



Interim Report 2006

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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This 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

I am pleased to report another quarter of continual profitability for China.com Inc. and its subsidiaries (collectively the "Group"). During the second quarter, we achieved new milestones across all key business units, specifically our online games business which consistently exceeded our expectations and contributed significant revenues to the Group.

Here are some financial and business highlights for the three months ended 30th June, 2006:

- Revenue was HK\$150 million, up 72% year-on-year and 15% quarter-on-quarter
- Gross profit was HK\$91 million, up 103% year-on-year and 16% quarter-on-quarter
- Profit attributable to equity holders was HK\$17.8 million, up 772% year-on-year and 110% quarter-on-quarter
- Continued to be operating cashflow positive, balance sheet remains strong, with over HK\$954 million in net cash and cash equivalents
- Yulgang surpassed 348,000 peak concurrent users and 30 million registered users. The online games business unit contributed HK\$61 million in revenues and continued to be the key growth driver.

At the end of Q1 2006, 17game became 100% owned by the Group and we began full consolidation of 17game's revenue in the second quarter. Our online games business continued to demonstrate strong growth momentum and deliver encouraging results. Comparing with Q1 2006, our online game revenues increased by 52% to HK\$61 million in Q2 2006. Yulgang surpassed 30 million registered users and 348,000 peak concurrent users. Further, the total number of virtual items sold through the online game reached a record high of 21 million.

Leveraging the momentum created by Yulgang, we have strong confidence to continue the growth trend and extend our leading position in China's online games industry. We will strive to grow our online games business unit through both organic growth and accretive acquisition of popular online games to expand our game portfolio. In addition, CDC Games has licensed two more online games with free-to-play business model. The games are licensed from Japan and Korea and the deals are closed in July and August 2006 respectively. We are negotiating another MMORPG from the United States. It is expected to be closed toward the end of Q3 2006.

Our mobile services and applications business continued to attain healthy growth and more balanced revenue mix in the second quarter. With our innovative marketing strategy and operational excellence, our total revenue recorded 6% quarter-on-quarter growth. In particular, 2.5G services continued to fuel the growth of our overall business. Among 2.5G services, WAP and MMS each recorded 27% quarter on quarter revenue increase. Although major Chinese operators have recently announced new regulatory policies which may be detrimental to our mobile services and applications business in the near term, we believe that these policies will foster the healthy growth of the industry in the long run.

For our portal business, we dedicated more resources to strengthen our position as one of the most preferred website for top professionals by enhancing content in lifestyle, technology, career and health channels. In May, we launched China's first online comic news show, "The Straight Show", which has been well-received by Chinese Internet users. This program is also expected to deliver mobile video content in the 3G era and become a platform for interactive online video. Additionally, we signed a number of strategic partnership agreements with global companies like Amazon and Google and Korean content partner in order to boost the www.china.com portal's pageviews and enhance our brand value.

I am pleased with the substantial progress made during this quarter. However, we do approach the recent and imminent regulatory changes, especially in MVAS and Games sectors, with a measure of caution. Changes in MVAS regulations will impact revenue recognition, new user acquisition and user retention. In the Games sector, new regulations regarding player identity and "addictive" gaming behaviour are expected to take effect later this year. Whilst the new regulations will create healthier environments for the sustainable development of the MVAS and Games industries, we are aware of the short term operational and financial challenges they present and will take mitigating measures.

On behalf of the board, I would like to take this opportunity to thank our employees for their hard work and dedication in bringing success to the company. The fast changing environment that our company operates in provide multitudes of opportunities. We are committed to working ever harder to continue our success in the vast growing market of China.

Dr. Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong, 11th August, 2006

UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results (the "Unaudited Interim Results") of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the three months (the "Quarterly Period") and six months (the "Half-Yearly Period") ended 30th June, 2006, together with the comparative unaudited figures for the corresponding periods in 2005.

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

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2006

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

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

Notes:

1. Basis of preparation

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

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

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

2. Revenue

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

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

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

3. Business and geographical segments

Business segments

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

Principal activities are as follows:

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

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

Segment information about these businesses is presented below:

Six months ended 30th June, 2006

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

Inter-segment sales are charged at prevailing market rates.

