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

Annual Report 2006

China.com Inc.

[Incorporated in the Cayman Islands with limited liability]

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid annual reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This annual report, for which the Directors (the "Directors") of 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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Chen Xiaowei *(Chief Financial Officer)*

Non-Executive Directors

Ch'ien Kuo Fung, Raymond
(Chairman of the board of directors)
Fang Xin

Independent Non-Executive Directors

Chia Kok Onn
Lam Lee G.
Wang Cheung Yue, Fred
Wong Sin Just

COMPANY SECRETARY

Chau Kwok Keung

QUALIFIED ACCOUNTANT

Chau Kwok Keung, ACCA, CPA

COMPLIANCE OFFICER

Chen Xiaowei

AUDIT COMMITTEE

Wong Sin Just *(Committee Chairman)*
Chia Kok Onn
Lam Lee G.
Wang Cheung Yue, Fred

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATING COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Chen Xiaowei
Chau Kwok Keung

REGISTERED OFFICE

P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

PLACE OF BUSINESS

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

AUDITORS

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
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 BANKER

Citibank N.A.

STOCK CODE

8006

WEBSITE

www.inc.china.com

RESULTS

	Year ended 31st December,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover					
Continuing operations	**320,045**	338,400	231,411	181,738	44,154
Discontinued operation	**254,536**	48,915	3,890	5,925	10,441
	574,581	387,315	235,301	187,663	54,595
Profit from ordinary activities attributable to shareholders	**621,487**	9,737	53,594	105,143	27,139

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st December,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets	**2,499,068**	1,725,638	1,815,254	1,830,916	2,146,832
Liabilities	**(192,687)**	(177,568)	(292,509)	(389,737)	(808,090)
Minority interests	**(12,933)**	(32,249)	(30,670)	(5,525)	(5,640)
	2,293,448	1,515,821	1,492,075	1,435,654	1,333,102

KEY FINANCIAL DATA

	Year ended 31st December,				
	2006	2005	2004	2003	2002
	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share – basic	**14.42**	0.23	1.30	2.54	0.66

	As at 31st December,				
	2006	2005	2004	2003	2002
	HK cents	HK cents	HK cents	HK cents	HK cents
Net assets (note) per share – basic	**53.20**	36.50	36.06	34.73	32.27

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR
Yip Hak Yung, Peter
(Vice-Chairman and Acting Chief Executive Officer, aged 55)

Mr. Yip was appointed to the board of directors (the "Board") on 15th October, 1999. He is the vice chairman of the Board and acting chief executive officer of the Company. Mr. Yip is also the vice chairman of the Board and chief executive officer of CDC Corporation ("CDC"), the ultimate parent of the Company. He is also executive chairman and chief executive officer of CDC Software, a wholly owned subsidiary of CDC. Mr. Yip was a founder of CDC and was the founding chief executive officer between January 1999 and February 2004. Under his leadership, CDC 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. In addition, Mr. Yip has made a number of successful co-investments with institutional investors, corporate investors and high net worth individuals, a 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 has authored research papers published at Harvard Asia Pacific Review, Nanjing University Press, National Science Foundation. He co-authored a book titled "The China's Century" with former China Premier Zhu Yongji, amongst others. 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.

EXECUTIVE DIRECTOR
Chen Xiaowei
(Chief Financial Officer, aged 38)

Dr. Chen has been serving as chief financial officer and executive director of the Company since June and August 2006 respectively. Previously, she had served as general manager of the Company where she was responsible for formulating the Company's overall business strategy and spearheading the growth of the Company's portal unit. Prior to joining the Company, Dr. Chen was a media industry consultant with McKinsey's New York office. Dr. Chen's areas of responsibility covered a full range of consulting services in the media industry including strategy formulation for the development of clients' businesses and due diligence in mergers and acquisitions. Prior to that, Dr. Chen spent five years as an anchor and correspondent at CCTV. Dr. Chen received a doctoral degree in molecular genetics and biochemistry from the University of Science and Technology of China and conducted her post-doctoral work at the University of California, San Francisco.

NON-EXECUTIVE DIRECTOR
Ch'ien Kuo Fung, Raymond
(Chairman, aged 55)

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 is also chairman of CDC Corporation, its ultimate parent company, from August 2005 after serving as executive chairman from April 2001 to August 2005; acting chief executive officer from March 2004 to March 2005 and chief executive officer from March 2005 to 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.

NON-EXECUTIVE DIRECTOR
Fang Xin
(aged 54)

Mr. Fang has been serving as a non-executive director of the Company since July 2005. Mr. Fang has also served as a director of CDC Corporation, the ultimate holding company of the Company. Mr. Fang is currently Deputy Director and 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. 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 DIRECTOR
Chia Kok Onn
(aged 53)

Mr. Chia has been serving as an independent non-executive director of the Company since July 2003. Mr. Chia has also served as an independent director of CDC Corporation, the ultimate holding company of the Company. Currently, Mr. Chia serves as the president of the Hong Kong Venture Capital & Private Equity Association. His 27-year career 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.

INDEPENDENT NON-EXECUTIVE DIRECTOR
Lam Lee G.
(aged 47)

Dr. Lam was appointed to the board of directors of the Company in December 2006. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the U.K., and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 24 years of multinational operations and general management, strategy consulting, corporate governance, investment banking, and direct investment experience in the telecommunications, media and technology (TMT), retail, property and financial services sectors. He is Chairman of Monte Jade Science and Technology

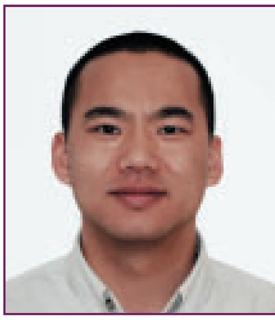
Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors, an Economics Course Registered Professor of the China Institute of Directors, a Member of the General Council of the Chamber of Hong Kong Listed Companies, and a Part-time Member of the Central Policy Unit and a Member of the Assessment Panel of the Small Entrepreneur Research Assistance Program (SERAP) of the Government of the Hong Kong Special Administrative Region.

INDEPENDENT NON-EXECUTIVE DIRECTOR
Wang Cheung Yue, Fred
(aged 62)

Mr. Wang has been serving as an independent non-executive director of the Company since February 2002. Mr. Wang has also served as an independent director of CDC Corporation, the ultimate holding company of the Company and as a director of CDC Games Corporation, a wholly owned subsidiary of CDC Corporation. The Wang family found Salon Films (Hong Kong) Limited ("Salon") in 1969. Mr. Wang has been a director of Salon since 1969 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 in Asia notably Unifund S.A., a Geneva based investment service company. 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 the board of governors of the Federation of Hong Kong Business Associations Worldwide, Director of the board of the Hong Kong International Film Festival Society Limited and hon. vice director of the China Society of Motion Picture and Television Engineers. Mr. Wang graduated with a Bachelor of Arts Degree in Business and Economics from Whittier College, California.

INDEPENDENT NON-EXECUTIVE DIRECTOR
Wong Sin Just
(aged 41)

Mr. Wong has been serving as an independent non-executive director of the Company since November 1999. Mr. Wong has also served as director and chairman of the audit committee of CDC Games Corporation, and as director and member of the audit committee of CDC Software Corporation. Both CDC Games Corporation and CDC Software Corporation are wholly owned subsidiaries of CDC Corporation, the ultimate holding company of the Company. 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.



SENIOR MANAGEMENT
Fang Donglei
(Acting Chief Operation Officer, aged 32)

Mr. Fang joined the Company in November 2005. He is the Acting Chief Operation Officer of the Company. In this role, Mr. Fang has been carrying out major restructuring programs for the mobile and portal business units of the Company, bridging partnerships with important players such as Google and Amazon, and continued to build and sharpen the management team. Prior to joining the Company, Mr. Fang worked for Sina for over six years with extensive experience in sales and marketing, distribution, corporate client services, research and development.

I am pleased to report the 7th consecutive profitable year for China.com Inc. and its subsidiaries (collectively the "Group").

Here are some financial and business highlights:

- Turnover from continuing operations decreased 5% to HK$320.0 million in 2006, from HK$338.4 million in 2005
- Gross profit from continuing operations decreased 3% to HK$186.7 million, from HK$192.5 million in 2005
- Profit attributable to equity holders was HK$621.5 million compared to HK$9.7 million in 2005 as a result of the sale of the online games business to CDC Games Corporation
- Basic earnings per share (EPS) were 14.42 HK cents compared to 0.23 HK cents in 2005
- Balance sheet remained strong with net cash and available-for-sale investments at approximately HK$1.3 billion as of 31st December, 2006, compared to HK$0.9 billion as of 31st December, 2005
- Healthy recovery and strong potential in our mobile services and applications segment
- Our portal business entered into strategic partnerships with Google and launched a US$20 million Web 2.0 Developer Program to accelerate the development of innovative products and services targeted specifically for the China market. First investment was made in January 2007 in Menllo.com
- Appointed Mr. Peter Yip as Acting Chief Executive Officer and re-designated Mr. Yip as Executive Director of the Board
- Appointed Dr. Xiaowei Chen as Chief Financial Officer and Executive Director of the Board

In December 2006, in order to further unlock shareholder value, we sold our online games business to CDC Games Corporation for a total consideration not exceeding HK$1,053 million (US$135 million) with HK$858 million (US$110 million) paid and HK$195 million (US$25 million) payable upon the occurrence of certain future events. This represented a gain of HK$564.4 million. The Group made its initial investment in the online games business in February 2004 and completed its final acquisition in March 2006.

