Annual Report 2005

China.com Inc.

[Incorporated in the Cayman Islands with limited liability]

China.com Inc. (GEM Stock 8006) is a CDC Corporation company (NASDAQ:CHINA)

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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.

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This annual report, for which the Directors (the "Directors") of China.com Inc. (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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Non-Executive Directors
Ch'ien Kuo Fung, Raymond *(Chairman)*
Yip Hak Yung, Peter *(Vice-Chairman)*
Fang Xin

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

COMPANY SECRETARY
Chan Lip-chih, Steven

QUALIFIED ACCOUNTANT
Chau Kwok Keung, ACCA, CPA

COMPLIANCE OFFICER
Lam Wai-Qun, Albert

AUDIT COMMITTEE
Wong Sin Just *(Committee Chairman)*
Wang Cheung Yue, Fred
Chia Kok Onn

EXECUTIVE COMMITTEE
Ch'ien Kuo Fung, Raymond *(Committee Chairman)*
Yip Hak Yung, Peter
Wang Cheung Yue, Fred

REMUNERATION COMMITTEE
Ch'ien Kuo Fung, Raymond *(Committee Chairman)*
Yip Hak Yung, Peter
Wong Sin Just
Wang Cheung Yue, Fred
Chia Kok Onn

NOMINATING COMMITTEE
Chia Kok Onn *(Committee Chairman)*
Wong Sin Just
Wang Cheung Yue, Fred

AUTHORIZED REPRESENTATIVES
Chan Lip-chih, Steven
Lam Wai-Qun, Albert

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
Deloitte Touche Tohmatsu
26th Wing On Centre
111 Connaught 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
Citibank N.A.
Fortis Bank

STOCK CODE
8006

WEBSITE
www.inc.china.com

RESULTS

	Year ended 31st December,				
	2005 HK$'000	2004 HK$'000 (restated)	2003 HK$'000	2002 HK$'000	2001 HK$'000
Turnover					
Continuing operations	**387,315**	231,411	181,738	44,154	80,730
Discontinued operation	**–**	3,890	5,925	10,441	5,796
	387,315	235,301	187,663	54,595	86,526
Profit from ordinary activities attributable to shareholders	**9,737**	53,594	105,143	27,139	28,441

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st December,				
	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000	2001 HK$'000
Assets	**1,725,638**	1,815,254	1,830,916	2,146,832	1,589,098
Liabilities	**(177,568)**	(292,509)	(389,737)	(808,090)	(292,435)
Minority interests	**(32,249)**	(30,670)	(5,525)	(5,640)	(5,873)
	1,515,821	1,492,075	1,435,654	1,333,102	1,290,790

KEY FINANCIAL DATA

	Year ended 31st December,				
	2005 HK cents	2004 HK cents (restated)	2003 HK cents	2002 HK cents	2001 HK cents
Earnings per share – basic	**0.23**	1.30	2.54	0.66	0.69

	As at 31st December,				
	2005 HK cents	2004 HK cents (restated)	2003 HK cents	2002 HK cents	2001 HK cents
Net assets (note) per share – basic	**36.50**	36.06	34.73	32.27	31.24

Note: Net assets represent total assets less total liabilities and minority interests.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT


Lam Wai-Qun, Albert


Dr. Ch'ien Kuo Fung, Raymond


Yip Hak Yung, Peter


Fang Xin

EXECUTIVE DIRECTOR

Lam Wai-Qun, Albert (Chief Executive Officer, aged 47)

Mr. Albert Lam was appointed as chief executive officer of the Company on 28th November, 2005 and as executive director of the Company on 12th December, 2005. Mr. Lam is responsible for formulating and executing the strategy and direction of the Company at the operating level. Mr. Lam has served as president and chief operating officer of the Company since July 2004. He has played a crucial role within the Company's core mobile value added services ("MVAS") business having served as a director of Newpalm (China) Information Technology Co. Ltd. ("Newpalm"), the Company's wholly-owned MVAS provider, its chief executive officer since July 2004 and its chief operating officer from March 2001 until shortly before the Company's acquisition of Newpalm in April 2003. In total, Mr. Lam has over 24 years of experience in the telecommunications, IT and MVAS industries in China and North America, of which nearly 20 years were spent in China, including 7 years at Motorola where he had served as a vice president and general manager and 13 years at Nortel Networks and General Electric where he had served in various management roles. 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.

NON-EXECUTIVE DIRECTORS

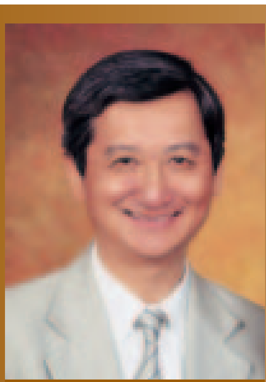
Dr. Ch'ien Kuo Fung, Raymond (Chairman, aged 54)

Dr. Ch'ien is chairman of the board of directors ("Board") of the Company. Dr. Ch'ien served as an executive director of the Company from 25th November, 1999 to 31st October, 2005 at which point he was re-designated as a non-executive director. Dr. Ch'ien has previously also served as executive chairman of the Board of CDC Corporation, the ultimate parent company of the Company from April 2001 until August 2005 at which point he became chairman of the Board of CDC Corporation. He served as acting chief executive officer of CDC Corporation between March 2004 and March 2005, and chief executive officer from March 2005 until August 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 Ltd. and The Wharf (Holdings) Limited. 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, aged 54)

Mr. Peter Yip is vice chairman of the Board of the Company and CDC Corporation, the ultimate holding company of the Company. Mr. Yip served as an executive director of the Company from 15th October, 1999 to 7th February, 2005 at which point he was re-designated as a non-executive director. Mr. Yip is also Executive Chairman of CDC Software, a wholly owned subsidiary of CDC Corporation, and a leading integrated enterprise software company currently ranked number 22 in the global top 25 enterprise software provider. Mr. Yip was a founder of CDC Corporation and was the founding chief executive officer between January 1999 and February 2004. Under his leadership, CDC Corporation was one of the first successful initial public offerings of an internet company from Greater China to be listed on NASDAQ, opening the door for other Chinese entrepreneurs to list their ventures in the US capital markets. Mr. Yip is also chairman of China Pacific Capital, a family-owned direct investment fund. Mr. Yip has over two decades of entrepreneurial and direct investment experience in the United States and the Asia Pacific region in which he has co-founded or provided seed funding to a number of successful start-up entities, including Linkage Online, Gartner Group Asia, Interleaf Asia and Online Software Asia. In addition, Mr. Yip has made a number of successful co-investments with institutional investors, corporate investors and high net worth individuals, a


Wong Sin Just


Wang Cheung Yue, Fred


Chia Kok Onn


Leung Ming Shu

Temasek Holdings company, Xinhua News Agency, Bechtel Enterprises Inc., Mitsui & Co., Ltd., America Online, Inc., Merrill Lynch-Fred Adler Technology Fund II and the New World Group. Mr. Yip previously held management positions at KPMG Consulting and Wharton Applied Research. Mr. Yip received a master's degree in business administration from the Wharton School and both a master's degree and bachelor's degree in electrical engineering from the University of Pennsylvania. He also holds an associate degree from Vincennes University in Indiana.

Fang Xin (aged 53)
Mr. Fang was appointed to the Board on 28th July, 2005. He was also appointed as a director of CDC Corporation, the ultimate holding company of the Company on 11th November, 2005. Mr. Fang is currently general manager of the Asia-Pacific Regional Bureau and Hong Kong SAR Branch of Xinhua News Agency ("Xinhua") and president of Golden Tripod (Holdings) Limited and Golden Tripod Technology Limited. Golden Tripod Technology Limited, an indirect wholly owned subsidiary of Xinhua, is one of the major shareholders of CDC Corporation. Mr. Fang is also a senior correspondent of Xinhua, and also serves as a non-executive director of the Company. Mr. Fang has approximately 25 years of experience in news reporting, editing, economic information analysis, and business management with governmental and non-governmental organizations and companies. Former positions held by Mr. Fang include serving as the general manager of the Guangdong Provincial Branch of Xinhua, the editor of "OUTLOOK" (a weekly publication of Xinhua), a correspondent for the Shenzhen sub-branch of Xinhua, a director of the Domestic News for Foreign Service group of the Guangdong Provincial Branch of Xinhua, chief of the Zhuhai sub-branch of Xinhua, and editor-in-chief and director of Economic Information Services of the Guangdong Provincial Branch of Xinhua. Mr. Fang graduated from Sun Yat-Sen University in Guangzhou, People's Republic of China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Sin Just (aged 40)
Mr. Wong has been serving as an independent non-executive director of the Company since 25th November, 1999 and on the audit committee of the Board of the Company since February 2000. Mr. Wong is the executive and co-chairman of E2-Capital (Holdings) Limited, executive vice-chairman and chief executive officer of Softbank Investment International (Strategic) Limited, chairman of SBI E2-Capital Asia Holdings Limited and independent non-executive director of Capital Strategic Investment Limited, alternate director to Ong Tiang Lock of Intelligent Edge Technologies Berhad and non-executive of Westcomb Financial Group Limited. Mr. Wong possesses over 10 years of investment banking and venture capital experience and has held positions with a number of premier international investment banks. Mr. Wong holds a degree of Bachelor of Engineering from the Imperial College of Science, Technology and Medicine in London and is an associate of the Institute of Chartered Accountants, England and Wales.