As at 30th June, 2006

	Mobile services and applications HK\$'000	Internet and media HK\$'000	Online games HK\$'000	Consolidated HK\$'000
BALANCE SHEET				
ASSETS				
Segment assets	777,972	45,994	262,051	1,086,017
Available-for-sale investments and unallocated corporate assets	-	-	-	<u>668,208</u>
Total assets				<u>1,754,225</u>
LIABILITIES				
Segment liabilities	19,311	26,822	49,095	95,228
Unallocated corporate liabilities	-	-	-	<u>7,357</u>
Total liabilities				<u>102,585</u>

Six months ended 30th June, 2005

	Mobile services and applications HK\$'000	Internet and media HK\$'000	Online games HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	123,901	30,449	8,239	-	162,589
Inter-segment sales	-	657	-	(657)	-
Total	123,901	31,106	8,239	(657)	162,589
RESULT					
Segment results	18,285	(6,968)	(18,868)	-	(7,551)
Interest income and unallocated other corporate income					14,549
Interest expense on bank borrowings wholly repayable within five years					(1,605)
Unallocated corporate expenses					(6,703)
Loss before tax					(1,310)
Income tax charge					(2,578)
Loss for the period					(3,888)

Inter-segment sales are charged at prevailing market rates.

As at 30th June, 2005

	Mobile services and applications HK\$'000	Internet and media HK\$'000	Online games HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
BALANCE SHEET					
ASSETS					
Segment assets	758,331	42,922	79,980	(13,718)	867,515
Available-for-sale investments and unallocated corporate assets	-	-	-	-	833,488
Total assets					1,701,003
LIABILITIES					
Segment liabilities	605,952	94,581	73,145	(680,720)	92,958
Unallocated corporate liabilities		-	-	-	90,880
Total liabilities					183,838

Geographical segments

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

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

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
PRC	248,985	141,354
Hong Kong	280	1,001
Singapore	30,531	20,234
	<u>279,796</u>	<u>162,589</u>

4. Profit (loss) for the period

The Group's profit (loss) for the period is arrived at after charging (crediting):

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
Depreciation of plant and equipment	5,914	4,219
Selling and distribution costs	62,834	35,518
Amortisation of other intangible assets (included in other expenses)	19,005	9,299
Share option benefits	7,123	3,138
Interest income on available-for-sale investments	(9,343)	(11,788)
Gain on disposal of available-for-sale investments	(373)	–
Other interest income	(3,257)	(2,761)
	<u>(12,973)</u>	<u>(14,549)</u>

5. Income tax

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the Half-Yearly Period (six months ended 30th June, 2005: Nil).

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

6. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the three months ended and six months ended 30th June, 2006 and 2005 is based on:

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Earnings				
Profit for the period attributable to equity holders of the Company	<u>17,847</u>	<u>2,046</u>	<u>26,353</u>	<u>7,673</u>
	Three months ended 30th June, 2006	2005	Six months ended 30th June, 2006	2005
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>4,351,936,488</u>	4,144,373,894	<u>4,264,865,074</u>	4,144,285,665
Effect of dilutive potential ordinary shares: Options	<u>399,222</u>	7,989,327	<u>549,729</u>	8,426,235
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>4,352,335,710</u>	<u>4,152,363,221</u>	<u>4,265,414,803</u>	<u>4,152,711,900</u>

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the Half-Yearly Period (six months ended 30th June, 2005: Nil).

8. Accounts receivable

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

	(Unaudited) 30th June, 2006 HK\$'000	(Audited) 31st December, 2005 HK\$'000
Within 90 days	46,681	40,254
91-120 days	1,702	1,196
121-180 days	3,329	1,654
Over 180 days	4,037	848
	<u>55,749</u>	<u>43,952</u>

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

9. Accounts payable

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

	(Unaudited) 30th June, 2006 HK\$'000	(Audited) 31st December, 2005 HK\$'000
Within 90 days	24,633	15,573
91-120 days	921	552
121-180 days	2,513	2,267
Over 180 days	2,932	2,179
	<u>30,999</u>	<u>20,571</u>