The online game market in China is extremely competitive with hundreds of games launched each year, many well capitalized and experienced operators and constantly changing habits and tastes of players. These factors render the potential success of a particular game uncertain and make the online game business highly risky. Based on these factors, it is the Group's experience that the launch of a new online game in the China market requires significant time, investment and resources. Having conducted a thorough and careful assessment of the needs and prospects of the Group's current and potential business segments, we believe the sale of the online game business to CDC Games Corporation would allow the Group to concentrate its resources on its existing MVAS and portal businesses and to explore potential exciting new opportunities in the fast growing markets of China.

The proceeds of the sale of the online games business significantly strengthened the Group's balance sheet with net cash and available-for-sale investments of HK$1.3 billion as of December 31, 2006. In order to drive our MVAS and portal businesses to market eminence during this time of regulatory changes and industry consolidation, the Group will need to make significant investments in both segments. In addition, the Group plans to explore new investment opportunities in various high growth technology sectors and industries in China, the fastest growing economy in the world. The Group will leverage its deep and broad China experience and its robust balance sheet to identify, invest and operate compelling next generation businesses in media, technology and other related fields. The Group will partner with leading financial, educational and industrial institutions in these initiatives to leverage their access and expertise. The goals of these investments are to expand and diversify the Group's portfolio of businesses into higher margin and faster growth areas and to maximize the return and yield from the Group's strong cash position.

CHAIRMAN'S STATEMENT

As noted in prior announcements, the Group was alerted in June to policy changes for all subscription services on China Mobile's ("CMCC") Monternet platform which affected our MVAS subscription services. These changes aim to address industry-wide objectives of reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the MVAS industry and CMCC's Monternet.

While the industry and our MVAS business were impacted by the regulatory changes in the short run, we believe that these changes will ultimately drive the industry to consolidate into a smaller group of sustainable service providers in the long run. The Group will employ the strong cash position to selectively acquire synergistic and earnings accretive companies in the industry.

During the year, we acquired the Time Heart Group which is engaged in the mobile services and applications business with a full line of mobile services and applications products. We believe this acquisition complements our current mobile services and applications platforms and provide the Group with the opportunity to further expand its market share.

To prepare for 3G's arrival in China, our mobile business has been working to move further upstream into the content provider segment of the business. Our online video program, "The Straight Show," which is designed as a Chinese version of "The Daily Show" has achieved wide popularity among Chinese Internet users. As a six-minute segment of comic news program, "The Straight Show" is specifically positioned as mobile content for the 3G era. It will provide synergistic support to our mobile services and applications business. In addition, we're also leveraging our Portal's partnership and investment in Web2.0 companies such as Menllo.com (see below) to bring user generated content to not only our web portal, but also through 3G mobile services in the future.

The portal business is where we started, and we continue to look for opportunities to leverage the great brand we own to deliver value to our shareholders. Our portal business has shown marked improvement since the implementation of various new initiatives including introduction of new entertainment content and strategic partnerships with global technology leaders such as Google. Over the past year, various channels in our portal received several leading industry awards including "Outstanding Brand Advertising Award" from Internet Society of China; "Outstanding Web Channel of 2006" award from State Council Information Office of the People's Republic of China; and "Best Brand in Commercial Value" by China Computer News.

Given the portal's strong brand recognition in China and its broadening partnerships with leading Web 2.0 technology companies internationally and in China, the Group believes that continued resources should be deployed to leverage these partnerships and grow the portal business both organically and through potential acquisitions.

Accordingly, we have launched a US$20 million Web 2.0 Developer Program that seeks to establish strategic relations with leading local Web 2.0 companies to accelerate the development of innovative products and services targeted specifically for the China market. In January 2007, as a part of the Web 2.0 Developer Program, and in connection with the launch of 3G in China, China.com portal acquired a five percent interest in eMenlo Holdings Limited, the owner and operator of Menllo.com, a leading Web 2.0 online community in China. This investment will enable us to become one of the first movers in integrating Web2.0 content with 3G services in China.

During the year, Mr. Peter Yip was re-designated as Executive Director and appointed as Acting Chief Executive Officer. In addition, Dr. Xiaowei Chen was appointed as Chief Financial Officer and Executive Director. I am confident the new executive leadership team will be successful in driving your company to meet its strategic objectives.

Finally, I would like to take this opportunity to thank all employees at China.com for their hard work and our shareholders for their continued support during 2006. We look forward to an exciting 2007, delivering financial value to our shareholders and satisfying consumers.

Dr. Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong, 15th March, 2007

FINANCIAL REVIEW

Revenue and gross profit

Revenue from continuing operations for the year ended 31st December, 2006 was HK$320,045,000 representing a HK$18,355,000, or 5%, decrease as compared with last year. The net decrease was primarily attributable to the decrease in mobile services and applications revenue of HK$26,695,000 which was partially set off by an increase in advertising revenue from the internet and media segment of HK$8,340,000.

Gross profit margin maintained at a stable level of 58% in 2006, compared to 57% in 2005.

Other income

Other income increased by 36% to HK$37,197,000 in 2006, compared with HK$27,258,000 in 2005. The net increase was primarily due to a HK$7,935,000 increase in interest income from available-for-sale investments, together with a HK$761,000 increase in bank interest income during the year.

Selling and distribution costs

Selling and distribution costs increased to HK$102,101,000 in 2006, compared with HK$63,858,000 in 2005. The increase was mainly attributable to the additional marketing and promotion expenses incurred for our mobile services and applications business amounting to HK$40,881,000 in 2006.

Administrative expenses

Administrative expenses decreased by 4% to HK$114,134,000 in 2006 versus HK$118,822,000 in 2005. The net decrease was primarily due to continuous cost saving measures adopted by the Group to control overhead. Administrative expenses include share option expenses in 2006 amounting to HK$17,484,000 (2005: HK$8,508,000) recognized in accordance with HKFRS 2.

Other expenses

Other expenses increased by about HK$5,442,000 to HK$14,418,000 in 2006, compared to HK$8,976,000 for the corresponding period last year. The increase was primarily due to an increase in bad debt expense of HK$5,070,000.

Income tax

The Group recorded a tax expense of HK$7,559,000 in 2006, compared to HK$7,662,000 in 2005. The provision of income tax was HK$11,068,000 in 2006 which was partially offset by the deferred tax income of HK$3,509,000.

Discontinued operation

In December 2006, the Group discontinued its operation under the online games segment. Further details of the discontinued operation are set out in note 9 to the consolidated financial statements.

Minority interests

Profit shared by minority interests was HK$2,584,000 in 2006 compared to a loss shared by minority interests of HK$13,138,000 in 2005. Profit shared by minority interests in 2006 included HK$3,601,000 share of profit in the Group's minority interest in 17game which was set off by minority interests' share of loss in the Group's mobile services and applications segment in relation to the acquisition of TimeHeart Science Technology Limited and Beijing TimeHeart Information Technology Limited.

The loss in 2005 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. In December 2006, the Group discontinued its operation under the online games segment. Further details of the discontinued operation are set out in note 9 to the consolidated financial statements.

Profit for the year attributable to equity holders of the Company

Profit for the year attributable to equity holders of the Company was HK$621,487,000 in 2006, compared to HK$9,737,000 in 2005.

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$2,293,448,000 shareholders' funds as at 31st December, 2006. Shareholders' funds as at 31st December, 2005 were HK$1,515,821,000. Total assets amounted to HK$2,499,068,000 as at 31st December, 2006 as compared to HK$1,725,638,000 as at 31st December, 2005, of which HK$681,059,000 were bank balances and cash versus HK$402,937,000 as at 31st December, 2005 and HK$719,584,000 were available-for-sale investments versus HK$629,687,000 as at 31st December, 2005.

Capital structure

Except for an increase in the Group's bank borrowings by HK$41,730,000 to HK$127,530,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2006 as compared with that as at 31st December, 2005.

As at 31st December, 2006, the Group's bank borrowings of HK$127,530,000 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, 2006, an amount of HK$194,000,000, (2005: HK$99,184,000) of available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings of HK$127,530,000 (2005: HK$85,800,000). Neither time deposits nor bank balances (2005: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds maintained at a stable level of 6% as at 31st December, 2005 and 31st December, 2006, respectively.

