$'000	2003 HK\$'000
At 1st January	1,716	–
Additions through acquisition of subsidiaries (note 30(a))	7,351	1,952
Deferred tax credited to the profit and loss account during the year*	(57)	(236)
Gross deferred tax liabilities at 31st December	9,010	1,716
Offset deferred tax assets	(1,404)	(1,716)
Net deferred tax liabilities at 31st December	7,606	–

**Deferred tax assets****2004****Group**

	Difference in tax and accounting depreciation HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January, 2004	(374)	(1,873)	(2,247)
Deferred tax credited to the profit and loss account during the year*	(12)	(83)	(95)
Gross deferred tax assets at 31st December, 2004	(386)	(1,956)	(2,342)
Offset deferred tax liabilities			1,404
Net deferred tax assets at 31st December, 2004			(938)

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**26. DEFERRED TAX (Continued)**  
**Deferred tax assets (Continued)**

**2003**

**Group**

	Difference in tax and accounting depreciation HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January, 2003	–	–	–
Deferred tax credited to the profit and loss account during the year*	(374)	(1,873)	(2,247)
Gross deferred tax assets at 31st December, 2003	(374)	(1,873)	(2,247)
Offset deferred tax liabilities			1,716
Net deferred tax assets at 31st December, 2003			(531)

\* Total deferred tax credited to the profit and loss account during the year amounted to HK\$152,000 (2003: HK\$2,483,000) (*note 11*).

The Group had tax losses arising in Hong Kong of HK\$143,455,000 (2003: HK\$133,011,000) 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 taxable profit streams.

At 31st December, 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group had no liability to additional tax should such amounts be remitted due to the availability of double tax relief or under the relevant tax laws.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 27. SHARE CAPITAL

## Shares

Authorised:

10,000,000,000 (2003: 10,000,000,000) ordinary shares of HK\$0.10 each

Issued and fully paid:

4,144,186,053 (2003: 4,135,226,833) ordinary shares of HK\$0.10 each

2004 HK\$'000	2003 HK\$'000
<b>1,000,000</b>	1,000,000
<b>414,419</b>	413,523

A summary of the transactions during the current and prior years 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, 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 and 1st January, 2004	4,135,226,833	413,523	914,138	1,327,661
Share options exercised*	8,959,220	896	2,094	2,990
Share issue expenses	-	-	(24)	(24)
At 31st December, 2004	4,144,186,053	414,419	916,208	1,330,627

\* The subscription rights attaching to 8,959,220 (2003: 3,667,891) share options were exercised at subscription prices ranging from HK\$0.171 to HK\$0.876 (2003: from HK\$0.36 to HK\$0.95) per share (note 28), resulting in the issue of 8,959,220 (2003: 3,667,891) ordinary shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$2,990,000 (2003: 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 28 to the financial statements.

## 28. 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).

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**28. SHARE OPTION SCHEMES (Continued)**

The maximum number of shares which can be granted under the Pre-IPO Scheme and the Post-IPO Scheme must not exceed 10% of the issued share capital of the Company as at the date of listing of the shares on the GEM. For the 2002 Scheme, the maximum number of shares which can be granted must not exceed 10% of the issued share of the Company at the date of approval of such scheme. At 31st December, 2004, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme was 95,053,460, 34,447,848 and 53,819,821, respectively, which represented approximately 4.42% in aggregate of the Company's shares in issue at that date. Pursuant to the Pre-IPO Scheme and the Post-IPO Scheme (the "Schemes"), no participant shall be granted an option which, if accepted and exercised in full, would result in such participant's maximum entitlement exceeding 25% of the aggregate number of shares of the Company subject to the Schemes. The maximum number of shares issuable as share options to each eligible participant in the 2002 Scheme in any 12-month period up to and including the date of the grant to such participant shall not exceed 1% of the issued share capital of the Company from time to time. Any further grant of options in excess of this 1% Limit must be subject to shareholders' approval with that participant and his associates abstaining from voting.