10. Issued capital

	Six months ended 30th June, 2006		Twelve months ended 31st December, 2005	
	No. of shares	HK\$'000	No. of shares (Audited)	HK\$'000 (Audited)
Ordinary shares of HK\$0.10 each				
Authorised	<u>10,000,000,000</u>	<u>1,000,000</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At beginning of period/year	4,170,765,645	417,077	4,144,186,053	414,419
Exercise of share options	38,748	4	26,579,592	2,658
Issue new shares for acquisition	181,132,095	18,113	-	-
At end of period/year	<u>4,351,936,488</u>	<u>435,194</u>	<u>4,170,765,645</u>	<u>417,077</u>

11. Comparative figures

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

12. Post balance sheet events

Subsequent to the end of the Half-Yearly Period, the Group announced the proposed acquisition of Beijing TimeHeart Information Technology Limited, a PRC company engaged in the mobile services and applications business through its personal digital assistant ("PDA"), wireless application protocol ("WAP"), short message services ("SMS"), multi media service ("MMS"), interactive voice response service ("IVR") and media stream ("Media Stream") platforms connected to the networks of China Mobile, China Unicom, China Telecom and China Netcom, for a total consideration of up to HK\$198,246,000. The transaction is subject to, among other things, the reporting, announcement and the independent shareholders' approval requirements of the GEM Listing Rules. Details of the transaction has been disclosed in the announcement dated 4th August, 2006 made by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit

Revenue for the Half-Yearly Period was HK\$279,796,000 representing a HK\$117,207,000, or 72%, increase as compared with the same period last year. The net increase was primarily attributable to (1) an increase in online game revenue of HK\$92,151,000 (due principally to the full consolidation of 17game's revenue starting from the second quarter of 2006); (2) increase in mobile services and applications subscription revenue of HK\$17,816,000 from 2.5G platforms such as WAP and MMS; and (3) an increase in advertising revenue from both portals and TTG of HK\$7,240,000.

Gross profit margin was 61% for the Half-Yearly Period, compared to 53% in the same period last year. The overall increase in gross profit margin of the Group was mainly due to the significant increase in the higher-profit-margin online game business (67% in the Half-Yearly Period).

Other income

Other income fell by 11% to HK\$12,973,000 for the Half-Yearly Period, compared with HK\$14,549,000 in the corresponding period in 2005. The decrease was primarily due to a HK\$2,445,000 decrease in interest income from available-for-sale investments as a result of decreasing balances of available-for-sale investments after payments in connection with various acquisitions and repayments of bank borrowings. The decrease was partly offset by a HK\$496,000 increase in bank interest income during the Half-Yearly Period.

Selling and distribution costs

Selling and distribution costs increased to HK\$62,834,000 for the Half-Yearly Period, compared with HK\$35,518,000 in the corresponding period in 2005. The increase was mainly attributable to the additional marketing and promotion expenses incurred for our mobile services and applications businesses amounting to HK\$29,402,000 during the Half-Yearly Period.

Administrative expenses

Administrative expenses increased by 21% to HK\$67,673,000 for the Half-Yearly Period versus HK\$55,872,000 for the corresponding period last year. The net increase was primarily due to the expansion of our operation during the Half-Yearly Period. Administrative expenses include share option expenses in the Half-Yearly Period amounting to HK\$7,123,000 (six months ended 30th June, 2005: HK\$3,138,000) recognized in accordance with HKFRS 2.

Other expenses

Other expenses increased by about HK\$9,605,000 to HK\$18,691,000 in the Half-Yearly Period, compared to HK\$9,086,000 for the corresponding period last year. The increase was primarily due to the increase in amortization expense of intangible assets.

Income tax

The Group recorded a tax expense of HK\$1,800,000 in the Half-Yearly Period, compared to HK\$2,578,000 for the corresponding period last year. The provision of income tax was HK\$2,752,000 in the Half-Yearly Period which was partially offset by the deferred tax income of HK\$952,000.

Minority interests

Profit shared by minority interests was HK\$4,213,000 in the Half-Yearly Period, compared to a loss shared by minority interests of HK\$11,561,000 in the same period last year. The amount represented the share of profit in the Group's minority interest in 17game and the turnaround was mainly attributable to the significant growth in 17game's online game business. The Group had acquired the remaining 52% shareholding of 17game to make it a wholly-owned subsidiary by the end of Q1 2006 and there was no share of profit or loss by minority interests in 17game during Q2 2006.