The Group's net cash and available-for-sale investments was HK$1,273,113,000 (2005: HK$946,824,000), comprising of bank balances and cash of HK$681,059,000 (2005: HK$402,937,000), available-for-sale investments of HK$719,584,000 (2005: HK$629,687,000) and bank borrowings of HK$127,530,000 (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 31st December, 2006, no related hedges were made by the Group.

Contingent liabilities

(a) The directors of the Company assess the contingent tax liability that may arise from the disposal of Online Games as detailed in note 30 to the consolidated financial statements and consider such contingent tax liability is possible and will be confirmed only when the Inland Revenue Department concludes that the gain arising from the disposal is taxable. The directors of the Company do not consider such contingent tax liability is probable based on the information currently available and therefore no tax provision has been made in the consolidated financial statements. If such tax provision is recorded, the profit for the year will decrease approximately by HK$110,000,000.

(b) Beijing He He Technology Co., Ltd ("Beijing He He") has benefited from the preferential tax treatment as a high technology enterprise and is subject to an income tax rate of 15%. This preferential tax treatment is required to be applied every two years. While Beijing He He is in the process of completing this application for 2006, the Company's directors consider it probable that the application will be successful and therefore Beijing He He has made a provision for income tax using the preferential tax rate of 15%. If such a preferential tax treatment application is unsuccessful, the profit for the year would be reduced by approximately HK$6,500,000.

BUSINESS REVIEW

Online Games

In December 2006, in order to further unlock shareholders' value, we sold our online game business to CDC Games Corporation for a total consideration not exceeding HK$1,053 million (US$135 million) with HK$858 million (US$110 million) paid and HK$195 million (US$25 million) payable upon the occurrence of certain future events. This represented a gain of HK$564.4 million. The Group made its initial investment in the online games business in February 2004 and completed its final acquisition in March 2006.

The online game market in China is extremely competitive with hundreds of games launched each year, many well capitalized and experienced operators and constantly changing habits and tastes of players. These factors render the potential success of a particular game uncertain and make the online game business highly risky. Based on these factors, it is the Group's experience that the launch of a new online game in the China market requires significant time, investment and resources. Having conducted a thorough and careful assessment of the needs and prospects of the Group's current and potential business segments, we believe the sale of the online game business to CDC Games Corporation would allow the Group to concentrate its resources on its existing MVAS and portal businesses and to explore potential exciting new opportunities in the fast growing markets of China.

The proceeds of the sale of the online games business significantly strengthened the Group's balance sheet with net cash and available-for-sale investments of HK$1.3 billion as of December 31, 2006. In order to drive our MVAS and portal businesses to market eminence during this time of regulatory changes and industry consolidation, the Group will need to make significant investments in both segments. In addition, the Group plans to explore new investment opportunities in various high growth technology sectors and industries in China, the fastest growing economy in the world. The Group will leverage its deep and broad China experience and its robust balance sheet to identify, invest and operate compelling next generation businesses in media, technology and other related fields. The Group will partner with leading financial, educational and industrial institutions in these initiatives.

Mobile Value Added Services

As noted in prior announcements, the Group was alerted in June to policy changes for all subscription services on China Mobile's ("CMCC") Monternet platform which affected the Company's MVAS subscription services. The changes, which were implemented under the policy directives of China's Ministry of Information Industry, aim to address industry-wide objectives, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the MVAS industry and CMCC's Monternet.

The performance of the Group's mobile services and applications business as well as the rest of the industry was impacted by such regulatory changes. For the year ended December 31, 2006, total MVAS revenue was HK$241.5 million, drop 10% from 2005. However, our MVAS business has shown a healthy recovery from the regulatory changes. Our MVAS revenue in Q4 2006 was HK$51.2 million, increase 5% from Q3 2006. During the year, SMS and WAP continued to be our major revenue generators, representing 35% and 32% respectively of the total MVAS revenue. Remaining was mainly shared by our MMS and IVR services.

We believe the industry will consolidate towards a smaller group of more stable service providers which will ultimately provide opportunities to our MVAS business in the long run. The Group will employ the strong cash position to selectively acquire synergistic and earnings accretive companies in the industry.

During the year, the Group acquired TimeHeart Science Technology Limited and Beijing TimeHeart Information Technology Limited (collectively "TimeHeart Group"). TimeHeart Group is engaged in the mobile services and applications business with full line of mobile services and applications products. We believe this acquisition complements our current mobile services and applications platforms and provide the Group with the opportunity to further expand its market share.

To prepare for 3G's arrival in China, our mobile business has been working to move further upstream into the content provider segment of the business. Our online video program, "The Straight Show," which is designed as a Chinese version of "The Daily Show" has achieved wide popularity among Chinese Internet users. As a six-minute segment of comic news program, "The Straight Show" is specifically positioned as mobile content for the 3G era. It will provide synergistic support to our mobile services and applications business. In addition, we're also leveraging our Portal's partnership and investment in web2.0 companies such as Menllo.com (see below) to bring user generated content to not only our web portal, but also through 3G mobile services in the future.

In this year, we also put great effort on improving our service offerings and marketing channels, as well as exploring new cooperation opportunities with mobile operators in China, in order to increase our competitiveness and minimize the impact of the policy changes. In August, we won a contract from Beijing Mobile for the exclusive right to design, develop and operate the graphic channel of "Beijing in my hand", which features and promote hot and popular local products through the download of WAP pictures. We were also awarded the contract from Jiangsu Wuxi Mobile to send MMS on its behalf to its VIP customers. These contract wins further demonstrate our leadership position in the MVAS sector.

To further increase our services offerings, we signed an exclusive distribution agreement with Hancast Corporation, a South Korean mobile internet content provider. Hancast will provide us with popular South Korean mobile games, videos, music and fashion contents for exclusive distribution in China.

To further broaden our marketing channels, we proactively worked on the collaboration with handset vendors to embed our services and products into mobile phones. The company entered into an agreement with Nokia to allow the world's largest cell phone maker to pre-install our proprietary software in selected Nokia cell phones sold in China. The Group's products were already contracted to embed in handsets from major vendors including Motorola, Sony Ericsson, Nokia, Lenovo, TCL, BenQ-Siemens and KONKA.

MVAS is our core business unit and provides us growth opportunities. The Group will employ the strong cash position to selectively acquire synergistic and earnings accretive companies in the industry. Looking forward, the Company believes the MVAS industry will further consolidate towards a smaller group of more stable service providers which will ultimately benefit our business in the long run.

Portal

The portal business is where we started, and we continue to look for opportunities to leverage the great brand we own to deliver value to our shareholders. During 2006, our portal business has shown marked improvement since the implementation of various new initiatives including introduction of new entertainment content and strategic partnerships with global technology leaders such as Google.

Based on the agreement signed by Google and China.com portal in July 2006, Google is extending its advertisers' reach to millions of China.com portal's audience, in both China and abroad. The China.com portal is leveraging Google's leading technology to provide search service for its users. After 2 month's partnership, Google is expanding its presence on China.com portal beyond the text search functions when it launches video ads in China.com portal's English Channel serving primarily multinational companies investing in China. This was the first time Google Video Adsense entered China's Internet space.

Our online video program, "The Straight Show", which is designed as a Chinese version of "The Daily Show" has achieved wide popularity among Chinese internet users. "The Straight Show" is specifically positioned as mobile content for the 3G era. It will provide synergistic support to our MVAS business.

In November 2006, the China.com portal also formed partnership with Meetic (Paris: MEET.PA) to launch an online dating service in the China market. With this partnership, young career professionals, the key audience of China.com portal, will be able to access the global database of Meetic in English, French and German and use a variety of popular tools provided by Meetic's website to search, communicate and find their soul-mates. Meetic is the largest dating website in Europe with 25 million registered users and since its launch in 2002, more than 500,000 couples have become engaged.

The China.com portal has a long history in online coverage and involvement in sporting events in China. In December 2006, the China.com portal was appointed by Jilin Government as the exclusive web sponsor of the 2007 Asian Winter Games. This Asian Winter Game is the first sports event in Asia where all athletes have to register online, and also the first time to be broadcasted on internet media in Asia Winter Games history. The Games commenced on January 28th, 2007. For the first time in the history of Asian Winter Games, all 45 countries and regions from the Olympic Council of Asia (OCA) family came together to participate in the 6th Asian Winter Game. Through the exclusive online coverage, the China.com portal gained important recognition by thousands of athletes and officials from Asian countries, as well as tens of millions of sports fans worldwide.

In 2006, various channels in our portal received several leading industry awards including "Outstanding Brand Advertising Award" from Internet Society of China; "Outstanding Web Channel of 2006" award from State Council Information Office of the People's Republic of China. The email system of China.com portal was named "Best Brand in Commercial Value" by China Computer News.