Wang Cheung Yue, Fred (aged 62)
Mr. Wang has been serving as an independent non-executive director of the Company and on each of the audit and compensation (renamed as remuneration) committees of the Board of the Company since 11th February, 2002 and on the nominating committee of the Board of the Company since February 2005. Mr. Wang has also served as an independent director and on the audit and compensation committees of the Board of CDC Corporation, the ultimate holding company of the Company since October 2005. The Wang family founded Salon Films (Hong Kong) Limited in 1969. Mr. Wang has been a director of Salon since 1970 and he has worked with various major Hollywood film and television companies in setting up projects in Asia. Since 1985, Mr. Wang has been involved with various investment groups including Unifund S.A., a Geneva based investment service company. Mr. Wang's current projects include a multimedia satellite investment business covering the Pacific

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Asia region as well as high definition technology of film and TV development in Asia. Mr. Wang is the Hon. Vice President of the China Film Foundation, a member of the Hong Kong Trade Development Council Entertainment Industry Advisory Committee, a member of Board of Governors of the Federation of Hong Kong Business Associations Worldwide and Director of the Board of the Hong Kong International Film Festival Society Limited. Fred Wang graduated with Bachelor of Arts Degree in Business and Economics from Whittier College, California.

Chia Kok Onn (aged 52)

Mr. Chia has been serving as an independent non-executive director of the Company since 22nd July, 2003 and on each of the audit and compensation (renamed as remuneration) committees of the Board of the Company since February 2004 and on the nominating committee of the Board of the Company since February 2005. Mr. Chia has also served as an independent director and on the executive committee of Board of CDC Corporation, the ultimate holding company of the Company since September 2005. Currently he serves as the president of the Hong Kong Venture Capital & Private Equity Association. His 27-year of experience includes being a US-Asia venture capitalist with Walden International as managing director; member of the founding management team that built Premisys Communications, Inc., a venture-backed start-up technology company; and various management roles at Hewlett-Packard and Apple Computer. Mr. Chia holds a MBA degree from Strathclyde University, Scotland and a BEng (Hons) in Electronic Engineering from Sheffield University, England.

SENIOR MANAGEMENT

Leung Ming Shu (aged 31)

Mr. Leung was appointed as the chief financial officer of the Company on February, 2004. 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 CDC Corporation, the ultimate holding company of the Company and was actively involved in most of the recent software acquisitions made by CDC 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.

I am pleased to report the first annual results of the Company and its subsidiaries (collectively the "Group") under our new name, China.com Inc. For the year ended 31st December, 2005, the Group made notable progress in the core businesses.

Here are some financial and business highlights:

- Turnover was HK$387.3 million, an increase of 67% compared to 2004, or 35% on a normalized basis if comparing "net" to "net" mobile services and applications revenue presentation for 2004 and 2005 respectively
- Gross profit was HK$222.4 million, up 26% compared to 2004
- Profit attributable to equity holders was HK$9.7 million compared to HK$53.6 million in 2004
- Basic earnings per share from continuing operations (EPS) were 0.23 HK cents compared to 1.52 HK cents in 2004
- Balance sheet remained strong with net cash and interest-bearing securities at over HK$0.9 billion as of 31st December, 2005
- Increased shareholding in 17game to 48% and commercially launched Yulgang in July 2005. Yulgang was recognized as the second most popular massive multi-players online role playing game (MMORPG) in China in 2005
- Appointed as the exclusive online partners of the 10th National Games and several English Premier League football clubs
- Appointed Mr. Albert Lam as CEO and Executive Director of the Board

During 2005, our online game business, particularly Yulgang, posted impressive growth. Since its commercial launch in July 2005, Yulgang has demonstrated strong growth momentum. In Q4 2005, the game surpassed 260,000 peak concurrent users and 15 million registered users. Yulgang pioneered the "free-to-play and pay-for-virtual merchandise" business model for MMORPGs in China and set the ever increasing trend for the move to this business model by other leading online game companies in China. The game was recognized by a leading industry source as the second most popular MMORPG among over 50 new online games launched in China in 2005.

We envisage that our online game business will continue to grow and become one of our key profitable operations. In order to increase the revenue contribution of Yulgang to the Group, we announced to increase our shareholding in 17game to 100% on 23rd March, 2006. More resources will be allocated to update the content of existing games and expand our game portfolio.

On the mobile services and applications front, the total revenue in 2005 amounted to HK$268.2 million, an increase of 60% over the previous year or 15% on a normalized basis. Such increase was partially due to the change in presentation of mobile services and applications revenue from a "net basis" in 2004 to a "gross basis" in 2005 which resulted in an increase in mobile services and applications revenue of HK$74,238,000. Excluding the effect of the change in presentation, net mobile services and applications revenue in 2005 amounted to HK$193,999,000, an increase of 15% over 2004. In an increasingly competitive environment, we strived to deliver more advanced mobile value-added services including multimedia messaging services (MMS), wireless application protocol (WAP) and interactive voice response (IVR) to expand the service offerings. In preparation of the arrival of 3G in China, we will further solidify our competitive position in the market and work closely with the handset manufacturers and mobile operators.

CHAIRMAN'S STATEMENT

For our portal business, China.com was appointed as the exclusive online partner of the 10th National Games and several English Premier League football clubs in 2005. The China.com portal continued to play a strategic role in strengthening our brand awareness in the industry. Apart from generating direct advertising revenues, the portal was a strategic platform in driving the promotions of other business units within the Group, including mobile services and applications and online games. To date, the daily portal user of China.com has reached 6.3 million. Significant investments will be made in content development and strategic partnership programs in 2006.

Towards the end of last year, Mr. Albert Lam was appointed as CEO of China.com and Executive Director of the Board. Over the past few months, Albert has demonstrated strong capabilities in driving the growth of our businesses. I am confident he will continue to add significant value to the Group.

We are optimistic about the company's prospects going forward. With our strong market positions in the key business segments and the tremendous opportunities brought by China's healthy economic growth, we expect 2006 will be an exciting year for China.com.

Finally, I would like to take this opportunity to thank all the employees at China.com for their hard work and our shareholders for their continued support during 2005. I look forward to sharing our progress with you in the coming year.

Dr. Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong, 24th March, 2006

FINANCIAL REVIEW

Turnover and gross profit

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

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

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

Revenue from continuing operations for the year ended 31st December, 2005 was HK$387,315,000 representing a HK$155,904,000, or 67%, increase as compared with last year. The net increase was attributable to several factors, including the change in presentation of mobile services and applications revenue to a "gross basis", as well as an increase in online game revenue of HK$48,491,000 (due principally to the contribution of 17game which the Group commenced consolidating in December 2004) and an increase in advertising revenue from both portals and TTG of HK$7,193,000. The change in presentation of mobile services and applications revenue to a "gross basis" from a "net basis" resulted in an increase in mobile services and applications revenue of HK$74,238,000. Excluding the effect of the change in presentation, net mobile services and applications revenue in 2005 amounted to HK$193,999,000, increased by HK$25,982,000, or 15%, comparing with HK$168,017,000 in 2004 as a result of an increase in revenues from the Group's IVR, WAP and MMS platforms.

Gross profit margin was 57% (or 71% under the net presentation for mobile services and applications revenue) in 2005, compared to 76% when the net presentation was used for mobile services and applications revenue in 2004. Apart from the general tightening of market regulations in the mobile services and applications section starting from the 2nd half of 2004 which resulted in some negative impacts to the overall gross profit margin, the decrease in gross profit margin was mainly due to (1) the lower margin of online game business (61% in 2005); (2) the decline of the Group's SMS business which typically generates higher profit margins than the Group's other mobile services and applications businesses and (3) the change in presentation to a "gross basis" which results in a higher revenue base to calculate gross profit margin, thereby decreasing gross profit margin.