Profit for the period attributable to equity holders of the Company

Profit for the period attributable to equity holders of the Company was HK\$26,353,000 in the Half-Yearly Period, compared to HK\$7,673,000 in the same period last year, up 243%.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK\$1,651,640,000 shareholders' funds as at 30th June, 2006. Shareholders' funds as at 31st December, 2005 were HK\$1,515,821,000. Total assets amounted to HK\$1,754,225,000 as at 30th June, 2006 as compared to HK\$1,725,638,000 as at 31st December, 2005, of which HK\$364,240,000 were bank balances and cash versus HK\$402,937,000 as at 31st December, 2005 and HK\$589,720,000 were available-for-sale investments versus HK\$629,687,000 as at 31st December, 2005.

Capital structure

Except for the full repayment of the Group's bank borrowings amounting to HK\$85,800,000 during the Half-Yearly Period, there was no change in the capital structure of the Group as at 30th June, 2006 as compared with that as at 31st December, 2005.

Charges on the Group's assets

As at 30th June, 2006, none (31st December, 2005: HK\$99,184,000) of the Group's available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings which was fully repaid as at 30th June, 2006 (31st December, 2005: HK\$85,800,000). Neither time deposits nor bank balances (31st December, 2005: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, decreased from 6% as at 31st December, 2005 to 0% as at 30th June, 2006. The change was due to the full repayment of bank borrowings of HK\$85,800,000 during the Half-Yearly Period.

As at 30th June, 2006, the Group's net cash and available-for-sale investments was HK\$953,960,000 (31st December, 2005: HK\$946,824,000), comprising of bank balances and cash of HK\$364,240,000 (31st December, 2005: HK\$402,937,000), available-for-sale investments of HK\$589,720,000 (31st December, 2005: HK\$629,687,000) and bank borrowings of nil (31st December, 2005: HK\$85,800,000).

Exposure to fluctuations in exchange rates and any related hedges

As most of the Group's monetary assets and liabilities were denominated in Renminbi, Hong Kong dollars and US dollars, the exchange rate risks of the Group were considered to be minimal. As at 30th June, 2006, no related hedges were made by the Group.

Contingent liabilities

The Internet web site address or Uniform Resources Locator ("URL") of hongkong.com was licensed from a related company, China Internet Corporation ("CIC"), for no fee or cost pursuant to an exclusive 20-year licensing agreement (the "Licensing Agreement"). During the year ended 31st December, 2001, the Licensing Agreement was assigned to and assumed by a fellow subsidiary, chinadotcom Strategic, Inc. ("CSI"), pursuant to a transaction whereby CSI acquired all of the rights, title and interest in the hongkong.com URL and the related intellectual property rights from CIC. CSI has informed the 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.

Material acquisition and significant investments

During the Half-Yearly Period, the Group made a further investment in Beijing 17game Network Technology Co., Ltd. ("17game"). On 17th March, 2006, Prime Leader Holdings Limited ("Prime Leader"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with the shareholders of Equity Pacific Limited ("Equity Pacific"), a British Virgin Islands company and an offshore holding company of 17game, to acquire 52% of the total issued and outstanding shares in Equity Pacific for an aggregated of US\$18,000,000 and thereafter, became the legal and beneficial owner of 100% of Equity Pacific. Details of the transaction has been disclosed in the announcement dated 22nd March, 2006 made by the Company.

Employee information

As at 30th June, 2006, the Group had 735 (2005: 717) full-time employees of which 11 (2005: 17) were based in Hong Kong, 685 (2005: 660) in China and 39 (2005: 40) in Singapore. The Group has introduced share option schemes to recognize the contributions of its employees to the growth of the Group. The schemes have been or will be amended from time to time to take into account changes in market conditions and the GEM Listing Rules.

BUSINESS REVIEW

Online Games

As of 17th March, 2006, the Group increased its shareholding in 17game from 48% to 100% to make it a wholly-owned subsidiary and we started full consolidation of its result in Q2 2006.

17game is a leading massive multiplayer online role-playing games (MMORPG) provider with a proven track record in launching and distributing successful online games for the China market. Its latest online game, Yulgang, is one of the most popular games in China. During this quarter, Yulgang kept on achieving new milestones and continued the strong growth momentum.