Given the portal's strong brand recognition in China and its broadening partnerships with leading Wed 2.0 technology companies internationally and in China, the Group believes that continued resources should be deployed to leverage these partnerships and grow the portal business both organically and through potential acquisitions.

Accordingly, we have launched a US$20 million Web 2.0 Developer Program. The Group seeks to establish strategic relations with leading local Web 2.0 companies to accelerate the development of innovative products and services targeted specifically for the China market. The Group will invest up to US$20 million in selected Web 2.0 development partners. The Group will also leverage its deep relation with advertisers and broad knowledge of the market as one of the first Internet companies in China to provide marketing, advertising and sales support to its partners for their products and services. As part of the strategic partnership, our development partners will also be able to leverage the extensive market coverage of the Group including millions of growing subscribers of our MVAS and portal businesses.

In January 2007, as a part of the Web 2.0 Developer Program and a preparation for 3G in China, China.com portal acquired a five percent interest in eMenlo Holdings Limited, the owner and operator of Menllo.com, a leading Web 2.0 online community in China. This investment will enable our MVAS business unit to become one of the first movers in integrating Web2.0 content with 3G services in China. For instance, much of the user-generated content on Menllo.com can be made available on mobile phones through our MVAS business unit's 3G services.

Media and Travel

TTG's business in 2006 was the best-ever since year 2000. This could be attributed to the successful acquisitions of ad hoc special projects. 2006's success also hinges on TTG's ability to work closely with National Tourist Offices in the region and travel associations as their media partner.

Performance in the beginning of the year surged as a result of TTG's appointment as an event manager for a major tourism event in The Philippines while Q2 and Q3 saw TTG achieving above the target set. The year culminated with excellent performance in the last quarter through special projects such as production of event publications and supplements.

TTG also successfully created several new initiatives such as introduction of the online TTGmice Planner and entering into partnership to launch two new events in Shanghai in year 2007.

TTG events/exhibitions also saw much success and heightened revenues through organizing of DM Asia/Gifts & Stationary Fair; Incentive Travel & Conventions, Meetings Asia/Corporate Travel World and International Feng Shui Convention.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

In March, 2006, Prime Leader Holdings Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement by and among Tridal Pacific Limited, Skynet Global Limited, Mr. Hong Dai, Mr. Steve Xiaoming Zhao and Equity Pacific Limited ("Equity Pacific") for the acquisition of 24,569 ordinary shares, representing 52% of the total issued and outstanding shares in Equity Pacific for an aggregate consideration of HK$140,400,000 (US$18,000,000) and thereafter, become the legal and beneficial owner of 100% of Equity Pacific. The transaction contemplated under the agreement constituted a discloseable transaction of the Company and has been disclosed in accordance with the requirements of the GEM Listing Rules.

In July 2006, CDC Mobile Media Corporation ("CMMC"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement effective as of 25th July, 2006 (the "Agreement") by and among TimeHeart Science Technology Limited ("TimeHeart"), Beijing TimeHeart Information Technology Limited ("Beijing TimeHeart"), Fresh Earn Holdings Limited ("Fresh Earn"), Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (the "Founders") and Palmweb Inc. for the acquisition of 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders. In October 2006, the parties entered into an amendment to the Agreement effective as of 5th October, 2006 (the "Amendment") pursuant to which the parties agree to amend the terms of the Agreement. After the amendment of the terms, the total consideration was up to HK$122,216,000 under the Amendment. The purchase of 100% interest in TimeHeart and Beijing TimeHeart constituted a very substantial acquisition and connected transaction, the disposal of 10% interest in CMMC constituted a discloseable transaction and the transaction involving issue of new shares as part of the consideration, details of which have been disclosed in accordance with the requirements of the GEM Listing Rules. Please refer to the section headed "Connected Transactions" for details.

In November, 2006, China.com Corp. Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement for the sale of its 100% shareholding in the entire issued share capital of Prime Leader Holdings Limited and CDC Games Limited to CDC Games Corporation for a total consideration not exceeding HK$1,053,000,000 (US$135,000,000). CDC Games Corporation is connected to the Company as it is a wholly owned subsidiary of CDC Corporation, which owns approximately 77% of the Company. This connected transaction has been disclosed in accordance with the requirements of the GEM Listing Rules. Please refer to the section headed "Connected Transactions" for details.

EMPLOYEE INFORMATION

As at 31st December, 2006, the Group has 445 (2005:686) full-time employees of which 9 (2005:18) are based in Hong Kong, 394 (2005: 633) in China and 42 (2005: 35) 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.

The directors have pleasure in submitting their annual report together with the audited financial statements of the Group for the year ended 31st December, 2006.

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 36 to the consolidated 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.

Except for the disposal of its entire online games businesses as further detailed in note 9 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, 2006, and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 34 to 88.

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 28 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

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, 2006.

The Company has repurchased a total of 1,100,000 ordinary shares of the Company on the Stock Exchange in February 2007 for an aggregate amount of HK$534,980. The Directors believe that such repurchases will lead to an enhancement of the net asset value of the Company and/or its earnings per share and will benefit the Company and the Company's shareholders. Details of the share repurchase are as follows:–

Date of repurchase	Number of shares repurchased	Price per share repurchased Highest (HK$)	Lowest (HK$)
2nd February, 2007	700,000	0.4850	0.4800
5th February, 2007	200,000	0.4950	–
6th February, 2007	200,000	0.4950	–
Total:	1,100,000		

The Company is in the process of canceling the repurchased shares.

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, 2006, the Company's reserves available for distribution amounted to HK$1,076,874,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 10%. Purchases from the Group's five largest suppliers accounted for 38% of the total purchases for the year and purchases from the largest supplier included therein amounted to 28%.

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

Chen Xiaowei	(appointed on 3rd August, 2006)
Yip Hak Yung, Peter *(vice-chairman and acting chief executive officer)*	(re-designated as executive director and appointed as acting chief executive officer on 3rd August, 2006)
Lam Wai-Qun, Albert	(resigned as executive director and chief executive officer on 3rd August, 2006)

Non-executive directors

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

Independent non-executive directors

Chia Kok Onn	
Wang Cheung Yue, Fred	
Wong Sin Just	
Lam Lee G.	(appointed on 22nd December, 2006)

In accordance with article 99 of the Company's restated articles of association, Dr. Chen Xiaowei and Dr. Lam Lee G. 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. Wang Cheung Yue, Fred and Mr. Wong Sin Just will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Emoluments of the directors and the five highest paid individuals

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 11 and 12 to the consolidated 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

China.com Corp. Limited, a wholly owned subsidiary of the Company, and Asia Pacific Online Limited ("APOL") has entered into an Executive Services (CEO) Agreement (the "Executive Services Agreement") effective as of 12th April, 2006 with the latter agreeing to provide certain services to China.com Corp. Limited, including the services of Mr. Yip Hak Yung, Peter as acting chief executive officer of the Company for a period of 2 years. APOL shall be paid a cash remuneration of HK$1 per annum and granted options and contingent options to purchase an aggregate number of 239,356,507 of the Company's shares representing 2.5% and 3.0% respectively of the issued shares of the Company as at the date of the grant, 14th August, 2006. The Executive Services Agreement shall be automatically renewed for successive periods of one year after the expiration of the term unless either China.com Corp. Limited or APOL informs the other party in writing not less than 6 months prior to the expiration of the then-current term of its desire for the Executive Services Agreement to not be automatically renewed for the successive term.

An employment agreement effective as of 1st July, 2006 has been finalized and agreed to between Dr. Chen Xiaowei and each of China.com Corp. Limited (the "CCL Agreement") and Chinadotcom Communications Technology Development (Beijing) Limited ("CTDBL Agreement") for acting as chief financial officer and executive director of the Company, which agreements are determinable by either party by three months' prior written notice. China.com Corp. Limited and Chinadotcom Communications Technology Development (Beijing) Limited are each a wholly owned subsidiary of the Company.

Pursuant to the CCL Agreement, Dr. Chen shall be paid HK$669,120.00 per annum as base salary, and baseline performance bonus and options are payable in manner as follows:

(a) US$10,000.00 base bonus per quarter calculable by reference to the performance of the MVAS business unit of the Company.

(b) US$10,000.00 base bonus per quarter calculable by reference to the performance of the online games business unit of the Company.

(c) US$5,000.00 base bonus per quarter calculable by reference to the performance of the online portal business unit of the Company.

(d) An aggregate of 300,000 options to purchase Class A common shares of CDC Corporation, the ultimate holding company of the Company.

(e) An aggregate of 22,700,000 options to purchase shares of the Company.

Pursuant to the CTDBL Agreement, Dr. Chen shall be paid RMB288,000.00 per annum and the following allowances:

PRC assignment allowance of up to RMB795,000.00 per annum.

Home leave allowance of up to RMB50,000.00 per annum.