MANAGEMENT DISCUSSION & ANALYSIS

Other income

Other income decreased by 17% to HK$27,313,000 for the year ended 31st December, 2005, compared with HK$32,863,000 in 2004. The decrease was primarily due to a HK$7,498,000 decrease in interest income from available-for-sale investments as a result of decreasing balances of available-for-sale investments after payments in connection with various acquisitions and repayments of bank loans. The decrease was offset by a HK$3,104,000 increase in bank interest income during the year.

Selling and distribution costs

Selling and distribution costs increased by 571% to HK$82,531,000 in 2005 compared with HK$12,298,000 in 2004. The increase was attributable to several factors, including HK$15,703,000 marketing and promotion expenses in connection with operating the new online game business. Besides, there were also additional expenses incurred in connection with new 2.5G products and applications (including WAP, IVR and MMS) and an increase in marketing expenses at the www.china.com portal as a result of new sponsorships.

Administrative expenses

General and administrative expenses increased by 29% to HK$132,094,000 in 2005 versus HK$102,603,000 in 2004. The increase was primarily due to expenses in connection with operating the Group's online game businesses amounting HK$16,242,000 and operating on additional mobile services and applications platforms (including WAP, IVR and MMS) as none of which business or platform was in large-scale operation during 2004. In addition, an increase in personnel expense as a result of an increase in headcount contributed to increased administrative expenses. Administrative expenses include share option expenses in 2005 amounting to HK$8,508,000 (2004: HK$4,539,000) recognized in accordance with the newly adopted HKFRS 2.

Other expenses

Other expenses decreased by about HK$1,777,000 to HK$27,624,000 in 2005, compared to HK$29,401,000 for the corresponding period last year. The decrease was primarily due to a decrease in goodwill amortisation expense of HK$28,264,000 (starting in 2005, goodwill is no longer amortised, but is subject to regular reviews for impairment) and a decrease in bad debt expenses of HK$1,235,000. However, such decreases were offset by an increase of HK$26,246,000 in amortisation expense of certain intangible assets for the Group's certain new online games titles for 17game as well as Go2joy mobile services and applications business acquired in August 2004.

Share of profit of an associate

There was no share of profit of an associate in 2005, compared to HK$44,000 in 2004. The associate was disposed of prior to 2005.

Income tax

The Group recorded a tax expense of HK$7,662,000 in 2005, compared to a tax income of HK$95,000 in 2004. The net increase in tax expense was mainly attributable to the provision of income tax for the Group's mobile services and applications businesses in the PRC. In 2004, one of the Group's mobile services and applications operations in the PRC obtained a full exemption from paying corporate income tax. Starting from 2005 to 2007, this mobile services and applications operation is entitled to a 50% tax exemption.

Discontinued operation

There was no discontinued operation in the year ended 31st December, 2005. During Q4 2004, the Group discontinued its operation under the technology segment. Further details of the discontinued operation are set out in note 10 to this report.

Minority interests

Loss shared by minority interests increased to HK$13,138,000 in 2005 compared to HK$1,965,000 in 2004. The increase represented the share of loss in the Group's minority interest in 17game. The Group increased its shareholding in 17game to 48% during Q3 2005, and has consolidated the results of 17game in accordance with Interpretation 18 "Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests"/HKAS 27 "Consolidated and Separate Financial Statements" issued by the HKICPA due to the fact that the Group owns certain potential voting rights in the form of share call options in a company which controls 17game that are presently exercisable.

Profit for the period attributable to equity holders of the Company

Profit for the year attributable to equity holders of the Company was HK$9,737,000 in 2005, compared to HK$53,594,000 in 2004.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK$1,515,821,000 shareholders' funds as at 31st December, 2005. Shareholders' funds as at 31st December, 2004 were HK$1,492,075,000. Total assets amounted to HK$1,725,638,000 as at 31st December, 2005 as compared to HK$1,815,254,000 as at 31st December, 2004, of which HK$402,937,000 were bank balances and cash versus HK$390,104,000 as at 31st December, 2004 and HK$629,687,000 were available-for-sale investments versus HK$739,842,000 as at 31st December, 2004.

Capital structure

Except for an decrease in the Group's bank borrowings by HK$31,493,000 to HK$85,800,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2005 as compared with that as at 31st December, 2004.

As at 31st December, 2005, the Group's bank borrowing of HK$85,800,000 was repayable within one year. All the bank borrowings are denominated in United States Dollars.

Charges on the Group's assets

As at 31st December, 2005, an amount of HK$99,184,000, (2004: HK$137,461,000) of available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings of HK$85,800,000 (2004: HK$117,293,000). Neither time deposits nor bank balances (2004: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds decreased from 8% as at 31st December, 2004 to 6% as at 31st December, 2005. The change was due to the repayment of bank borrowings of HK$31,493,000 during the year.

The Group's net cash and available-for-sale investments was HK$946,824,000 (2004: HK$1,012,653,000), comprising of bank balances and cash of HK$402,937,000 (2004: HK$390,104,000), available-for-sale investments of HK$629,687,000 (2004: HK$739,842,000) and bank borrowings of HK$85,800,000 (2004: HK$117,293,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 31st December, 2005, no related hedges were made by the Group.

MANAGEMENT DISCUSSION & 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 April 2005, the shareholders of the Company approved a proposal to change the Company's name to "China.com Inc." and adopt the Chinese name "中華網科技公司". Concurrently with the change of the Company's name, in April 2005 shareholders of the Company's parent company approved a proposal to change its name from "chinadotcom corporation" to "CDC Corporation".

The new name China.com Inc. reflects the fact that the Group's business operations, revenues, customers and staff are all predominately based in China. The Group currently operates mobile services and applications, internet and media and online game businesses in China, whereas the Company's parent company has more diverse business lines (including a significant enterprise software business) and a more geographically diversified revenue and customer mix. In addition, the concurrent changes in name of the Company and its parent allows investors to more easily distinguish the Group from its parent, and helps clarify to investors that when they look to compare operations and results with other NASDAQ listed Chinese portal companies they should look to the operations and results of the Group, given its focus on the mobile services and applications, Internet and media and online game businesses in China, rather than to the more highly diversified operations and results of the parent company.

Mobile Value Added Services

For the year of 2005, our Group's mobile services and applications business experienced healthy recovery from the 2004 regulatory impact. After a challenging and stressful year for the mobile services and applications industry in 2004, the overall mobile services and applications business has started to turn positive after the mobile operators' implementation of the subscriber and billing platform. The new management platform is more customer-centric and has paved the way for a more service oriented business environment. The Group's mobile services and applications business has experienced steady improvement in 2005 with 60% increase in total revenue over year 2004 or 15% on a normalized basis, amounted to HK$268.2 million.

In 2005, the Group successfully transformed our mobile services and applications business from a SMS focused service provider to a more balanced one. During the year, revenue from our 2.5G products increased to 54% of the total mobile services and applications revenue from 16% in 2004. Meanwhile, the share of our SMS revenue has been diluted to 46% of the total mobile services and applications revenue, which previously reported 84% in 2004. All of our 2.5G services reported delightful increase in revenue during the year. In particular, revenues from IVR, MMS and WAP recorded some 5-fold, 7-fold and 3-fold year-to-year growth respectively.

In order to broaden our reach to potential subscribers, the Group has made tremendous efforts on the collaboration with handset vendors to embed its services and products into mobile phones. During the year, more products were contracted to embed in handsets from major vendors including Motorola, Sony Ericsson, Lenovo, TCL, Bird, BENQ, DBTel, KONKA and CECT.

As of the end of the year, we have connected to the nationwide SMS and IVR platforms of China Mobile, China Unicom, China Netcom and China Telecom, the nationwide WAP platforms of China Mobile and China Unicom, as well as the nationwide MMS platform of China Mobile. In addition, the Group has continued to expand its geographical reach at the provincial level. As of the end of the year, we have local connections with China Mobile, China Unicom, China Netcom and China Telecom in over 20 provinces. This resulted in better quality of services and a higher sign-up rate for subscribers and new services.

Online Games

Online game is an emerging sector which many people think has great potential in China. The Group entered this sector in 2004 by making a strategic investment in 17game under a convertible loan arrangement. During the year ended 31st December, 2005, the Group has acquired additional 11.5% shares of 17game. As of 12th August, 2005, the Group held 48% of 17game, with the option to acquire up to 100% on an earn-out basis, depending on operating performance.

17game commercializes online games in the China market. It has an extensive distribution network in China, including both online and offline channels, covering 30 provinces and over 100,000 web bars and collaborates with two of the largest data centre services operators in China, China Netcom and China Telecom, to establish its infrastructural network.