The number of registered users of Yulgang had exceeded 30,000,000 in Q2 2006, up 36% from 22,000,000 in Q1 2006. The average concurrent players for Yulgang surpassed 242,000 in Q2 2006, representing a quarter-on-quarter increase of 34%. The number of virtual items sold reached 21.3 million, an increase of 187% from Q1 2006. Server groups throughout China supporting Yulgang and the Group's other online games numbered 48, up 12% from 43 server groups in Q1 2006.

Regarding the gamer demographics of Yulgang, 20% of our players are female and over 60% of our gamers are in between 18-25. We note that around 60% of the gamers come from the Southern part of China.

The success of Yulgang drives a significant growth in our online game business. Comparing with Q1 2006, the online game revenue increased by 52% to HK\$61 million in Q2 2006. We have delivered solid quarter-over-quarter improvements in the operation metrics. Additionally, the strong growth momentum and financial flexibility from our strong balance sheet give us confidence in our ability to become the market leader of online and mobile games in China. The Group plans to widen our market coverage with our extensive marketing and distribution networks in China, to build a broader portfolio of games and to selectively acquire synergistic and earnings accretive gaming companies in China.

Leveraging the momentum created by Yulgang, CDC Games has licensed two more online games with free-to-play business model. The games are licensed from Japan and Korea and the deals are closed in July and August 2006 respectively. We are negotiating another MMORPG from the United States. It is expected to be closed toward the end of Q3 2006.

The Group aims to leverage on Yulgang's growing base of 30 million registered users and its extensive national coverage and support of 48 server groups for organic growth while employing our strong cash position to make target acquisitions.

Mobile Value Added Services

In Q2 2006, our mobile services and applications business continued its uptrend on revenue growth, with a quarter-on-quarter overall revenue increment of 6%. Along with the experience accumulated from our 2.5G product operation and promotion, our mobile services and applications business unit became sophisticated in operating 2.5G services such as WAP and MMS services. Our 2.5G services continued to be the key growth driver. During this quarter, our WAP and MMS revenues went up 27% sequentially and more than doubled on a year-on-year basis.

In this quarter, we kept on achieving a healthy and balanced revenue mix of our mobile services and applications business unit. WAP and SMS services continued to act as our major revenue generators, each contributed around one-third of the total revenue. In particular, 35%, 31%, 18% and 16% of the total revenue were generated by our WAP, SMS, IVR and MMS services respectively.

In early July, China Mobile, as well as other mobile operators, announced new policies related to the mobile services and applications industry, under the policy directives of China's Ministry of Information Industry, with an aim to reduce customer complaints and increase customer satisfaction. We anticipated, under the implementation of the new policies; (1) new subscription will decrease; (2) cancellation rate will increase; and (3) user acquisition cost will increase. We expect the new policies will have negative impacts on the revenues and profits of our mobile services and applications business. The effects will be reflected starting from Q3 of 2006. However, we believe that although user subscriptions will be affected in the near term, the industry's overall development is likely to benefit in the longer term.

Portal

In Q2 2006, the china.com portal continued in building its position as China's Portal for Professionals, focusing on Lifestyle, Career, Entertainment, Technology and Health Channels.

We launched China's first online comic news show, "The Straight Show", in May, and was very popular among Chinese Internet users. "The Straight Show" is positioned also as mobile video content in the 3G era, as well as a platform for interactive online video.

Also in Q2, the china.com portal signed strategic partnership agreements with Google, Amazon and DEX, combining strengths in international brands, technologies, and the china.com portal's own content. These partnerships have not only provided better user experience, but also turned pageviews into more revenue.

In addition, the china.com portal and CDC Games had achieved more synergy in advertising sales – the china.com portal’s advertising sales force would also sell advertisements for games’ portal to broaden the revenue base of CDC Games without adding cost.

After Italy.China.com, the china.com portal signed agreements with a Korean content provider for Korea.China.com in Q2 2006. Korea.China.com provides the latest content in Korean movie and TV, music, fashion, games and other products. The large number of fan base in China for Korean pop culture has laid the foundation for the popularity of this channel.

Media and Travel

TTG had done well in Q2 with its key media products performing better compared to the same period last year.

TTG successfully organized one conference/exhibition during the quarter – DM Asia/Gifts & Stationary Fair 2006. The event was supported by three associations, namely Direct Marketing Association of Singapore, Gifts Association, and Book Sellers & Stationers Association.