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

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

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

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

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

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

At 31st December, 2004, the remaining life of the Schemes is five years and two months and the remaining life of the 2002 Scheme is seven years and four months.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 28. 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 31st December, 2004
			At 1st January, 2004	Transferred during the year <sup>†</sup>	Lapsed during the year	
<b>Directors</b>						
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
<b>Employees</b>						
In aggregate	9th March, 2000	1.880	771,080	(3,180)	(754,980)	12,920
<b>Other Eligible Person</b>						
In aggregate	9th March, 2000	1.880	11,367,360	3,180	(330,000)	11,040,540
			96,138,440	-	(1,084,980)	95,053,460

## (ii) Post-IPO Scheme

Name or category of participant	Date of grant of share options*	Exercise price of share options** HK\$	Number of share options				At 31st December, 2004	Price of Company's shares at exercise date of options*** HK\$
			At 1st January, 2004	Transferred during the year <sup>†</sup>	Exercised during the year	Lapsed during the year		
<b>Directors</b>								
Ch'ien Kuo Fung, Raymond	10th April, 2001	0.286	3,000,000	-	-	-	3,000,000	-
Chan Kai Yu, Rudy	5th October, 2000	0.582	10,000,000	-	-	-	10,000,000	-
	10th April, 2001	0.286	20,000,000	-	(5,000,000)	-	15,000,000	0.55
Chou Kei Fong, Silas	10th April, 2001	0.286	600,000	-	-	-	600,000	-
Wong Sin Just	10th April, 2001	0.286	600,000	-	-	-	600,000	-
Yip Hak Yung, Peter	10th April, 2001	0.286	2,400,000	-	-	-	2,400,000	-
Zhou Shun Ao	10th April, 2001	0.286	2,400,000	-	(1,800,000)	-	600,000	0.53
<b>Employees</b>								
In aggregate	7th April, 2000 - 19th June, 2000	1.310 - 1.977	629,160	(500,000)	-	(129,160)	-	-
	14th August, 2000 - 28th March, 2002	0.286 - 0.876	4,836,798	(1,297,080)	(995,687)	(644,923)	1,899,108	0.56 - 0.96

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 28. SHARE OPTION SCHEMES (Continued)

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

Name or category of participant	Date of grant of share options*	Exercise price of share options** HK\$	Number of share options					At 31st December, 2004	Price of Company's shares at exercise date of options*** HK\$
			At 1st January, 2004	Transferred during the year <sup>†</sup>	Granted during the year	Exercised during the year	Lapsed during the year		
<b>Other Eligible Persons</b>									
In aggregate	19th June, 2000	1.310	-	500,000	-	-	(500,000)	-	-
	29th June, 2000	1.176	129,160	-	-	-	-	129,160	-
	14th August, 2000 -	0.286 -	-	-	-	-	-	-	-
	28th March, 2002	0.876	-	1,297,080	(601,250)	(476,250)	-	219,580	0.56 - 0.96
			44,595,118	-	(8,396,937)	(1,750,333)	-	34,447,848	

## (iii) 2002 Scheme

Name or category of participant	Date of grant share options*	Exercise price of share options** HK\$	Number of share options					At 31st December, 2004	Price of Company's shares***	
			At 1st January, 2004	Transferred during the year <sup>†</sup>	Granted during the year	Exercised during the year	Lapsed during the year		At grant date of options HK\$	At exercise date of options HK\$
<b>Directors</b>										
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	-	-
<b>Directors resigned during the year</b>										
Xiao Xiangyang, John	5th June, 2003	0.626	4,000,000	-	-	-	(4,000,000)	-	-	-
Kwok Yee Leen, Elaine	5th June, 2003	0.626	1,500,000	(1,500,000)	-	-	-	-	-	-
<b>Employees</b>										
In aggregate	19th August, 2002	0.200	284,144	-	-	(83,953)	(71,035)	129,156	-	0.69
	2nd December, 2002	0.208	103,340	-	-	(25,835)	(77,505)	-	-	1.00
	24th February, 2003	0.171	309,980	-	-	(77,495)	(87,180)	145,305	-	1.02
	29th May, 2003	0.716	645,820	(180,840)	-	-	(142,080)	322,900	-	-
	5th June, 2003	0.626	1,500,000	(1,200,000)	-	-	-	300,000	-	-
	22nd December, 2003	0.634	426,220	-	-	-	(206,660)	219,560	-	-
	1st April, 2004	0.712	-	-	219,580	-	(219,580)	-	0.71	-
	7th September, 2004	0.510	-	-	24,607,060	-	(116,240)	24,490,820	0.51	-
26th November, 2004	0.528	-	-	671,660	-	-	671,660	0.53	-	
<b>Other Eligible Persons</b>										
In aggregate	29th May, 2003	0.716	-	180,840	-	-	(90,420)	90,420	-	-
	5th June, 2003	0.626	13,150,000	2,700,000	-	(375,000)	(5,525,000)	9,950,000	-	0.68
			39,419,504	-	25,498,300	(562,283)	(10,535,700)	53,819,821		