17game made an extremely successful launch of "Yulgang" MMORPG in July 2005. "Yulgang" was noted by 17173.com as the second most popular MMORPGs among over 50 new online games launched in China in 2005.

Unlike other commercial MMORPGs in the PRC market that generate fees based on the time players spent in the game world, we have been working with the Korean game developer to adopt a different revenue model for Yulgang in which we do not charge players for time spent playing the game, but rather charge players for virtual game merchandise and services, such as armor, uniforms and magical power, that players may choose to buy for the roles they are playing in the game world. This billing model has proven to be successful as demonstrated by the continuous increase in the number of paying players.

Yulgang opened its online store in mid-July this year, has proven to be one of the hottest new games in the market. The peak concurrent players of Yulgang exceeded 260,000 in Q4 2005, representing a quarter-on-quarter increase of 39%. Registered users totaled 14,966,000 in Q4 2005, up 63% from 9,170,000 in Q3 2005. Server groups throughout China supporting Yulgang and the company's other online games numbered 36, up 33% from 27 server groups in Q3 2005. Comparing with Q3 2005, the revenue of Yulgang made 109% increment in Q4 2005.

In addition to Yulgang, the other two online games, Droiyan and Travia, continued to contribute steady revenue during Q4 of 2005.

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

Portal

Portal invested significant resources in content building in 2005, therefore both content and PV achieved remarkable increase during 2005.

In 2005, China.com conducted a full revamp of its football channel. In addition, partnership with three English Premier League football clubs enriched sports contents and further enhanced China.com's brand equity.

As the exclusive Internet partner of the 10th National Games, China.com fully participated in news coverage and online interactive sessions of the biggest sports event in 2005 in China. It is the first successful case for close cooperation between portal and large and comprehensive sports event in Internet history of China. The official website for the 10th National Games established by China.com created a new operating mode for new media and large comprehensive event, and also enhanced the development of wireless operation.

China.com established partnership with Shanghai Shenhua SVA SMG Football Club in 1st quarter, and regularly sponsored fan gatherings before each match. Since Shenhua performed better and better in Chinese Football Super League, it earned increasing fame and reputation for China.com in East China.

MANAGEMENT DISCUSSION & ANALYSIS

After the launch of Chinese official website of Manchester United under joint cooperative efforts by China.com and Manchester United Football Club in June, it soon became a hit among football zealots and was recognized by the market. During MU's Asia Tour in July and August, China.com rendered full-range and timely coverage and conducted online live broadcasting of football stars' exclusive interviews. Furthermore, it provided a platform and enriched content resources for mobile value-added service.

China.com also conducted reconstruction of Auto Channel. In the Recommendation of Internet Brand Column (Channel) of China jointly held by Internet News Research Center of State Council Information Office and Internet News Information Service Commission of Internet Society of China, China.com's Auto Channel was awarded one of the "Top Brand Channel of Chinese Internet Website". China.com attended world-famous Shanghai Automobile Exhibition in May 2005, by which raised the brand fame of China.com among netizens and its position among automobile manufacturers.

In order to attract users with high educational background and high income, China.com launched Luxury & Life Channel and received wide attention by advertisers and high-end readers. The successful story of China.com's Auto Channel makes it easier for relevant channels such as News, Health and entertainment to take lead in the field.

Significant progress has been achieved in application of new technologies in 2005. All existing BBS were reconstructed in September, among which, Military BBS is the biggest and most influential in China. The new edition of Military BBS was warmly welcomed by readers as soon as it was launched and brought in further increase of PV. According to a marketing study by iResearch (Feb 2005), the Military Channel of www.china.com portal was recognized as the number one military related channels amongst all Chinese Internet Media, affirmed the portal's leading position in the market.

China.com launched BLOG system in August and conducted continuous improvement and upgrading thereafter. Reconstruction of web pages that can be subscribed by RSS reader is also completed. Exploring efforts committed to new technologies such as TAG and SNS will make it easier for China.com to satisfy customized content needs of readers in near future, and build solid foundation for it to become a leading portal in China.

In order to provide better service to our advertisers and raise the image of China.com among our clients, we have adopted the world-leading advertisement launching system: Double Click.

China.com participated in China Science and Technology Expo 2005 together with Sina, Sohu and another 10 websites, and attended industrial forum organized by Internet Society of China and many other significant events such as China Internet Conference, fortifying our position as one of famous portals in China. Rapid growth of China.com also drew wide attention of domestic media and institutions.

In 2005, China.com ranked 31st in the first "Top 50 of China High Tech and High Growth", and was awarded "Top 50 Enterprises with Creativity" by ranking first 10th.

Media and Travel

TTG's business in 2005 started on a shaky note due to the Tsunami tragedy that affected the region's travel industry. However, TTG was able to recover by the first quarter of 2005 and thereafter leveraged on its strong brand and presence in the region to out-perform year 2004. This good performance for 2005 was driven by the overall improvement of advertising sales revenues and the group's ability to continue to work with National Tourist Organisations and government bodies as their preferred media partner at major travel events in the following events:

1. ASEAN Tourism Forum in Malaysia
2. PATA Annual Conference in Macau
3. PATA Travel Mart in Malaysia
4. TIME in Indonesia
5. International Taipei Fair in Taiwan

In addition, the group was able to generate additional revenues through ad hoc projects and special supplements which helped to contribute to the group's overall performance in 2005. TTG successfully organized the following events during the year and they were:

i. Thailand Travel Mart/International Travel Show – 1st time that the two travel shows were co-located as a single event which took place at IMPACT Exhibition Centre, Bangkok in June.

ii. DM Asia – The partnership with Gift Association of Singapore during the month of September helped to attract twice the number of visitors to this event.

iii. Incentive Travel & Conventions, Meetings Asia/Corporate Travel World – The 2nd co-location of these 2 events in October yielded better revenues and attracted more delegates.

iv. International Feng Shui Convention – Successfully organized this ad hoc event in November, which attracted some 500 delegates.

MATERIAL ACQUISITIONS AND SIGNIFICANT INVESTMENT

During the year, the Group paid the entire balance amount of consideration for US$12,369,889 in respect of Beijing He He Technology Co. Ltd ("Go2joy"), a mobile value-added service provider in China, which the Group acquired from CDC Corporation, the Group's ultimate holding company in August 2004.

In Q3, 2005, the Group made a further investment of US$3.5 million in Beijing 17game Network Technology Co., Ltd. ("17game"). Prime Leader Holdings Limited ("Prime Leader"), a British Virgin Islands company and an indirect wholly-owned subsidiary within the Group, entered into a share subscription and purchase agreement with Equity Pacific Limited ("Equity Pacific"), a British Virgin Islands company and an offshore holding company of 17game, its shareholders and 17game, pursuant to which the Group, through Prime Leader, acquired from the management shareholders of Equity Pacific 2,098 ordinary shares at a consideration of US$1 million and subscribed for 5,248 new ordinary shares at a consideration of US$2.5 million. As of 31st December, 2005, the Group indirectly holds 22,679 ordinary shares of Equity Pacific, representing 48% of the total issued share capital of Equity Pacific.

On 17th March, 2006, Prime Leader entered into a share purchase agreement (the "Agreement") for the acquisition of 24,569 ordinary shares, representing 52% of the total issued and outstanding shares in Equity Pacific for an aggregated total consideration of US$18,000,000 and thereafter, become the legal and beneficial owner of 100% of Equity Pacific. Details of this transaction has been disclosed in accordance with the announcement requirements set out in Rule 19.58 to 19.60 of the GEM Listing Rules.

EMPLOYEE INFORMATION

As at 31st December, 2005, the Group has 686 (2004: 617) full-time employees of which 18 (2004: 15) are based in Hong Kong, 633 (2004: 563) in China and 35 (2004: 39) in Singapore. The Group has introduced share option schemes to recognize the contributions of the employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

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, 2005.

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 38 to the financial statements. The Company and its subsidiaries (the "Group") are principally engaged in the operation of a broad range of content value-added community services and e-commerce capabilities through online, offline and wireless media in principally the PRC and also Hong Kong and Singapore, comprising operations of mobile value added services, Internet portal, trade publication and events and online games businesses.

Except for the discontinuance of its operation under its technology segment as further detailed in note 10 to the consolidated 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, 2005, and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 30 to 90.

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

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 15 to the consolidated 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 24 and 29 to the consolidated financial statements, respectively.

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 THE COMPANY'S LISTED SECURITIES

The Company has not purchased any of its shares from the market since the announcement of the Board's approval of the share buyback in October 2005. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31st December, 2005.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31st December, 2005, the Company's reserves available for distribution amounted to HK$958,747,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for 29% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8%.