Other significant activities undertaken by TTG includes; publishing of the Official 2006 Great Singapore Sale Guide; publishing of the 2006 PATA Annual Conference Daily and managing of a roadshow on behalf of Vietnam Meeting & Incentive Club.

TTG has been awarded media partner status by Xin Lu (inhouse agency of China National Tourist Administration) to publish the international section of the China International Travel Mart (“CITM”) 2006 Official Directory and CITM 2006 Picture Daily. CITM is China’s largest travel event which is scheduled to take place in Shanghai in November this year and is expected to attract over 1,900 exhibiting companies.

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

As of 30th June, 2006, the interests of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in rule 5.46 of the GEM Listing Rules, were as follows:

The Company

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

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ Holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	6,274,000	18,000,000	Personal/beneficiary	0.56%
Chia Kok Onn	-	2,500,000	Personal/beneficiary	0.06%
Fang Xin	-	1,000,000	Personal/beneficiary	0.02%
Lam Wai-Qun, Albert	1,500,000	37,000,000	Personal/beneficiary	0.89%
Wang Cheung Yue, Fred	-	6,000,000	Personal/beneficiary	0.14%
Wong Sin Just	-	5,100,000	Personal/beneficiary	0.12%
Yip Hak Yung, Peter	10,254,000	-	Corporate*	0.24%
Yip Hak Yung, Peter	2,400,000	17,000,000	Personal/beneficiary	0.45%

* *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 at general meetings and, accordingly Mr. Yip has an interest in such shares under the SFO.*

Options to subscribe for ordinary shares in the Company

Name of Directors	Date of grant	Exercise price HK\$	Number of share options outstanding as at 30th June, 2006
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000
	5th June, 2003	0.626	4,000,000
	10th October, 2005	0.630	4,000,000
Chia Kok Onn	15th September, 2005	0.560	2,500,000
Fang Xin	10th October, 2005	0.630	1,000,000
Lam Wai-Qun, Albert	7th September, 2004	0.510	17,000,000
	23rd November, 2005	0.570	20,000,000
Wang Cheung Yue, Fred	5th June, 2003	0.626	2,000,000
	15th September, 2005	0.560	4,000,000
Wong Sin Just	9th March, 2000	1.880	1,000,000
	10th April, 2001	0.286	600,000
	5th June, 2003	0.626	2,500,000
	15th September, 2005	0.560	1,000,000
Yip Hak Yung, Peter	5th June, 2003	0.626	4,000,000
	10th October, 2005	0.630	4,000,000
	3rd January, 2006	0.526	9,000,000

Associated Corporation

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

Name of Directors	Number of shares	Number of underlying shares	Nature of interests/ Holding capacity	Appropriate percentage of interests (%)
Ch'ien Kuo Fung, Raymond	913,773	924,167	Personal/beneficiary	1.64%
Chia Kok Onn	–	250,000	Personal/beneficiary	0.22%
Fang Xin	–	70,000	Personal/beneficiary	0.06%
Lam Wai-Qun, Albert	–	450,000	Personal/beneficiary	0.40%
Wang Cheung Yue, Fred	–	90,000	Personal/beneficiary	0.08%
Yip Hak Yung, Peter	16,722,002	3,126,442	Interest of children or spouse*	17.66%
Yip Hak Yung, Peter	–	90,000	Personal/beneficiary	0.08%

* *11,927,653 Class A common shares and 3,126,442 share options were held under the name of Asia Pacific Online Limited ("APOL"). APOL is owned by the spouse of Mr. Yip Hak Yung, Peter and a trust established for the benefit of Mr. Yip's spouse and his children. 4,794,349 Class A common shares are held by the spouse of Mr. Yip.*