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**28. SHARE OPTION SCHEMES (Continued)****(iii) 2002 Scheme (Continued)**

- \* The vesting period of the share options is annually over 4 years.
- \*\* 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 the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.
- # This represents options held by option holders who have been transferred between the hongkong.com group and the chinadotcom group during the year.

The 8,959,220 share options exercised during the year resulted in the issue of 8,959,220 ordinary shares of the Company and new share capital of HK\$896,000 and share premium of HK\$2,094,000 (before issue expenses), as detailed in note 27 to the financial statements.

At the balance sheet date, the Company had in aggregate 183,321,129 share options outstanding under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme, which represented approximately 4.42% 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 183,321,129 additional ordinary shares of the Company and additional share capital of approximately HK\$18,332,000 and share premium of approximately HK\$204,380,000 (before issue expenses).

**29. 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 27 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 18 to the financial statements.



## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 29. RESERVES (Continued)

## (b) Company

	<b>Share premium account</b> HK\$'000	<b>Investment revaluation reserve</b> HK\$'000	<b>Retained profits/ (accumulated losses)</b> HK\$'000	<b>Total</b> HK\$'000
At 1st January, 2003	913,204	595	(19,794)	894,005
Issue of shares	937	–	–	937
Share issue expenses	(3)	–	–	(3)
Investment revaluation reserve released on disposal	–	(1,193)	–	(1,193)
Deficit on revaluation	–	(2,749)	–	(2,749)
Net profit for the year	–	–	38,524	38,524
At 31st December, 2003 and 1st January, 2004	914,138	(3,347)	18,730	929,521
Issue of shares	2,094	–	–	2,094
Share issue expenses	(24)	–	–	(24)
Deficit on revaluation	–	(2,489)	–	(2,489)
Investment revaluation reserve released on disposal	–	(2,666)	–	(2,666)
Net profit for the year	–	–	25,911	25,911
At 31st December, 2004	916,208	(8,502)	44,641	952,347

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	6,623	3,174
Intangible assets (note 17)	92,737	5,912
Interest in an associate	–	528
Accounts receivable	15,951	34,170
Prepayments, deposits and other receivables	9,489	8,692
Cash and cash equivalents	28,989	13,759
Amounts due to fellow subsidiaries	(22)	–
Accounts payable	(11,522)	(20,498)
Other payables and accrued liabilities	(30,671)	(6,438)
Deferred tax liabilities (note 26)	(7,351)	(1,952)
Minority interests	(32,378)	–
	<b>71,845</b>	<b>37,347</b>
Goodwill on acquisition	<b>131,272</b>	<b>392,622</b>
Total consideration	<b>203,117</b>	<b>429,969</b>
Satisfied by:		
Cash consideration paid	99,840	110,169
Acquisition consideration payable (note 24)	97,961	319,800
Reclassification to interest in a subsidiary from interest in a jointly-controlled entity	5,316	–
	<b>203,117</b>	<b>429,969</b>

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration paid	(99,840)	(110,169)
Cash and cash equivalents acquired	28,989	13,759
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<b>(70,851)</b>	<b>(96,410)</b>

During the year, the Group acquired 100% interest in Group Team and 36.5% interest in Equity Pacific. Further details of the acquisitions are set out in note 15 to the financial statements. Since their acquisitions, these companies and their subsidiaries contributed HK\$6,822,000 to the Group's turnover and HK\$1,118,000 to the consolidated profit after tax and before minority interests for the year ended 31st December, 2004. In the case of a jointly-controlled entity which was reclassified to a subsidiary, the aforementioned turnover and profit after tax and before minority interests exclude the former jointly-controlled entity contribution to the results prior to it becoming a subsidiary.