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.

DIRECTORS

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

Executive directors

Lam Wai-Qun, Albert *(Chief Executive Officer)*	(appointed as chief executive officer on 28th November, 2005 and as executive director on 12th December, 2005)
Wang Xiaohui	(resigned on 28th July, 2005)
Zhou Shun Ao	(resigned on 28th July, 2005)
Lam Kwok Tai, Anthony	(appointed on 28th July, 2005 and resigned on 29th August, 2005)
Keith Geoffrey Oliver	(resigned on 31st October, 2005)
Chan Kai Yu, Rudy	(resigned as chief executive officer and executive director on 28th November, 2005)

Non-executive directors

Ch'ien Kuo Fung, Raymond *(Chairman)*	(re-designated as non-executive director on 31st October, 2005)
Yip Hak Yung, Peter *(Vice-chairman)*	(re-designated as non-executive director on 7th February 2005)
Fang Xin	(appointed on 28th July 2005)

Independent non-executive directors

Wong Sin Just	
Wang Cheung Yue, Fred	
Chia Kok Onn	
Chou Kei Fong, Silas	(resigned on 3rd October, 2005)

In accordance with article 99 of the Company's restated articles of association, Mr. Lam Wai-Qun, Albert and Mr. Fang Xin 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 restated articles of association, Mr. Yip Hak Yung, Peter and Mr .Chia Kok Onn will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

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 12 and 13 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 Mr. Yip Hak Yung, Peter and Dr. Ch'ien Kuo Fung, Raymond 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. These service agreements had been terminated upon the re-designation of Mr. Yip Hak Yung, Peter and Dr. Ch'ien Kuo Fung, Raymond as non-executive directors as of 7th February 2005 and 31st October, 2005 respectively. Each of Mr. Yip Hak Yung, Peter and Dr. Ch'ien Kuo Fung, Raymond has not entered into any service agreement for his non executive directorship with the Company but is subject to an initial term of two years commencing from 7th February 2005 and 31st October, 2005 respectively which will continue thereafter in accordance with the rotational retirement and re-election provisions of the restated articles of association of the Company or by mutual agreement in writing.

Each of Mr. Zhou Shun Ao, Mr. Chan Kai Yu, Rudy, Mr. Keith Geoffrey Oliver, Mr. Wang Xiaohui and Mr. Lam Kwok Tai, Anthony have 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, 26th October, 2004 and 28th July, 2005 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 has entered into a service agreement with the Company for acting as a member of the audit committee and the compensation committee (renamed as remuneration committee) of the Board of the Company for an initial term of two years commencing from 10th February, 2004. Each of Mr. Wong Sin Just, Mr. Wang Cheung Yue, Fred, Chou Kei Fong, Silas, Mr. Fang Xin and Mr. Lam Wai-Qun, Albert 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 restated 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, 2005, the service agreements with Mr. Zhou Shun Ao, Mr. Chan Kai Yu, Rudy, Mr. Keith Geoffrey Oliver, Mr. Wang Xiao Hui and Mr. Lam Kwok Tai, Anthony had been terminated.

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, 2005, 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 as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

The Company

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

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	6,274,000	18,000,000	Personal/ beneficiary	0.58%
Chan Kai Yu, Rudy[#] *(resigned on 28th November, 2005)*	3,416,000	78,000,000	Personal/ beneficiary	1.95%
Chia Kok Onn	–	2,500,000	Personal/ beneficiary	0.06%
Chou Kei Fong, Silas[#] *(resigned on 3rd October, 2005)*	–	3,600,000 *Note (1)*	Personal/ beneficiary	0.09%
Fang Xin *(appointed on 28th July, 2005)*	–	1,000,000	Personal/ beneficiary	0.02%
Lam Kwok Tai, Anthony[#] *(appointed on 28th July, 2005 & resigned on 29th August, 2005)*	20,000	1,680,000	Personal/ beneficiary	0.04%
Lam Wai-Qun, Albert *(appointed on 12th December, 2005)*	1,500,000	37,000,000	Personal/ beneficiary	0.92%
Wang Cheung Yue, Fred	–	6,000,000	Personal/ beneficiary	0.14%
Wong Sin Just	–	5,100,000	Personal/ beneficiary	0.12%

REPORT OF THE DIRECTORS

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Yip Hak Yung, Peter	10,054,000	–	Corporate *Note (2)*	0.24%
Yip Hak Yung, Peter	2,400,000	14,000,000	Personal/ beneficiary	0.39%
Zhou Shun Ao# *(resigned on 28th July, 2005)*	1,800,000	6,000,000	Personal/ beneficiary	0.14%

Note:

(1) The Company was notified in November 2005 by Mr. Chou of his non-acceptance of the 1 million share options granted to him in September 2005. Such options lapsed in Jan 2006.

(2) 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.

Information was up to the date of resignation of the director.

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 29 to the financial statements.

Associated Corporation

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

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	911,773	879,167	Personal/ beneficiary	1.61%
Chan Kai Yu, Rudy# *(resigned on 28th November, 2005)*	–	149,765	Personal/ beneficiary	0.13%
Chia Kok Onn	–	185,000	Personal/ beneficiary	0.17%
Fang Xin *(appointed on 28th July, 2005)*	–	70,000	Personal/ beneficiary	0.06%
Lam Kwok Tai, Anthony# *(appointed on 28th July, 2005 & resigned on 29th August, 2005)*	1,000	144,000	Personal/ beneficiary	0.13%
Lam Wai-Qun, Albert *(appointed on 12th December, 2005)*	–	450,000	Personal/ beneficiary	0.40%
Keith Geoffrey Oliver# *(resigned on 31st October, 2005)*	–	250,000	Personal/ beneficiary	0.23%

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ holding capacity	Appropriate percentage of interests (%)
Wang Cheung Yue, Fred	–	90,000	Personal/ beneficiary	0.08%
Yip Hak Yung, Peter	16,292,032	3,126,442	Interest of children or spouse *Note (1)*	17.52%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.08%
Zhou Shun Ao# *(resigned on 28th July, 2005)*	–	99,000	Personal/ beneficiary	0.09%

Note:

(1) 11,927,653 Class A common shares and 3,126,442 share options are 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. 4,364,379 Class A common shares are held by the spouse of Mr. Yip.

Information was up to the date of resignation of the director.

Options to subscribe for Class A common shares in CDC Corporation

Name of director	Date of grant	Exercise price US$	Option exercise period	Number of share options: Balance as at 1st January, 2005	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31st December, 2005
Ch'ien Kuo Fung, Raymond *Note (1)*	22/06/1999	3.3750	22/06/2000–21/06/2009	66,667	–	–	–	66,667
	17/10/2000	6.8125	17/01/2001–16/10/2010	100,000	–	–	–	100,000
	09/01/2001	4.2813	09/01/2001–08/01/2011	30,000	–	–	–	30,000
	27/04/2001	2.7400	27/07/2001–26/04/2011	220,000	–	–	–	220,000
	13/07/2001	2.9700	13/10/2001–12/07/2011	400,000	–	–	–	400,000
	11/05/2004	7.7700	27/07/2004–10/05/2014	300,000	–	–	–	–
	27/04/2005	2.6860	27/07/2005–26/04/2015	–	250,000	–	–	62,500
Chan Kai Yu, Rudy# *(resigned on 28th November, 2005) Note (2)*	15/11/1999	14.5000	25/11/2000–14/11/2009	38,000	–	–	–	38,000
	15/04/2000	14.2375	25/02/2001–14/04/2005	4,500	–	–	4,500	–
	29/07/2000	15.7500	25/02/2001–28/07/2010	4,500	–	–	–	4,500
	17/10/2000	6.8125	25/11/2000–14/11/2009	8,265	–	–	–	8,265
	11/07/2001	2.3810	11/10/2001–10/07/2011	20,000	–	–	–	20,000
	02/01/2004	8.0700	28/01/2005–01/01/2014	39,500	–	–	–	39,500
	02/01/2004	8.0700	01/01/2006–01/01/2014	39,500	–	–	–	39,500
Chia Kok Onn	01/09/2005	2.9760	01/09/2005–31/08/2015	–	50,000	–	–	50,000
	01/09/2005	2.9760	01/09/2006–31/08/2015	–	35,000	–	–	35,000
	15/09/2005	2.9940	15/09/2005–14/09/2015	–	50,000	–	–	50,000
	15/09/2005	2.9940	15/12/2005–14/09/2015	–	50,000	–	–	50,000