Options to subscribe for Class A common shares in CDC Corporation

Name of Directors	Date of grant	Option exercise period	Exercise price US\$	Number of share options outstanding as at 30th June, 2006
Ch'ien Kuo Fung, Raymond	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	66,667
	17th October, 2000	17th January, 2001 to 16th October, 2010	6.8125	100,000
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000
	27th April, 2001	27th July, 2001 to 26th April, 2011	2.7400	220,000
	13th July, 2001	13th October, 2001 to 12th July, 2011	2.9700	400,000
	27th April, 2005	27th July, 2005 to 26th April, 2015	2.6860	62,500
	1st January, 2006	1st July, 2006 to 31st December, 2015	3.2200	45,000
Chia Kok Onn	1st September, 2005	1st September, 2005 to 31st August, 2015	2.9760	50,000
	1st September, 2005	1st September, 2006 to 31st August, 2015	2.9760	35,000
	15th September, 2005	15th September, 2005 to 14th September, 2015	2.9940	50,000
	15th September, 2005	15th December, 2005 to 14th September, 2015	2.9940	50,000
	3rd January, 2006	3rd April, 2006 to 2nd January, 2016	3.2200	65,000
Fang Xin	16th November, 2005	16th November, 2006 to 15th November, 2015	3.3000	70,000
Lam Wai-Qun, Albert	25th August, 2004	25th August, 2005 to 24th August, 2014	4.2100	150,000
	15th September, 2005	15th December, 2005 to 14th September, 2015	2.9940	300,000
Wang Cheung Yue, Fred	24th October, 2005	24th October, 2006 to 23rd October, 2015	3.2100	90,000

Name of Directors	Date of grant	Option exercise period	Exercise price US\$	Number of share options outstanding as at 30th June, 2006
Yip Hak Yung, Peter	22nd June, 1999	22nd June, 2000 to 21st June, 2009	3.3750	60,000
	12th July, 1999	12th July, 2000 to 11th July, 2009	5.0000	1,881,442*
	9th January, 2001	9th January, 2001 to 8th January, 2011	4.2813	30,000
	6th June, 2002	6th June, 2002 to 5th June, 2012	2.8200	200,000*
	3rd June, 2003	30th June, 2003 to 2nd June, 2013	4.9500	200,000*
	16th June, 2003	16th September, 2003 to 15th June, 2013	5.1600	100,000*
	15th September, 2005	15th September, 2005 to 14th September, 2015	2.9940	50,000*
	15th September, 2005	15th December, 2005 to 14th September, 2015	2.9940	50,000*
	24th October, 2005	24th October, 2006 to 23rd October, 2015	3.2100	45,000*
	3rd January, 2006	3rd April, 2006 to 2nd January, 2016	3.2200	600,000*

* *These share options were granted to APOL.*

Except as disclosed above, as at 30th June, 2006, none of the directors, chief executive and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

As of 30th June, 2006, the interests and short positions of the substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in ordinary shares

Name	Number of shares	Nature of interests	Appropriate percentage of interests (%)
China M Interactive (BVI) Limited	3,361,828,000	Beneficial Owner	77.25%

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

Except as disclosed above, as at 30th June, 2006, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be kept under section 336 of the SFO.

SHARE OPTION SCHEMES

(a) Pre-IPO Scheme

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$	Number of share options			
			At 1st January, 2006	Transferred during the Half-Yearly Period	Lapsed during the Half-Yearly Period	At 30th June, 2006
Directors						
Ch'ien Kuo Fung, Raymond	9th March, 2000	1.880	10,000,000	-	-	10,000,000
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)	-
Employees						
In aggregate	9th March, 2000	1.880	60,058,120	(60,000,000)	-	58,120
Other Eligible Persons						
In aggregate	9th March, 2000	1.880	7,999,380	60,000,000	(67,019,380)	980,000
			<u>85,057,500</u>	<u>-</u>	<u>(73,019,380)</u>	<u>12,038,120</u>

(b) Post-IPO Scheme

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$	Number of share options				At 30th June, 2006
			At 1st January, 2006	Transferred during the Half-Yearly Period	Exercised during the Half-Yearly Period	Lapsed during the Half-Yearly Period	
Directors							
Wong Sin Just	10th April, 2001	0.286	600,000	-	-	-	600,000
Employees							
In aggregate	18th August, 2000	0.870	96,872	-	-	-	96,872
	5th October, 2000	0.582	10,000,000	(10,000,000)	-	-	-
	24th November, 2000	0.518	1,253,260	-	-	(103,340)	1,149,920
	10th April, 2001	0.286	232,510	-	-	(25,835)	206,675
Other Eligible Persons							
In aggregate	5th October, 2000	0.582	-	10,000,000	-	(10,000,000)	-
	10th April, 2001	0.286	600,000	-	-	(600,000)	-
	28th February, 2002	0.347	62,080	-	-	-	62,080
			<u>12,844,722</u>	<u>-</u>	<u>-</u>	<u>(10,729,175)</u>	<u>2,115,547</u>