The subsidiaries acquired in prior year 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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

## 30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

## (b) Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	129	–
Accounts receivable	723	–
Prepayments, deposits and other receivables	2,714	–
Cash and cash equivalents	11,731	–
Other payables and accrued liabilities	(1,610)	–
Minority interests	(5,238)	–
	8,449	–
Loss on disposal of subsidiaries	(2,619)	–
	5,830	–
Satisfied by:		
Cash, less incidental costs on disposal	5,830	–
	5,830	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:-

	2004 HK\$'000	2003 HK\$'000
Net cash consideration received	5,830	–
Cash and cash equivalents disposed of	(11,731)	–
	(5,901)	–

These subsidiaries contributed HK\$3,890,000 to the Group's consolidated turnover and HK\$669,000 to the Group's consolidated loss after tax and before minority interests for the year ended 31st December, 2004.

## 31. 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.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**32. OPERATING LEASE ARRANGEMENTS**

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

At 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>5,108</b>	1,784
In the second to fifth years, inclusive	<b>4,158</b>	1,073
	<b>9,266</b>	2,857

At the balance sheet date, the Company had no operating lease commitment (2003: Nil).

**33. COMMITMENTS**

In addition to the operating lease commitments detailed in note 32 above, the Group had a capital commitment contracted, but not provided for in respect of the balance of the Acquisition Consideration up to a maximum of approximately HK\$295 million, as further detailed in note 15 to the financial statements.

The Company did not have any significant commitment at the balance sheet date (2003: Nil).

**34. 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:

**Group**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating lease rentals in respect of office premises charged by a fellow subsidiary	<b>(719)</b>	(996)
Operating lease rentals in respect of certain fixed assets charged by a fellow subsidiary	-	(611)
Service fee from a fellow subsidiary	<b>1,702</b>	-

*Notes:*

- (i) The operating lease rentals are related to office premises occupied by the Group and were charged by a fellow subsidiary based on mutually agreed terms, with reference to the attributable gross floor area occupied by the Group.
- (ii) The operating lease rentals for the prior year are related to the leasing of certain fixed assets and were charged by a fellow subsidiary at a lump sum annually, based on mutually agreed terms and with reference to open market rates.

## NOTES TO FINANCIAL STATEMENTS

31st December, 2004

**34. RELATED PARTY TRANSACTIONS (Continued)***Notes: (Continued)*

- (iii) On 7th May, 2004, the Group entered into a co-operative agreement with Beijing He He, a then fellow subsidiary of the Company, which was subsequently replaced by another agreement dated 23rd June, 2004 (the "Co-operative Agreement"), in connection with the provision of entertainment related mobile value-added services (the "MVAS Services") on the interactive voice response service platform established by Beijing He He. Subject to the terms and conditions of the Co-operative Agreement, the Group would provide Beijing He He certain product development services and related technical services in connection with the MVAS Services (the "Transaction"). In return, the Group would be entitled to share 60% of the revenue derived by Beijing He He from the MVAS Services, after deducting relevant charges by a mobile operator, which is subject to a proposed annual cap, which amounted to HK\$4 million for the contracting year ending 31st May, 2005. Such Transaction ceased to be a related party transaction/connected transaction after the acquisition of Group Team by the Group in August 2004, as further detailed in note 15 to the financial statements.
- (iv) 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, based on mutually agreed terms, with reference to the open market value. The fixed assets were delivered to the Group during the year.
- (v) During the year, the Group was licensed the right to use the URLs of hongkong.com and china.com by chinadotcom Strategic, Inc., a fellow subsidiary of the Company, at nil (2003: nil) consideration and at an annual license fee of US\$1 (equivalent to HK\$7.8) (2003: HK\$7.8), respectively. Further details of the licensing arrangements for the URL of hongkong.com are set out in note 31 to the financial statements.
- (vi) During the prior 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.