REPORT OF THE DIRECTORS

Name of director	Date of grant	Exercise price US$	Option exercise period	Number of share options				
				Balance as at 1st January, 2005	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31st December, 2005
Fang Xin	16/11/2005	3.3000	16/11/2006-15/11/2015	–	70,000	–	–	70,000
(appointed on 28th July, 2005)								
Lam Kwok Tai, Anthony#	16/09/1999	11.4219	16/09/2000–15/09/2009	31,000	–	–	–	31,000
(appointed on 28th July,	29/07/2000	15.7500	16/03/2001–28/07/2010	6,000	–	–	–	6,000
2005 & resigned on	11/10/2002	1.9500	11/01/2003–10/10/2012	2,500	–	–	–	2,500
29th August, 2005)	18/01/2003	2.7700	18/01/2003–17/01/2013	12,500	–	–	–	12,500
	16/06/2003	5.1600	16/09/2003–15/06/2013	15,000	–	–	–	15,000
	16/06/2003	5.1600	02/12/2003–15/06/2013	5,000	–	–	–	5,000
	11/12/2003	7.4300	01/07/2004–10/12/2013	22,000	–	–	–	22,000
	03/05/2004	6.7300	03/05/2005–02/05/2014	50,000	–	–	–	50,000
Lam Wai-Qun, Albert	25/08/2004	4.2100	25/08/2005–24/08/2014	150,000	–	–	–	150,000
(appointed on 12th December, 2005)	15/09/2005	2.9940	15/12/2005–14/09/2015	300,000	–	–	–	300,000
Keith Geoffrey Oliver#	28/01/2004	11.7500	28/01/2005–27/01/2014	38,000	–	–	–	38,000
(resigned on 31st October, 2005)	19/08/2004	4.3300	19/02/2005–18/08/2014	212,000	–	–	–	212,000
Wang Cheung Yue, Fred	24/10/2005	3.2100	24/10/2006–23/10/2015	–	90,000	–	–	90,000
Yip Hak Yung,	22/06/1999	3.3750	22/06/2000–21/06/2009	60,000	–	–	–	60,000
Peter	12/07/1999	5.0000	12/07/2000–11/07/2009	1,881,442*	–	–	–	1,881,442*
	09/01/2001	4.2813	09/01/2001–08/01/2011	30,000	–	–	–	30,000
	06/06/2002	2.8200	06/06/2002–05/06/2012	200,000*	–	–	–	200,000*
	03/06/2003	4.9500	30/06/2003–02/06/2013	200,000*	–	–	–	200,000*
	16/06/2003	5.1600	16/09/2003–15/06/2013	100,000*	–	–	–	100,000*
	25/03/2004	8.2500	31/12/2004–24/03/2014	600,000*	–	–	–	600,000*
	15/09/2005	2.9940	15/09/2005–14/09/2015	–	50,000*	–	–	50,000*
	15/09/2005	2.9940	15/12/2005–14/09/2015	–	50,000*	–	–	50,000*
	24/10/2005	3.2100	24/10/2006–23/10/2015	–	45,000*	–	–	45,000*
Zhou Shun Ao#								
(resigned on 28th July,	15/04/2000	14.2375	15/01/2001–14/04/2005	9,000	–	–	9,000	–
2005) Note (2)	29/07/2000	15.7500	29/01/2001–28/07/2010	9,000	–	–	–	9,000
	20/10/2000	8.1250	20/01/2001–19/10/2010	60,000	–	–	–	60,000
	09/01/2001	4.2813	09/01/2001–08/01/2011	30,000	–	–	–	30,000

* These share options were granted to APOL.

Notes:

(1) Out of 250,000 share options granted to Dr. Ch'ien Kuo Fung, Raymond on 27th April, 2005 at an exercise price of US$2.6860, 187,500 of such options were cancelled on 31st October, 2005. 300,000 share options granted to Dr. Ch'ien on 11th May, 2004 at an exercise price of US$7.7700 were cancelled on 31st December, 2005.

(2) 4,500 and 9,000 share options granted to each of Mr. Chan Kai Yu, Rudy and Mr. Zhun Shun Ao respectively both on 15th April, 2000 at an exercise price of US$14.2375 lapsed upon the last day of the exercise period.

Information was up to the date of resignation of the director.

Save as disclosed above and the Company's share option scheme disclosures in note 29 to the consolidated financial statements, as at 31st December, 2005, 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, 2005, 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	Direct beneficial owner	81.11%

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

Saved as disclosed above and in note 29 to the consolidated financial statements, as at 31st December, 2005, 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.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 29 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:

	Number of options granted during the year	Theoretical value of share options *HK$*
2002 Scheme:		
Other employees – in aggregate	86,666,667	29,948,000

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 3.527% – 4.242% 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 67.78% – 73.29% is used in the Black-Scholes model. It is assumed that based on historical pattern, no dividend would be paid out during the vesting period. The measurement dates used in the theoretical valuation calculations were the dates on which the options were granted.

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

REPORT OF THE DIRECTORS

COMPETING INTERESTS

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

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the consolidated income statement for the year are set out in notes 35 and 11 to the consolidated financial statements, respectively.

CODE OF CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005, and replaced the "Board Practices and Procedures" as set out in Rule 5.34 to 5.45 of the GEM Listing Rules. The Company has applied the principles and complied with the code provisions set out in the Code contained in Appendix 15 of the GEM Listing Rules for the year ended 31st December, 2005.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has four members until 2nd October, 2005 comprising all independent non-executive directors, Messrs. Wong Sin Just (Committee Chairman), Chou Kei Fong, Silas (resigned on 3rd October, 2005), 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 six times to review the Company's financial reporting process. The Company's annual results for the year ended 31st December, 2005 have been reviewed by the audit committee of the Company.

AUDITORS

During the year, Ernst & Young ("E&Y"), who acted as auditors of the Company for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu ("DTT") were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint DTT as auditors of the Company.

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

Hong Kong, 24th March, 2006

China.com Inc. (the "Company") and its subsidiaries (the "Group") has applied the principles of and complied with the code provisions of the newly promulgated Code on Corporate Governance Practices (the "Code"). This report summaries the Group's corporate governance practices and explains deviations, if any, from the Code.

Board of Directors

The board of directors (the "Board") is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") require every listed issuer to have at least three independent non-executive directors, at least one of whom must have the appropriate professional qualifications, or accounting or related financial management expertise. As at 31st December, 2005, the Board of the Company comprises a total of seven directors, with one executive director, three non-executive directors and three independent non-executive directors and one of them has the appropriate professional qualifications, or accounting or related financial management expertise.

At each annual general meeting of the Company, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. A retiring director shall retain office until the close of the meeting at which he retires, and shall be eligible for re-election thereat. All non-executive directors are subject to an initial term of 2 years and rotational retirement and re-election in accordance with the restated articles of association of the Company.

The Board has adopted a set of guidelines on matters that requires its approval to achieve a clear division of the responsibilities of the Board and the management. Matters requiring the Board's approval include, among others, review of overall policies and objectives for corporate contributions and approval of contributions budget (annually), corporate plan of the Company and any significant changes thereto, investment plans which would involve significant commitments of financial, technological or human resources, or would involve significant risks for the Company, significant sales, transfers, or other dispositions of property or assets, significant changes in policies of broad application, major organization changes, approval of the annual report, and review of semi-annual and quarterly financial and operating results, other matters relating to the Company's business which in the judgment of the chief executive officer are of such significance as to merit the Board's consideration, and adoption of such policies and the taking of such other actions as the Board deems to be in the best interests of the Company.

The positions of the chairman of the Board and the chief executive officer are held by separate individuals with a view to maintain an effective segregation of duties with respect to the management of the Board and the day-to-day management of the Group's business.

The chairman shall ensure that the Board works effectively and discharges its responsibilities, ensure that good corporate governance practices and procedures are established, encourage all directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interests of the Company and that all key and appropriate issues are discussed by the Board in a timely manner, all directors have been consulted about any matters proposed for inclusion in the agenda. The chairman has delegated the responsibility of drawing up the agenda for each Board meeting to the company secretary. The chairman shall hold meetings, no less than once per year, with the non-executive directors (including independent non-executive directors) without the presence of the executive directors. The chief executive officer is responsible for strategic planning and implementation, sourcing and meeting with potential business partners and looking for business opportunities for the Group, client development, recruiting, staff development, collaboration across the affiliated company network and looking for opportunities to cross-fertilize best practices and reporting to the Board regarding the Group's overall progress.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

CORPORATE GOVERNANCE REPORT

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Board had met 8 times during the financial year ended 31st December, 2005 to consider, among other things, reviewing and approving the quarterly, interim and annual results of the Group. The directors can attend meetings in person or via telephone conference which are permitted under the restated articles of association of the Company. A meeting between the chairman and the independent non-executive directors was held in the first quarter in 2005.