Housing allowance of up to RMB180,000.00 per annum.

Each of the non-executive directors and independent non-executive directors 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.

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

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, 2006, 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	Approximate percentage of interests
Chen Xiaowei	–	22,700,000	Personal/ beneficiary	0.52%
Chia Kok Onn	–	2,500,000	Personal/ beneficiary	0.06%
Ch'ien Kuo Fung, Raymond	6,274,000	18,000,000	Personal/ beneficiary	0.55%
Fang Xin	–	1,000,000	Personal/ beneficiary	0.02%
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	10,054,000	–	Corporate *Note (1)*	0.23%
Yip Hak Yung, Peter	2,400,000	17,000,000	Personal/ beneficiary	0.44%
Yip Hak Yung, Peter	–	239,356,507	Spouse/ Beneficiary *Note (2)*	5.47%
Lam Wai-Qun, Albert (resigned on 3rd August, 2006) *Note (3)*	1,500,000	–	Personal/ beneficiary *Note (3)*	0.03%

Notes:

(1) These shares were beneficially owned by Asia Internet Holdings Limited, a company 100% owned by Mr. Yip Hak Yung, Peter.

(2) These options were beneficially owned by Asia Pacific Online Limited, a company 50% owned by Mr. Yip Hak Yung, Peter's spouse and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children.

(3) Please refer to note 28 of the consolidated financial statements for option details of Mr. Lam Wai-Qun, Albert.

Options to subscribe for ordinary shares in the Company
Details of the options to subscribe for ordinary shares in the Company are set out in note 28 to the consolidated 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	Approximate percentage of interests
Chen Xiaowei	–	300,000	Personal/ beneficiary	0.26%
Chia Kok Onn	–	42,293	Personal/ beneficiary	0.04%
Ch'ien Kuo Fung, Raymond	813,773	924,167	Personal/ beneficiary	1.52%
Fang Xin	–	70,000	Personal/ beneficiary	0.06%
Lam Lee G.	–	10,000	Personal/ beneficiary	0.01%
Wang Cheung Yue, Fred	–	90,000	Personal/ beneficiary	0.08%
Wong Sin Just	–	20,000	Personal/ beneficiary	0.02%
Yip Hak Yung, Peter	15,588,289	6,044,999	Interest of children or spouse *Note (1)*	18.96%
Yip Hak Yung, Peter	–	90,000	Personal/ beneficiary	0.08%
Lam Wai-Qun, Albert (resigned on 3rd August, 2006)	–	– *Note (2)*	–	–

Note:

(1) 11,927,653 of the class A common shares and 6,044,999 share options were held by Asia Pacific Online Limited, a company 50% owned by Mr. Yip Hak Yung, Peter's spouse and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children. 3,660,636 of the class A common shares were held by the spouse of Mr. Yip.

(2) All options have forfeited during the year ended 31st December, 2006.

Options/stock appreciation rights to subscribe for Class A common shares in CDC Corporation

Name of director	Date of grant	Exercise price US$	Exercise period	Number of share options/ stock appreciation rights: Balance as at 1st January, 2006	Granted during the year	Exercised during the year	Forfeited/ Cancelled during the year	Balance as at 31st December, 2006
Chen Xiaowei	19/07/2005	2.7600	19/07/2006-18/07/2015	40,000	–	–	–	40,000
(appointed on	27/09/2005	3.2100	27/09/2006-26/09/2015	40,000	–	–	–	40,000
3rd August, 2006)	14/07/2006	3.9500	14/10/2006-13/07/2013	–	120,000 *Note (1)*	–	–	120,000
	25/08/2006	5.2500	25/11/2006-24/08/2013	–	100,000 *Note (1)*	–	–	100,000
Chia Kok Onn	01/09/2005	2.9760	01/09/2005-31/08/2015	50,000	–	28,125	–	21,875
	01/09/2005	2.9760	01/09/2006-31/08/2015	35,000	–	14,582	–	20,418
	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	–	25,000	25,000 *Note (2)*	–
	03/01/2006	3.2200	03/04/2006-02/01/2013	–	65,000 *Note (1)*	–	65,000 *Note (2)*	–
Ch'ien Kuo Fung,	22/06/1999	3.3750	22/06/2000-21/06/2009	66,667	–	–	–	66,667
Raymond	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
	27/04/2005	2.6860	27/07/2005-26/04/2015	62,500	–	–	–	62,500
	01/01/2006	3.2200	01/07/2006-31/12/2015	–	45,000	–	–	45,000
Fang Xin	16/11/2005	3.3000	16/11/2006-15/11/2015	70,000	–	–	–	70,000
Lam Lee G. *(appointed on 22nd December, 2006)*	22/12/2006	8.5100	22/03/2007-21/12/2013	–	10,000 *Note (1)*	–	–	10,000
Lam Wai-Qun, Albert	25/08/2004	4.2100	25/08/2005-24/08/2014	150,000	–	–	150,000	–
(resigned on *3rd August, 2006)*	15/09/2005	2.9940	15/12/2005-14/09/2015	300,000	–	–	300,000	–
Wang Cheung Yue, Fred	24/10/2005	3.2100	24/10/2006-23/10/2015	90,000	–	–	–	90,000
Wong Sin Just	22/12/2006	8.5100	22/03/2007-21/12/2013	–	20,000 *Note (1)*	–	–	20,000

Name of director	Date of grant	Exercise price US$	Exercise period	Number of share options/ stock appreciation rights: Balance as at 1st January, 2006	Granted during the year	Exercised during the year	Forfeited/ Cancelled during the year	Balance as at 31st December, 2006
Yip Hak Yung, Peter	22/06/1999	3.3750	22/06/2000-21/06/2009	60,000	–	–	–	60,000
	12/07/1999	5.0000	12/07/2000-11/07/2009	1,881,442*	–	–	1,881,442* Note (3)	–
	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* Note (4)	–
	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*
	03/01/2006	3.2200	03/04/2006-02/01/2013	–	600,000* Note (1)	–	–	600,000*
	12/04/2006	3.9900	12/07/2006-11/04/2013	–	2,400,000*	–	–	2,400,000*
	12/04/2006	3.9900	*Note (5)*	–	2,399,999*	–	–	2,399,999*

* These share options were granted to Asia Pacific Online Limited.

Notes:

(1) This represents stock appreciation right to subscribe for Class A common shares of CDC Corporation granted under the 2005 Stock Incentive Plan.

(2) Out of 50,000 share options to subscribe for Class A common shares granted to Mr. Chia Kok Onn on 15th September, 2005, 25,000 of such options were cancelled on 5th December, 2006. 65,000 stock appreciation right to subscribe for Class A common shares granted to Mr. Chia on 3rd January, 2006 were cancelled on 5th December, 2006.

(3) On 6th October, 2006, the transfer agent of CDC Corporation recorded a transfer an aggregate of 1,881,442 vested options to the C.W. Chu Foundation, a non-profit organization that serves the public interest in Hong Kong, pursuant to the terms of an Option Transfer Agreement effective as of 15th July, 2005 among CDC Corporation, Asia Pacific Online Limited and Mr. Yip Hak Yung, Peter.

(4) 600,000 share options to subscribe for Class A common shares granted to Mr. Yip Hak Yung, Peter on 25th March, 2004 were cancelled on 6th April, 2006.

Save as disclosed above and the Company's share option scheme disclosures in note 28 to the consolidated financial statements, as at 31st December, 2006, 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, 2006, 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	Number of underlying shares	Capacity and nature of interests	Approximate percentage of interests
China M Interactive (BVI) Limited	3,361,828,000	–	Direct beneficial owner	76.77%
Asia Pacific Online Limited	–	239,356,507	Direct beneficial owner	5.47%

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.

Asia Pacific Online Limited is a company 50% owned by Mr. Yip Hak Yung, Peter's spouse and 50% owned by a trust established for the benefit of Mr. Yip's spouse and his children.

Saved as disclosed above and in note 28 to the consolidated financial statements, as at 31st December, 2006, 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.

Subsequent to the year end, CDC Corporation has acquired an aggregate of 4,450,000 ordinary shares representing 0.10% of the issued share capital of the Company in January 2007.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 28 to the consolidated 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	316,056,507	88,575,257

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 4.00% – 4.69% 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 70.09% – 72.68% is used in the Black-Scholes model. It is assumed that based on historical pattern, no dividend would be paid out during the vesting period. The measurement dates used in the theoretical valuation calculations were the dates on which the options were granted.

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

COMPETING INTERESTS

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

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions, details of which have been disclosed in compliance with the requirements of the GEM Listing Rules.