The related party transaction in respect of item (iii) above also constituted a continuing connected transaction, as defined in Chapter 20 of the GEM Listing Rules. Upon completion of the acquisition of Group Team in August 2004, such transaction ceased to be a continuing connected transaction of the Company (note 15).

**35. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 28th February, 2005.

## ADDENDUM 1 – CLARIFICATION ANNOUNCEMENT

Set out below is a reproduction of the announcement made by the Company dated 22nd March, 2005 in relation to the transaction described in the paragraph headed “Connected Transactions – Continuing Connected Transaction – Beijing He He and Newpalm (China)” in the Report of the Directors. Disclosure of the transaction in the Report of the Directors should be read together with the disclosure set out in the announcement. The board of directors has noted that the auditors of the Company have confirmed the matters stated in Rule 20.38 of the GEM Listing Rules in connection with the transaction.

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### HONGKONG.COM CORPORATION 香港網國際網絡公司\*

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8006)

#### CLARIFICATION ANNOUNCEMENT

References is made to the announcement made by the Company dated 7th May, 2004 and the circular released by the Company dated 28th May, 2004 and the Board would like to clarify that:

- the contracting party to the Agreement was Beijing Newpalm instead of Newpalm (China) as previously disclosed in the Announcement and the Circular; and
- the Agreement was replaced by an agreement dated 23rd June 2004 entered into between Beijing Newpalm and Beijing He He on substantially similar terms as the Agreement.

The Transaction between Beijing Newpalm and Beijing He He constituted a continuing connected transaction at the time the same was entered into in May 2004. In August 2004, upon completion of the acquisition of Beijing He He by the Group, the Transaction ceased to be a continuing connected transaction.

For the period from May to August 2004, when the Transaction constituted a continuing connected transaction under the GEM Listing Rules, the revenue derived by the Group under the Transaction was approximately HK\$1.7 million, within the proposed Annual Cap of not exceeding HK\$4 million for the contracting year ending 31st May, 2005.

Reference is made to the announcement made by the Company dated 7th May, 2004 (the “Announcement”) and in the circular released by the Company dated 28th May, 2004 (the “Circular”) in connection with the provision of entertainment related mobile value-added services on the interactive voice response service platform established by Beijing He He, and connected to the network of China Mobile (the “Transaction”). The Transaction constituted a continuing connected transaction under the GEM Listing Rules and was subject to the reporting and announcement requirements in the GEM Listing Rules.

Terms used in this announcement shall have the same meaning as those used in the Announcement and the Circular unless otherwise specified.

## ADDENDUM 1 – CLARIFICATION ANNOUNCEMENT

## ISSUES FOR CLARIFICATION

The Board would like to clarify certain details in respect of the Transaction as previously disclosed in the Announcement and the Circular.

**1. Parties to the Agreement**

In both the Announcement and the Circular, Newpalm (China), an indirect wholly-owned subsidiary of the Company was identified as the contractual party to the Agreement.

To comply with the regulatory requirements of the PRC, Beijing Newpalm Technology Company Limited (“Beijing Newpalm”), a PRC domestic company holding Internet Content Provider or ICP license for the purposes of carrying out MVAS business was the signing party of the Agreement. The Agreement was entered into by Beijing Newpalm for the benefit of Newpalm (China).

This arrangement was made to comply with PRC regulatory and practical restrictions on foreign investment in the telecommunications sectors. At the time of the making of the Announcement, Beijing Newpalm was indirectly wholly-controlled by the Company and Newpalm (China).

**2. Agreement dated 23rd June, 2004**

Beijing Newpalm and Beijing He He signed an agreement dated 23rd June, 2004 (the “New Agreement”) with the intention to have the New Agreement replace the Agreement. The terms of the New Agreement were substantially similar to the Agreement with no material deviations from what had been disclosed in the Announcement and the Circular. The New Agreement contained elaboration on the ancillary services to be provided by Beijing Newpalm to Beijing He He. Furthermore, the percentage of revenue sharing of Beijing Newpalm was fixed at 60% of Beijing He He’s IVR revenue after deduction of China Mobile’s charge in the New Agreement after arm’s length negotiation between the parties.