Executive Directors	**Attendance**
Lam Wai-Qun, Albert *(appointed as chief executive officer on 28th November, 2005 and as executive director on 12th December, 2005)*	100%
Wang Xiaohui *(resigned on 28th July, 2005)*	100%
Zhou Shun Ao *(resigned on 28th July, 2005)*	0%
Lam Kwok Tai, Anthony *(appointed on 28th July, 2005 and resigned on 29th August, 2005)*	100%
Keith Geoffrey Oliver (resigned on 31st October, 2005)	60%
Chan Kai Yu, Rudy *(resigned as chief executive officer and executive director on 28th November, 2005)*	100%
Non-executive Directors	
Ch'ien Kuo Fung, Raymond *(re-designated from an executive director to non-executive director effective from 31st October, 2005)*	75%
Yip Hak Yung, Peter *(re-designated from an executive director to non-executive director effective from 7th February 2005)*	37.5%
Fang Xin *(appointed on 28th July 2005)*	100%
Independent Non-executive Directors	
Wong Sin Just	87.5%
Wang Cheung Yue, Fred	87.5%
Chia Kok Onn	87.5%
Chou Kei Fong, Silas *(resigned on 3rd October, 2005)*	60%

The company secretary attends the Board/Board committees meetings. All directors have access to the company secretary who is responsible for ensuring that Board/Board committees procedures are observed and advising the Board/Board committees on compliance matters.

All directors were given the opportunities to include matters to be discussed in the agenda of Board/Board committees meetings. The company secretary is delegated with the responsibility to prepare these agendas and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda. The company secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all board meetings.

Appropriate insurance cover on directors and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' securities transactions

The Company has not adopted a code of conduct regarding securities transactions by directors but has applied the principles of the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("Required Standard of Dealings"). Having made specific enquiry of the directors of the Company, the directors have confirmed that they complied with or they were not aware of any non-compliance with the Required Standard of Dealings for the year ended 31st December, 2005.

Board Committees

To maximize the effectiveness of the Board, the Board has established the audit committee, nominating committee and remuneration committee with specific terms of reference to assist in the execution of their duties.

Audit Committee

The Audit Committee was established on 25 February 2000 with written terms of reference as amended and restated. The Audit Committee has four independent non-executive directors until 2nd October, 2005, comprising Messrs. Wong Sin Just (Committee Chairman), Wang Cheung Yue, Fred, Chia Kok Onn and Mr. Chou Kei Fong, Silas who resigned on 3rd October, 2005. The terms of reference of the Audit Committee are available on the Company's website. 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. Six meetings of the Audit Committee have been held during the year with the following attendances:

Committee members	**Attendance**
Wong Sin Just	100%
Wang Cheung Yue, Fred	100%
Chia Kok Onn	100%
Chou Kei Fong, Silas *(resigned on 3rd October, 2005)*	25%

Nominating Committee

The Nominating Committee was established on February 28, 2005 with written terms of reference. The Nominating Committee has four independent non-executive directors until 2nd October, 2005, comprising Messrs. Chia Kok Onn (Committee Chairman), Wang Cheung Yue, Fred, Wong Sin Just and Chou Kei Fong, Silas who resigned on 3rd October, 2005. The terms of reference of the Nominating Committee are available on the Company's website. The primary duties of the Nominating Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis and make recommendations to the board regarding any proposed changes; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of, individuals nominated for directorships; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer. Two meetings of the Nominating Committee have been held during the year. The first one was attended by all the members of the Nominating Committee of the Company. The second one was attended by Mr. Wang, Mr. Chia and Dr. Ch'ien (by invitation).

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Compensation Committee (now renamed as Remuneration Committee) was established on 25 February 2000 with written terms of reference as amended and restated. The Remuneration Committee has one non-executive director, Dr. Ch'ien Kuo Fung, Raymond (Committee Chairman) and four independent non-executive directors until 2nd October, 2005, namely, Messrs. Wong Sin Just, Wang Cheung Yue, Fred, Chia Kok Onn and Mr. Chou Kei Fong, Silas who resigned on 3rd October, 2005. The terms of reference of the Remuneration Committee are available on the Company's website. The primary duties of the Remuneration Committee are to make recommendations to the board and to conduct annual review if necessary on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. Two meetings of the Remuneration Committee have been held during the year. The first one was attended by all the members of the Remuneration Committee of the Company. The second one was attended by Dr. Ch'ien, Mr. Wang and Mr. Chia.

Accountability and Audit

The Board acknowledges its responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. In preparing the accounts for the year ended 31st December, 2005, the directors have selected suitable accounting policies and applied them consistently and made judgments and estimates that are prudent and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors

Auditors' Remuneration

For the year ended 31st December, 2005, approximately HK$825,000 is payable to Ernst & Young ("E&Y"), auditors of the Company for audit service and approximately HK$47,000 is payable for tax services. For the year ended 31st December, 2005, approximately HK$3,627,000 is payable to DTT for audit service.

Internal Controls

The Board has overall responsibilities for maintaining a proper and effective systems of internal control of the Group. The Group's internal control system includes a defined management structure with specified limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Budgetary Control and Financial Reporting

Budgets are prepared and are subject to the approval of the Board prior to being adopted. There are procedures for review and approval of major capital and expenses. Proper controls are in place for recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

Investor Relations and Communication with Shareholders

The Company establishes different communication channels with shareholders and investors. Apart from publication of quarterly, interim and annual reports, press announcement and release, updated and key information of the Group are available on the Company's website. The Company's website offers communication channel between the Company and its shareholders and investors. Regular media and analysts briefings are held to update the information of the Group after the quarterly, interim and annual results are released. The Company's registrars serve the shareholders in respect of all share registration matters.

Deloitte.
德勤

TO THE MEMBERS OF CHINA.COM INC.
(FORMERLY KNOWN AS HONGKONG.COM CORPORATION)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China.com Inc. (the "Company") and its subsidiaries (the "Group") from pages 30 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our audit opinion, we draw your attention to Note 3 to the consolidated financial statements, which explain the factors based on which the Group's revenue from the provision of mobile services and applications for the year ended 31st December, 2005 has been presented on a gross basis. As explained in that note, the management and directors believe that the change in factors which resulted in the change in presentation of revenues form such services from a net basis to a gross basis for the year ended 31st December, 2005 did not occur in a manner which required a similar change in presentation for 2004 and consequently comparative amounts for revenue and cost of sales are presented as previously reported for the year ended 31st December, 2004.

In the absence of a detailed analysis of the change in relevant factors and circumstances for revenue presentation for the year ended 31st December, 2004, we have not determined if the factors which resulted in the current presentation of revenue on a gross basis affect the presentation of revenue and cost of sales from these services for the year ended 31st December, 2004, as disclosed in these consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24th March, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

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

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

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

The financial statements on pages 30 to 90 were approved and authorised for issue by the board of directors on 24th March, 2006 and are signed on its behalf by:

Lam Wai-Qun, Albert
DIRECTOR

Ch'ien Kuo Fung, Raymond
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Goodwill reserve HK$'000	Investment revaluation reserve HK$'000	Reserve funds HK$'000 (note)	Translation reserve HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2004 as originally stated	413,523	914,138	(31,193)	(3,347)	8,415	(243)	–	134,361	1,435,654	5,525	1,441,179
Effects of changes in accounting policies (see note 2)	–	–	–	–	–	–	4,590	(4,590)	–	–	–
At 1st January, 2004 as restated	413,523	914,138	(31,193)	(3,347)	8,415	(243)	4,590	129,771	1,435,654	5,525	1,441,179
Deficit on revaluation of investments in securities	–	–	–	(2,489)	–	–	–	–	(2,489)	–	(2,489)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	477	–	–	477	(30)	447
Net (expense) income recognised directly in equity	–	–	–	(2,489)	–	477	–	–	(2,012)	(30)	(2,042)
Profit (loss) for the year – as restated	–	–	–	–	–	–	–	53,594	53,594	(1,965)	51,629
Investment revaluation reserve released on disposal of investment in securities	–	–	–	(2,666)	–	–	–	–	(2,666)	–	(2,666)
Total recognised income and expense for the year	–	–	–	(5,155)	–	477	–	53,594	48,916	(1,995)	46,921
Recognition of equity-settled share based payments	–	–	–	–	–	–	4,539	–	4,539	–	4,539
Transfer	–	–	–	–	1,418	–	–	(1,418)	–	–	–
Transfer to share premium upon exercises of share options	–	161	–	–	–	–	(161)	–	–	–	–
Shares issued	896	2,094	–	–	–	–	–	–	2,990	–	2,990
Transaction costs attributable to issue of new shares	–	(24)	–	–	–	–	–	–	(24)	–	(24)
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	32,378	32,378
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(5,238)	(5,238)
At 31st December, 2004 and 1st January, 2005 as restated	414,419	916,369	(31,193)	(8,502)	9,833	234	8,968	181,947	1,492,075	30,670	1,522,745
Deficit on revaluation of available-for-sale investments	–	–	–	(8,861)	–	–	–	–	(8,861)	–	(8,861)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	5,197	–	–	5,197	(61)	5,136
Net (expense) income recognised directly in equity	–	–	–	(8,861)	–	5,197	–	–	(3,664)	(61)	(3,725)
Profit (loss) for the year	–	–	–	–	–	–	–	9,737	9,737	(13,138)	(3,401)
Investment revaluation reserve released on disposal of available-for-sale investments	–	–	–	266	–	–	–	–	266	–	266
Total recognised income and expense for the year	–	–	–	(8,595)	–	5,197	–	9,737	6,339	(13,199)	(6,860)
Transfer	–	–	–	–	8,650	–	–	(8,650)	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	–	8,508	–	8,508	–	8,508
Transfer to share premium upon exercises of share options	–	1,792	–	–	–	–	(1,792)	–	–	–	–
Shares issued	2,658	6,257	–	–	–	–	–	–	8,915	–	8,915
Transaction costs attributable to issue of new shares	–	(16)	–	–	–	–	–	–	(16)	–	(16)
Acquisition of additional equity interest in subsidiaries	–	–	–	–	–	–	–	–	–	14,778	14,778
At 31st December, 2005	417,077	924,402	(31,193)	(17,097)	18,483	5,431	15,684	183,034	1,515,821	32,249	1,548,070

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

CONSOLIDATED CASH FLOW STATEMENT

For the year Ended 31st December, 2005

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

CONSOLIDATED CASH FLOW STATEMENT

For the year Ended 31st December, 2005

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

1. GENERAL

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

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

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

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

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

Business combinations

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

Goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

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

Goodwill (Continued)

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

Share-based payments

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

Financial instruments

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

Available-for-sale investments

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

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

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

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

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

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

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

3. CHANGES IN PRESENTATION

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions on or after 1st January, 2005 (Continued)

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

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

Investments in associates

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

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

Jointly controlled entities

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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

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

Plant and equipment

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

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

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

Leasing

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

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

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

Retirement benefit costs

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

Taxation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

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

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

FINANCIAL INSTRUMENTS

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

Financial assets

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

Loans and receivables

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

Available-for-sale investments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derecognition

Financial assets

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

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

Financial liabilities

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

Borrowing costs

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

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

Share options granted to employees of the Group

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses (other than goodwill)

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Revenue recognition – mobile services and applications

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

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

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

Impairment of goodwill

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

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

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

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

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

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

Price risk

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

7. REVENUE

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

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

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below.

Year ended 31st December, 2005

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

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

As at 31st December, 2005

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

For the year ended 31st December, 2005

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Year ended 31st December, 2004

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

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

As at 31st December, 2004

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Year ended 31st December, 2004

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

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

Geographical segments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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

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

9. INCOME TAXES CHARGE (CREDIT)

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

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

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

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

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

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

9. INCOME TAXES CHARGE (CREDIT) (Continued)

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

Year ended 31st December, 2005

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

Year ended 31st December, 2004

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

10. DISCONTINUED OPERATION

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

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

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

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

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

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

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

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

11. (LOSS) PROFIT FOR THE YEAR

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

12. DIRECTORS' EMOLUMENTS

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

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

Notes:

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

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

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

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

12. DIRECTORS' EMOLUMENTS (Continued)

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

Notes:

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

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

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

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

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

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For the year ended 31st December, 2005

13. EMPLOYEES' EMOLUMENTS

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

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

Their emoluments were within the following bands:

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

14. EARNINGS PER SHARE

For continuing and discontinued operations

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

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

14. EARNINGS PER SHARE (Continued)

Number of shares

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

From continuing operations

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

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

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

From discontinued operation

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

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

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

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15. PLANT AND EQUIPMENT

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

15. PLANT AND EQUIPMENT (Continued)

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

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

16. GOODWILL

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

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For the year ended 31st December, 2005

16. GOODWILL (Continued)

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

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

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

17. OTHER INTANGIBLE ASSETS

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

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

17. OTHER INTANGIBLE ASSETS (Continued)

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

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

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

18. IMPAIRMENT TESTING ON GOODWILL

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

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

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

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

Mobile services and applications

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

18. IMPAIRMENT TESTING ON GOODWILL (Continued)

Internet and media

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

Online games

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

19. INVESTMENTS IN SECURITIES

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

	Investment in securities HK$'000
Overseas unlisted debt securities, at fair value	61,776
Overseas publicly traded debt securities, at fair value	678,066
	739,842

Carrying amount analysed for reporting purposes as:

Current	678,066
Non-current	61,776
	739,842

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

20. ACCOUNTS RECEIVABLE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

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

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

21. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

22. BALANCES WITH FELLOW SUBSIDIARIES AND ULTIMATE HOLDING COMPANY

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

23. BANK BALANCES AND CASH

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

24. SHARE CAPITAL

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

25. DEFERRED TAXATION

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

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

25. DEFERRED TAXATION (Continued)

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

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

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

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

26. ACCOUNTS PAYABLE/OTHER PAYABLES AND ACCRUED LIABILITIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

27. ACQUISITION CONSIDERATION PAYABLE

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

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

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

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

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

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

28. BANK BORROWINGS

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

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

29. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

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

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

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

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(i) Pre-IPO Scheme

Year ended 31st December, 2005

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

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For the year ended 31st December, 2005

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(i) Pre-IPO Scheme (Continued)

Year ended 31st December, 2004

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

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(ii) Post-IPO Scheme

Year ended 31 December, 2005

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

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29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)
(ii) Post-IPO Scheme (Continued)

Year ended 31 December, 2004

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

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(iii) 2002 Scheme

Year ended 31 December, 2005

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31st December, 2005

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)
(iii) 2002 Scheme (Continued)

Year ended 31 December, 2004

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

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Notes:

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

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

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

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

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

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

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

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

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

Details of specific categorised options are as follows:

Pre-IPO Scheme

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

Post-IPO Scheme

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

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For the year ended 31st December, 2005

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

2002 Scheme

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

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

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

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

29. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

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

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

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

Equity-settled share option scheme of CDC Corporation

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

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For the year ended 31st December, 2005

30. ACQUISITION OF SUBSIDIARIES

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

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

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

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

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

30. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

30. ACQUISITION OF SUBSIDIARIES (Continued)

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

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

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

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

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

31. DISPOSAL OF SUBSIDIARIES

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

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

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

32. CONTINGENT LIABILITIES

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

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For the year ended 31st December, 2005

33. OPERATING LEASES

The Group as lessee

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

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

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

Leases are negotiated for an average term of two years.

34. CAPITAL COMMITMENTS

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

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

35. RETIREMENT BENEFITS PLANS

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

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

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

36. RELATED PARTY TRANSACTIONS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

36. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

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

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

Compensation of key management personnel

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

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

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

37. POST BALANCE SHEET EVENT

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

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

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

Notes:

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

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

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

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

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

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the shareholders of China.com Inc. (the "Company") will be held at 33/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong, on Tuesday, 30th May, 2006, at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the auditors of the Company for the year ended 31st December, 2005;

2. To re-elect retiring directors and authorize the board of directors to fix their remuneration;

3. To re-appoint Deloitte Touche Tohmatsu as auditors of the Company and to authorize the board of directors to fix their remuneration;

4. As a special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

A. "**THAT:**

(a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

b) the approval in paragraph (a) of this resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate of:

(aa) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(bb) (if the directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution).

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable laws to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company)";

B. "**THAT:**

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable laws to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution";

C. "**THAT:**

Subject to the passing of the resolution nos. 4A and 4B, the general mandate granted to the directors of the Company to allot, issue and deal with additional securities pursuant to resolution no. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of securities repurchased by the Company under the authority granted pursuant to resolution no. 4B, provided that such amount of securities so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution".

By Order of the Board
Chan Lip-chih, Steven
Company Secretary

Hong Kong, 24th March, 2006

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Causeway Bay
Hong Kong

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NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the Company's meeting is entitled to appoint a person or persons as his proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting and in default thereof the form of proxy shall not be treated as valid.

3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.