(c) 2002 Scheme

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$	Number of share options					
			At 1st January, 2006	Transferred during the Half-Yearly Period	Granted during the Half-Yearly Period	Exercised during the Half-Yearly Period	Lapsed during the Half-Yearly Period	At 30th June, 2006
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
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
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
	3rd January, 2006	0.526	-	-	9,000,000	-	-	9,000,000
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
Chia Kok Onn	15th September, 2005	0.560	2,500,000	-	-	-	-	2,500,000
Fang Xin	10th October, 2005	0.630	1,000,000	-	-	-	-	1,000,000
Lam Wai-Qun, Albert	7th September, 2004	0.510	17,000,000	-	-	-	-	17,000,000
	23rd November, 2005	0.570	20,000,000	-	-	-	-	20,000,000
Other employees								
In aggregate	19th August, 2002	0.200	77,496	-	-	(38,748)	-	38,748
	24th February, 2003	0.171	32,290	-	-	-	-	32,290
	29th May, 2003	0.716	271,240	-	-	-	-	271,240
	5th June, 2003	0.626	4,450,000	(4,000,000)	-	-	(300,000)	150,000
	22nd December, 2003	0.634	219,560	-	-	-	(64,580)	154,980
	7th September, 2004	0.510	3,355,195	-	-	-	(3,000,000)	355,195
	26th November, 2004	0.528	374,580	-	-	-	-	374,580
	15th September, 2005	0.560	36,166,667	-	-	-	(2,366,667)	33,800,000
	10th October, 2005	0.630	4,000,000	(4,000,000)	-	-	-	-
	3rd January, 2006	0.526	-	-	15,950,000	-	(2,500,000)	13,450,000
	Other Eligible Persons							
In aggregate	29th May, 2003	0.716	90,420	-	-	-	-	90,420
	5th June, 2003	0.626	5,400,000	4,000,000	-	-	(8,000,000)	1,400,000
	15th September, 2005	0.560	9,000,000	-	-	-	(3,050,000)	5,950,000
	10th October, 2005	0.630	-	4,000,000	-	-	(4,000,000)	-
	3rd January, 2006	0.526	-	-	36,250,000	-	(20,000,000)	16,250,000
			<u>129,437,448</u>	<u>-</u>	<u>61,200,000</u>	<u>(38,748)</u>	<u>(43,281,247)</u>	<u>147,317,453</u>

During the Half-Yearly Period, 6,000,000 share options granted at an exercise price of HK\$1.880 to Mr. Yip Hak Yung, Peter Yip were cancelled. The weighted average closing price of the shares immediately before the date on which the 38,748 share options were exercised was HK\$0.560. The closing price immediately before the date on which the 61,200,000 share options were granted was HK\$0.52.

All the above outstanding options granted under each of the Pre-IPO Scheme, Post-IPO Scheme and 2002 Share Option Scheme may be exercised in accordance with the terms of the respective schemes at any time during the period commencing from one year after the date of grant of the share options to the year ending 10 years after the date of grant of the share options. The share options vest over a period of 4 years.

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

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

COMPETING INTERESTS

Currently, the Board is not aware of any Director or the management shareholder of the Company (as defined under the GEM Listing Rules) having any interests in a business which competes or may compete with the business of the Group.

CORPORATE GOVERNANCE

Securities Transactions by Directors

During the Half-Yearly Period, the Company has not adopted a code of conduct regarding the directors' securities transactions but has applied the principles of the required 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 all directors of the Company, all directors of the Company, the directors confirmed that they have complied with or they were not aware of any non-compliance with the Required Standard of Dealings during the Half-Yearly Period.

Audit Committee

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

Corporate Governance Code Compliance

The Company has applied the principles of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules and is satisfied that the Company has complied throughout the Half-Yearly Period with the Code.

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

Hong Kong, 11th August, 2006

As at the date of this report, the executive directors of the Company are Mr. Yip Hak Yung, Peter and Dr. Chen Xiaowei, the non-executive directors are Dr. Ch'ien Kuo Fung, Raymond and Mr. Fang Xin, the independent non-executive directors are Mr. Wong Sin Just, Mr. Wang Cheung Yue, Fred and Mr. Chia Kok Onn.