Very substantial acquisition and connected transaction – purchase of 100% interest in TimeHeart Science Technology Limited and Beijing TimeHeart Information Technology Limited

In July 2006, CDC Mobile Media Corporation ("CMMC"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement effective as of 25th July, 2006 (the "Agreement") by and among TimeHeart Science Technology Limited ("TimeHeart"), Beijing TimeHeart Information Technology Limited ("Beijing TimeHeart"), Fresh Earn Holdings Limited ("Fresh Earn"), Ms. Fang Xiu Qin, Mr. Sun Kun Shan, Mr. Wang Bing and Mr. Sui Hai Gang (the "Founders") and Palmweb Inc. for the acquisition of 100% of the entire issued share capital of TimeHeart from Fresh Earn and the entire equity interest of Beijing TimeHeart from the Founders. In October 2006, the parties entered into an amendment to the Agreement effective as of 5th October, 2006 (the "Amendment") pursuant to which the parties agree to amend the terms of the Agreement. The following summary of the Agreement and the Amendment (the terms stated herein have the same meanings as those defined in the circular dated 13th November, 2006) sets out the major terms relating to consideration paid or to be paid to Fresh Earn as the Seller and other matters:

(i) RMB equivalent to US$1,600,000 (equivalent to HK$12,480,000).

(ii) RMB3,861,000 (equivalent to HK$3,731,000).

(iii) 10% of the entire issued share capital of CMMC representing approximately HK$13,949,520 in CMMC shares has been paid to Fresh Earn.

(iv) US$1,600,000 (equivalent to HK$12,480,000) in 27,320,490 China.com Restricted Shares converted at the First Conversion Price have been issued to Fresh Earn.

(v) The issue of a number of China.com Restricted Shares equivalent to a maximum amount of US$2,080,000 (equivalent to HK$16,224,000) converted at the Second Conversion Price to Fresh Earn within 21 Working Days after 30th April, 2008 subject to adjustment pursuant to the performance of TimeHeart which is a substantial part of the entire MVAS unit of the Company in Q4 2006 and in the year 2007 pursuant to a revised formula set forth in the Amendment instead of payment to the entire MVAS unit of the Company.

(vi) Mr. Sun Jiang Tao, currently the chief executive officer of Beijing TimeHeart and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, pursuant to the Amendment, remains as the chief executive officer of Beijing TimeHeart has been appointed as a director of the MVAS unit instead of its chief executive officer.

(vii) After the amendment of terms, the total consideration was up to HK$122,216,000, as opposed to originally up to HK$198,246,000 under the Agreement.

(viii) The purchase and sale of the entire issued share capital of TimeHeart and the entire equity interest of Beijing TimeHeart took place on 28th November, 2006.

As the profits ratio was over 160% and Mr. Sun Jiang Tao, the chief executive officer of Beijing TimeHeart (prior to its being acquired by CMMC) and a son of Mr. Sun Kun Shan, one of the substantial shareholders of Beijing TimeHeart, became a director of the Company's MVAS unit, the transaction was a very substantial acquisition and connected transaction of the Company under Rule 19.06 (5) of Chapter 19 and Rule 20.13 (1)(b) of Chapter 20 of the GEM Listing Rules and has been disclosed in accordance with the requirements of the GEM Listing Rules.

The directors are of the view that the Acquisition served the following purposes:

- For the year ended 31st December, 2005, the audited net profits after tax of Beijing TimeHeart was approximately HK$27 million, and compared with the total consideration of up to approximately HK$122 million, the price/earnings ratio is approximately 4.5. Compared with peers on Nasdaq such as KongZhong Corporation and Linktone Ltd. trading at over 10 times earning, management believes the Acquisition is good value for money.

- It will create synergy with the Company's existing MVAS platform as Beijing TimeHeart engages in a full line of MVAS business products namely SMS, MMS, PDA, WAP, IVR, RBT, JAVA Mflash and Media Stream. The MVAS business of CMMC and Beijing TimeHeart also differ in and geographic coverage with CMMC and Beijing TimeHeart being strong in the northeastern and western provinces such as Hunan, Xinjiang, Chongqing, Neimung, Shanxi, Liaoning and Heilongjiang. The Acquisition will enable China.com's wireless to first develop the PDA products, enhance cross selling opportunities, increase revenue and growth rate as well as market share of both the existing business unit and Beijing TimeHeart's.

- It will help China.com capture the emerging mobile value added applications opportunities such as PDA, Media Stream and Mflash.

- It will achieve cost savings by sharing marketing cost, co-marketing events, research and development and customer services resources, enabling further streamline of the existing MVAS business unit.

- It will generate additional revenue by leveraging distribution channel of partner companies and promoting partners contents/services.

- It will tap into expertise of Beijing TimeHeart's management team. The track record of Beijing TimeHeart indicates that its management could contribute to the management of the Company's MVAS unit and further improve the profitability of the Company.

- As stated in the Company's report of its 2006 Q2 earnings, the China Mobile Operators has introduced the policies in early July 2006 aimed at reducing customer complaints, increasing customer satisfaction and promoting the healthy development of the MVAS industry, which policies required, among other things, subscribers to provide double confirmations for orders and MVAS providers to send billing reminders to existing subscribers (the "New Policies"). The Directors consider that the New Policies have resulted in slower acquisition rate of new subscribers for MVAS services and higher cancellation rates among the Group's existing subscribers. The Directors also consider that whilst the New Policies would impact the operating environment of the MVAS industry in the near term resulting in consolidation in the MVAS industry, they would ultimately create a better operating environment for both consumers and service providers in the long run. In fact, by August 2006, the Company's MVAS business has begun to recover, with revenue recorded by the company's MVAS business for the months of August and September 2006 registering respective increase of 2% and 21% on a month-on-month basis. Therefore the Directors consider that the Acquisition, in particular, at the time when market sentiment is adversely affected by the introduction of the New Policies, provides the Group with the opportunity to further expand its market share in the MVAS industry, and to position the Group to benefit from the launch of 3G in the PRC in the near future. As an established player in the PRC MVAS industry, and with the anticipated potential for introducing additional value-added mobile services following the broadening of bandwidth in the near future, the Directors believe that the enlarged CMMC will be in a better position to capture new opportunities and to increase market share.

Major connected transaction – sale of 100% interest in wholly owned subsidiaries, Prime Leader Holdings Limited and CDC Games Limited to a connected person, CDC Games Corporation

In November 2006, China.com Corp. Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement dated 17th November, 2006 (the "Agreement") with CDC Games Corporation for the sale of its 100% shareholding in the entire issued share capital of Prime Leader Holdings Limited and CDC Games Limited to CDC Games Corporation, for a total consideration not exceeding HK$1,053,000,000 (US$135 million).

The total consideration, comprised of (a) the Tranche 1 Consideration in the total amount of US$110 million; and (b) the Bonus Consideration not exceeding US$25 million, paid as follows (the terms stated herein have the same meanings as those defined in the circular dated 7th December, 2006):

(a)(i) US$50 million of the Tranche 1 Consideration paid in cash upon Closing;

(a)(ii) The balance of the Tranche 1 Consideration, or US$60 million, shall be paid in the form of a non-secured promissory note bearing an interest rate of 5.0 % p.a., which promissory note shall become due and payable at the end of 18 months from Closing; and

(b) The Bonus Consideration shall become payable to the Company from CDC Games Corporation upon the successful listing of the online games business currently under Prime Leader Holdings Limited and CDC Games Limited on a stock exchange, and such amount payable, if any, shall be calculated at 5% of the market capitalization of the online games business on the first day of listing but in any event shall not exceed US$25 million.

As the consideration ratio is over 25%, and CDC Games Corporation is a wholly owned subsidiary of CDC Corporation, the ultimate parent of the Company, the transaction contemplated under the Agreement constituted a major transaction of the Company under Rule 19.06 (3) of Chapter 19 of the GEM Listing Rules and a connected transaction under Rule 20.13 (1)(a) of Chapter 20 of the GEM Listing Rules and has been disclosed in accordance with the requirements of the GEM Listing Rules.

The completion for the sale and purchase of the entire issued share capital of Prime Leader Holdings Limited and CDC Games Limited took place on 29th December, 2006.

The directors are of the view that the sale served the following purposes:

- For the year ended 31st December, 2005, the net profit/(loss) after tax of each of the Company's three business segments, namely online games, mobile services and applications, and internet and media, were respectively approximately HK$(20.7) million, HK$32.1 million and HK$(15.3) million, with the mobile services and applications segment contributing 69% to the Company's revenue and as the only profit generating business segment of the Company.

- Based on the Company's experience in the marketing and distribution of online games including its experience in the launch and operation of "Yulgang", it notes that launching a new online game in the China market requires significant time, investment and resources. The online game market in the China is extremely competitive with hundreds of games launched each year, many well capitalized and experienced operators and constantly changing habits and taste of players. These factors renders the potential success of a particular game very difficult to predict and makes the online games business a highly risky endeavor.