Notwithstanding the variations described above, the substantive services to be provided by Beijing Newpalm to Beijing He He remained the same and the revenue of the Company to be derived from the New Agreement is still subject to the proposed Annual Caps as disclosed in the Announcement and the Circular, that is, not exceeding HK\$4 million, HK\$4 million and HK\$5 million for each of the three contracting years ending 31st May, 2005, 2006 and 2007, respectively. The percentage of cooperation revenue to be shared by Beijing Newpalm is 60% under the New Agreement, which falls within the range of the revenue sharing percentage of 50%-70% range referred to in the Agreement and as disclosed in the Announcement and the Circular.

The fees payable to Beijing Newpalm by Beijing He He under the New Agreement during the period from May to August 2004 amounted to approximately HK\$1.7 million, which was within the proposed Annual Cap of HK\$4 million for the year ending 31st May, 2005 as previously disclosed in the Announcement and the Circular.

**REASONS FOR THE CLARIFICATION**

The discrepancies in the disclosure of the Transaction in the Announcement and the Circular and that as stated above were brought to the attention of the Company by the auditors of the Company during the finalisation of the 2004 annual report of the Company in the middle of March 2005. The Company has caused this clarification announcement to be made as soon as practicable.

On 19th March, 2005, the Transaction was reviewed by the independent non-executive directors of the Company who are of the opinion that the Transaction was:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and
- (iii) in accordance with the relevant agreements governing the Transaction on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## ADDENDUM 1 – CLARIFICATION ANNOUNCEMENT

The Board wishes to state that:

- At all relevant time, Newpalm (China) is indirectly wholly-owned by the Company and Beijing Newpalm was indirectly wholly controlled by the Company. Beijing Newpalm has always been entrusted with the operation of the MVAS business of the Group and its operations have been fully integrated and financially consolidated into the operations of Group. Therefore, no distinction was made between Newpalm (China) and Beijing Newpalm at the operational level. As a result, the Company has inadvertently overlooked that Beijing Newpalm was the contracting party to the Agreement and the New Agreement until the discrepancies were brought to the attention of the Company by the auditors of the Company.
- The terms of the New Agreement were substantially similar to those the Agreement. Accordingly, the Transaction has been carried out on the same terms as those disclosed in the Announcement and the Circular notwithstanding that the Agreement has been replaced by the New Agreement.
- The Transaction has ceased to be a continuing connected transaction within the meaning of the GEM Listing Rules with the completion of the acquisition of Beijing He He by the Company in August 2004. Accordingly, as at 31st December, 2004, there was no continuing connected transaction. Due to the fact that the Transaction has become an intra-group transaction since August 2004, the discrepancies were inadvertent overlooked by the Company until the same were brought to the attention of the Company by the auditors of the Company.
- During the period from May to August 2004, when the Transaction constituted a continuing connected transaction, the aggregate value of the Transaction was approximately HK\$1.7 million, which was within the proposed Annual Cap for the year ending 31st May 2005 as stated in the Announcement and the Circular.

By Order of the Board  
**hongkong.com Corporation**  
**Chan Kai Yu, Rudy**  
*Executive Director*

Hong Kong, 22nd March, 2005

*As at the date hereof, the executive directors are Dr. Ch'ien Kuo Fung, Raymond (Chairman of the Board of the Company), Mr. Yip Hak Yung, Peter, Mr. Zhou Shunao, Mr. Chan Kai Yu, Rudy, Mr. Keith Geoffrey Oliver and Mr. Wang Xiaohui; and the independent non-executive directors are Mr. Wong Sin Just, Mr. Chou Kei Fong, Silas, Mr. Wang Cheung Yue, Fred and Mr. Chia Kok Onn. This announcement, for which the directors of the Company collectively and individually accept full 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 for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at [www.corp.hongkong.com](http://www.corp.hongkong.com).*

\* for identification purpose only



## ADDENDUM 2 – PROPOSED CHANGE OF COMPANY NAME

Set out below is a reproduction of the announcement made by the Company dated 18th March, 2005 in relation to proposed change of Company name.