- On the basis that the shareholders' loans owing to CCL by each of Prime Leader Holdings Limited and CDC Games Limited are converted into share capital of Prime Leader Holdings Limited and CDC Games Limited (which is the intention of the parties prior to the completion of the sale), and assuming the total consideration for the sale comprised of only the Tranche 1 Consideration of US$110 million, the gain expected to accrue to the Company as at 30th September, 2006 as a result of the sale is HK$616,385,000. On the same basis but where the total consideration comprised of both the Tranche 1 Consideration of US$110 million and the Bonus Consideration of US$25 million, the gain expected to accrue to the Company is HK$811,385,000.

- Based on acquisition cost of HK$198,900,000 and investment cost of HK$31,200,000 for respectively the total assets of Prime Leader Holdings Limited and CDC Games Limited as at 30th September, 2006, and a total consideration of US$110 million, the sale would represent a return on investment of over 373% to the Company. As the Company's initial investment in the online game business only began in February 2004 with the subsequent acquisition of 100% of the assets under Prime Leader Holdings Limited occurring less than 9 months ago, the sale represents an excellent return on investment for the Company in such a short period of time.

- In July 2006, China Mobile Operators introduced new regulations that are intended to reduce unfair and unscrupulous practices by MVAS providers to enhance their subscribers' customer satisfaction. As a result of these regulations, the environment for all MVAS providers has become more challenging, and this will likely lead to consolidation of some of the smaller operators in the short term. However, in the long run, the Company believes that the more stringent regulatory environment and consolidation in the industry are positive developments for the MVAS sector as a whole, and the bigger players including its MVAS unit in particular. In order that it may be in a position to capture opportunities in the near future when the industry is expected to go through a consolidation phase, the Company intends to set aside significant resources to grow its MVAS business through acquisitions.

- The Company's portal business has shown marked improvement since the implementation of various new initiatives including introduction of new entertainment content and strategic partnerships with global technology leaders such as Google and Microsoft. Given the portal's strong brand recognition in China and its broadening partnerships with leading Web 2.0 technology companies (which are providers of latest internet services and products such as video, social networking and blogging) internationally and in China, the Company believes that continued resources should be deployed to leverage these partnerships and grow the portal business both organically and through potential acquisitions.

- Whilst the Company continues to enjoy a strong balance sheet with net cash and cash equivalents of HK$949 million as of 30th September, 2006, the Company believes that maintaining such a position is crucial to the future success of the Company. In order to remain competitive in its MVAS, portal and online games businesses, the Company will need to make significant investments in all three segments over both short and long terms. In addition, given the volatile nature of the operating environment of the Company's three businesses, the Company will need significant reserves so that it can withstand any unexpected change in these markets. To balance and satisfy all these competing and urgent needs, the Company would require extra funding in the near future. However, the trading volume and share price performance of the Company indicates that it would be extremely difficult to raise additional funds through the capital market at this time.

- Having conducted a thorough and careful assessment of the needs and prospects of each of the Company's three business segments, the importance of maintaining a strong cash position, and the difficulty for the Company to raise more funds from the market, the Company believes that the sale of the online games business at this time to the Purchaser would enable generate the best return for the Company and allow the Company to concentrate its resources on the MVAS and portal businesses.

CONTRACT OF SIGNIFICANCE

China.com Corp. Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement dated 17th November, 2006 for the sale of its 100% shareholding in the entire issued share capital of Prime Leader Holdings Limited and CDC Games Limited to CDC Games Corporation, for a total consideration not exceeding US$135,000,000. For further details of the transaction contemplated under the agreement, please refer to "Major connected transaction – sale of 100% interest in wholly owned subsidiaries, Prime Leader Holdings Limited and CDC Games Limited to a connected person, CDC Games Corporation" under the section headed "Connected Transactions" of this report.

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 10 and 34 to the consolidated financial statements, respectively.

CODE OF CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Company has applied the principles and complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the year ended 31st December, 2006.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference in compliance with the GEM Listing Rules. The audit committee has four members comprising all independent non- executive directors, Messrs. Wong Sin Just (Committee Chairman), Wang Cheung Yue, Fred, Chia Kok Onn and Lam Lee G. (appointed on 22nd December, 2006). 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, 2006 have been reviewed by the audit committee of the Company.

AUDITORS

Ernst & Young had been acting as auditors of the Company until they resigned on 28th December, 2005, when Deloitte Touche Tohmatsu were appointed in their stead.

The accounts have been audited by Deloitte Touche Tohmatsu who retire, and being eligible, offer themselves for reappointment.

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

Hong Kong, 15th March, 2007

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, 2006 the Board of the Company comprises a total of eight directors, with two executive directors, two non-executive directors and four 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/acting 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/acting 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.

The Board conducts regularly scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. The Board met 11 times during the financial year ended 31st December, 2006 to consider, among other things, reviewing and approving the quarterly, interim and annual results of the Group. The directors attend meetings in person or via telephone conference, as 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 second quarter in 2006.

Executive Directors	**Attendance**
Yip Hak Yung, Peter *(appointed as acting chief executive officer and re-designated from non-executive director to executive director effective from 3rd August, 2006)*	82%
Lam Wai-Qun, Albert *(resigned as chief executive officer and executive director effective from 3rd August, 2006)*	80%
Chen Xiaowei *(appointed on 3rd August, 2006)*	83%
Non-executive Directors	
Ch'ien Kuo Fung, Raymond *(chairman of the board of directors)*	82%
Fang Xin	82%
Independent Non-executive Directors	
Wong Sin Just	64%
Wang Cheung Yue, Fred	64%
Chia Kok Onn	64%
Lam Lee G. *(appointed on 22nd December, 2006)*	N.A.

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.

The company has in place appropriate insurance cover in respect of legal action against its directors and officers.

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"). In response to specific enquiry from the Company, the directors have confirmed that they have complied with or they were not aware of any non-compliance with the Required Standard of Dealings for the year ended 31st December, 2006.

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 25th February, 2000 with written terms of reference as amended and restated. The Audit Committee has four independent non-executive directors comprising Messrs. Wong Sin Just (Committee Chairman), Wang Cheung Yue, Fred, Chia Kok Onn and Lam Lee G. (appointed on 22nd December, 2006. 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. Four 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%
Lam Lee G. *(appointed on 22nd December, 2006)*	N.A.

Nominating Committee

The Nominating Committee was established on 28th February, 2005 with written terms of reference. The Nominating Committee has three independent non-executive directors comprising Messrs. Chia Kok Onn (Committee Chairman), Wang Cheung Yue, Fred, and Wong Sin Just. 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. No meeting of the Nominating Committee was held during the year.

Remuneration Committee

The Remuneration Committee was established on 25th February, 2000 with written terms of reference as amended and restated. The Remuneration Committee has one executive director, Mr. Yip Hak Yung, Peter, one non-executive director, Dr. Ch'ien Kuo Fung, Raymond and three independent non-executive directors, namely, Messrs. Chia Kok Onn, Wang Cheung Yue, Fred (Committee Chairman) and Wong Sin Just. 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. No meeting of the Remuneration Committee was held during the year.

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, 2006, 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 Independent Auditor's Report.

Auditors' Remuneration

For the year ended 31st December, 2006, approximately HK$7,308,000 has been paid or payable to Deloitte Touche Tohmatsu, auditors of the Company for audit services.

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 SHAREHOLDERS OF CHINA.COM INC.
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China.Com Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 88, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15th March, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations			
Revenue	6	**320,045**	338,400
Cost of sales		**(133,370)**	(145,900)
Gross profit		**186,675**	192,500
Other income		**37,197**	27,258
Selling and distribution costs		**(102,101)**	(63,858)
Administrative expenses		**(114,134)**	(118,822)
Other expenses		**(14,418)**	(8,976)
Interest expense on bank borrowings wholly repayable within five years		**(4,175)**	(3,173)
(Loss) profit before tax		**(10,956)**	24,929
Income tax expense	8	**(7,559)**	(7,662)
(Loss) profit for the year from continuing operations		**(18,515)**	17,267
Discontinued operation			
Profit (loss) for the year from discontinued operation	9	**642,586**	(20,668)
Profit (loss) for the year	10	**624,071**	(3,401)
Attributable to:			
Equity holders of the Company		**621,487**	9,737
Minority interests		**2,584**	(13,138)
		624,071	(3,401)
(Loss) earnings per share	14		
From continuing and discontinued operations			
Basic		**14.42 cents**	0.23 cent
Diluted		**14.41 cents**	0.23 cent
From continuing operations			
Basic		**(0.41) cent**	0.73 cent
Diluted		**(0.41) cent**	0.73 cent