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**HONGKONG.COM CORPORATION**

**香港網國際網絡公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8006)

**PROPOSED CHANGE OF COMPANY NAME**

The Board proposes to change the name of the Company to "China.com Inc." and to adopt a Chinese name "中華網科技公司" for identification purposes only upon the change of name of the Company becoming effective.

The proposed Change of Name is subject to the conditions set forth below. A circular containing details of the proposed Change of Name will be dispatched to the shareholders of the Company as soon as possible.

**PROPOSED CHANGE OF COMPANY NAME**

The board of directors (the "Board") of hongkong.com Corporation (the "Company") proposes to change the name of the Company to "China.com Inc." (the "Change of Name") and to adopt a Chinese name of "中華網科技公司" for identification purposes only upon the change of name of the Company becoming effective. The Company is a leading value-added mobile application services, Internet portal services and online game services company in the mainland of the People's Republic of China (the "PRC"). Concurrently with the proposed Change of Name, the Board notes that the Company's ultimate parent company, chinadotcom corporation, a company incorporated in the Cayman Islands and listed on NASDAQ, is also seeking to change its name from "chinadotcom corporation" to "CDC Corporation". With the coordinated name change efforts of the Company and its ultimate parent company, the Board considers that the proposed Change of Name will benefit the Company in the following ways:

- (a) The new name reflects the fact that the Company operates its businesses, serves its customers, derives its revenues and allocates its staff predominately within the mainland of the PRC.
- (b) Upon successful change of name by each of the Company and its ultimate parent company, the new name eliminates confusions among investors relating to the different business lines between the Company and its ultimate parent company. Whereas the Company operates predominately in value-added mobile application, Internet portal and online game businesses and in the mainland of the PRC, its ultimately holding company has more diverse business lines with more focus on the enterprise software area, more geographically diversified revenue and customer mix.
- (c) The new name facilitates and strengthens the right perception that it is the Company who competes with other competitors in terms of market, products and business models in PRC's value-added mobile application, Internet portal and online game industry, so as to help investors compare the Company, not the Company's ultimate parent company, with such competitors.

## ADDENDUM 2 – PROPOSED CHANGE OF COMPANY NAME

### CONDITIONS

The proposed Change of Name is subject to the fulfillment of the following conditions:

- (a) the passing of a special resolution by the shareholders of the Company at the extraordinary general meeting to be convened and held to approve the proposed Change of Name; and
- (b) the Registrar of Companies in the Cayman Islands approving the proposed Change of Name.

### EFFECTS ON CHANGE OF NAME

The proposed Change of Name will not in any way affect any of the rights of any Company shareholders or affect any of the rights of the parties under any contracts to which the Company is a party. All existing share certificates in issue bearing the present name of the Company will, after the Change of Name has become effective, continue to be evidence of title to the shares of HK\$0.10 each in the Company and will continue to be valid for trading, settlement and registration purposes. Accordingly, there will be no arrangement for free exchange of existing share certificates for new share certificates under the new name. Should the Change of Name become effective, any issue of share certificates thereafter will be in the new name of the Company.

### GENERAL

A circular setting forth details of the proposed Change of Name and the notice convening the extraordinary general meeting and the proxy form of the Company will be dispatched to the shareholders of the Company as soon as possible.

By Order of the Board  
**hongkong.com Corporation**  
**Chan Kai Yu, Rudy**  
*Executive Director*

Hong Kong, 18th March 2005

*As at the date hereof, the executive directors are Dr. Ch'ien Kuo Fung, Raymond (Chairman of the Board of the Company), Mr. Yip Hak Yung, Peter, Mr. Zhou Shunao, Mr. Chan Kai Yu, Rudy, Mr. Keith Geoffrey Oliver and Mr. Wang Xiaohui; and the independent non-executive directors are Mr. Wong Sin Just, Mr. Chou Kei Fong, Silas, Mr. Wang Cheung Yue, Fred and Mr. Chia Kok Onn.*

*This announcement, for which the directors of the Company collectively and individually accept full 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 for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.*

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