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current Assets			
Plant and equipment	15	**10,864**	23,809
Goodwill	16	**520,281**	521,196
Other intangible assets	17	**28,473**	80,978
Available-for-sale investments	20	**525,921**	560,484
Note receivable	21	**468,000**	–
		1,553,539	1,186,467
Current Assets			
Accounts receivable	19	**39,366**	43,952
Prepayments, deposits and other receivables	19	**24,683**	17,982
Available-for-sale investments	20	**193,663**	69,203
Amounts due from fellow subsidiaries	22	**6,061**	4,400
Amount due from ultimate holding company	22	**697**	697
Bank balances and cash	23	**681,059**	402,937
		945,529	539,171
Total Assets		**2,499,068**	1,725,638
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	24	**437,926**	417,077
Reserves		**1,855,522**	1,098,744
Equity attributable to equity holders of the Company		**2,293,448**	1,515,821
Minority interests		**12,933**	32,249
Total Equity		**2,306,381**	1,548,070
Non-current Liabilities			
Deferred tax liabilities	25	**4,743**	6,134
Current Liabilities			
Accounts payable	26	**16,890**	20,571
Other payables and accrued liabilities	26	**27,080**	36,603
Deferred revenue		**3,705**	20,348
Tax liabilities		**5,835**	2,276
Amounts due to fellow subsidiaries	22	**6,904**	5,836
Bank borrowings	27	**127,530**	85,800
		187,944	171,434
Total Equity and Liabilities		**2,499,068**	1,725,638
Total assets less current liabilities		**2,311,124**	1,554,204

The consolidated financial statements on pages 34 to 88 were approved and authorised for issue by the board of directors on 15th March, 2007 and are signed on its behalf by:

Chen Xiaowei
DIRECTOR

Ch'ien Kuo Fung, Raymond
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2006

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Goodwill reserve HK$'000	Investment revaluation reserve HK$'000	Intangible assets 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, 2005	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 upon exercises of share options	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 and 1st January, 2006	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	–	–	–	(1,661)	–	–	–	–	–	(1,661)	–	(1,661)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	14,985	–	–	14,985	–	14,985
Net (expenses) income recognised directly in equity	–	–	–	(1,661)	–	–	14,985	–	–	13,324	–	13,324
Profit for the year	–	–	–	–	–	–	–	–	621,487	621,487	2,584	624,071
Investment revaluation reserve released on disposal of available-for-sale investments	–	–	–	109	–	–	–	–	–	109	–	109
Total recognised income and expense for the year	–	–	–	(1,552)	–	–	14,985	–	621,487	634,920	2,584	637,504
Transfer	–	–	–	–	–	5,640	–	–	(5,640)	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	–	–	–	17,484	–	17,484	–	17,484
Shares issued upon exercises of share options	4	4	–	–	–	–	–	–	–	8	–	8
Transaction costs attributable to issue of new shares	–	(16)	–	–	–	–	–	–	–	(16)	–	(16)
Acquisition of additional equity interest in a subsidiary	18,113	84,589	–	–	12,350	–	–	–	–	115,052	(35,850)	79,202
Acquisition of subsidiaries	2,732	9,748	–	–	–	–	–	–	–	12,480	13,950	26,430
Disposal of subsidiaries	–	–	–	–	(12,350)	–	(2,301)	–	12,350	(2,301)	–	(2,301)
At 31st December, 2006	437,926	1,018,727	(31,193)	(18,649)	–	24,123	18,115	33,168	811,231	2,293,448	12,933	2,306,381

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, 2006

	Notes	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(10,956)**	24,929
Adjustments for:			
Allowance for bad and doubtful debts		**6,047**	929
Amortisation of other intangible assets		**40,679**	26,246
Depreciation of plant and equipment		**12,539**	9,243
(Gain) loss on disposal of available-for-sale investments		**(258)**	160
Gain on disposal of plant and equipment		**(368)**	(156)
Interest expense		**4,175**	3,183
Interest income on available-for-sale investments		**(29,927)**	(21,992)
Other interest income		**(7,045)**	(5,482)
Profit (loss) from discontinued operation		**78,151**	(20,668)
Share-based payments expense		**17,484**	8,508
Operating cash flows before movements in working capital changes		**110,521**	24,900
Decrease in accounts receivable		**2,193**	6,784
(Increase) decrease in prepayments, deposits and other receivables		**(1,822)**	798
(Increase) decrease in amounts due from fellow subsidiaries		**(1,661)**	1,214
Increase in accounts payable		**18,183**	6,624
Increase (decrease) in other payables and accrued liabilities		**17,193**	(7,145)
Increase in deferred revenue		**15,267**	9,822
Increase in amounts due to fellow subsidiaries		**2,998**	1,683
Cash generated from operations		**162,872**	44,680
Overseas taxes paid		**(7,509)**	(4,119)
NET CASH FROM OPERATING ACTIVITIES		**155,363**	40,561
INVESTING ACTIVITIES			
Net cash inflow from disposal of a subsidiary	30	**230,708**	–
Proceeds from disposal of available-for-sale investments		**210,669**	101,400
Interest income on available-for-sale investments		**20,709**	21,992
Other interest income		**7,625**	5,482
Proceeds from disposal of plant and equipment		**716**	404
Purchases of available-for-sale investments		**(301,860)**	–
Acquisition of additional equity interest in a subsidiary	29a	**(37,698)**	(7,799)
Purchases of other intangible assets		**(25,186)**	–
Purchases of plant and equipment		**(21,095)**	(13,949)
Acquisition of subsidiaries	29b	**(13,100)**	(12,385)
Payment of acquisition consideration		**–**	(101,232)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**71,488**	(6,087)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(156,000)**	(31,493)
Interest paid		**(4,175)**	(3,183)
Share issue expenses		**(16)**	(16)
New bank borrowings		**197,730**	–
Proceeds from issue of share capital		**8**	8,915
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**37,547**	(25,777)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**264,398**	8,697
CASH AND CASH EQUIVALENTS AT 1st JANUARY		**402,937**	390,104
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**13,724**	4,136
CASH AND CASH EQUIVALENTS AT 31st DECEMBER represented by bank balances and cash		**681,059**	402,937

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, 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; and the provision of content and internet services, advertising services through the internet and a travel magazine, event organising services and magazine publication. In prior years, the Group was also engaged in the development and operations of online games. That operation was discontinued in 2006 (see note 9).

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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group except for HKAS 1 (Amendment), HKFRS 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 10 which may have effect on the Group's future results. The management has 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.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[6]

1 Effective for annual periods beginning on or after 1st January, 2007
2 Effective for annual periods beginning on or after 1st March, 2006
3 Effective for annual periods beginning on or after 1st May, 2006
4 Effective for annual periods beginning on or after 1st June, 2006
5 Effective for annual periods beginning on or after 1st November, 2006
6 Effective for annual periods beginning on or after 1st March, 2007

3. 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. 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 entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

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 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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, the acquiree's share of identifiable assets, liabilities and contingent liabilities are notionally restated to their fair values at the date of each exchange transaction to determine the amount of any goodwill associated with each transaction, any adjustment to those fair values relating to previously held interest of the acquirer is credited in revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated 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.

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 in 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 operations of online games is recognised when services are provided.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

All prepaid fees received from customers of internet and media and online games are initially recognised as deferred revenue and revenue is recognised when the above revenue recognition criteria are met.

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 and after taking into account of their estimated residual value, 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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.

Borrowing costs

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

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 when employees have rendered service entitling them to the contribution.

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 consolidated 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to 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.

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 note receivable, accounts receivable, certain other receivables, amounts due from fellow subsidiaries and 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 loss 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.

3. **SIGNIFICANT ACCOUNTING POLICIES (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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Financial liabilities

The Group's financial liabilities represent other financial liabilities, which including accounts payable, certain other payables and accrued liabilities, bank borrowings and amounts due to fellow subsidiaries, 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.

Financial liabilities

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

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

Share options granted to employees

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to 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 profits.

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.

4. 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 payments 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 cost 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, 2006, the carrying amount of goodwill is HK$551,474,000. Details of the impairment testing on goodwill are disclosed in note 18.

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. 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.

Contingent tax liabilities

As at 31st December, 2006, the Group had contingent tax liabilities as disclosed in note 31. The directors of the Company estimate such contingent tax liabilities is not probable based on the information currently available and therefore no tax provision has been made in the consolidated financial statements. If such tax provision is recorded, the profit for the year will decrease approximately by HK$116,500,000.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, note receivable, accounts receivable, certain other receivables, amounts due from fellow subsidiaries, amount due from ultimate holding company, bank balances, accounts payable, certain other payables and accrued liabilities, bank borrowings and amounts due to fellow subsidiaries. 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.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowing (see note 27 for details of these borrowings). In view of the short term nature of the fixed-rate bank borrowing, the directors of the Company consider the fair value interest rate risk is insignificant.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 27 for details of these borrowings). It is the Group's policy to keep its borrowings as floating rate of interests so as to minimize the fair value interest rate risk.

Price risk

The Group's available-for-sale investments 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.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets, including the note receivable, is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt and note receivable 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.

The credit risk on liquid funds is limited because the conunterparties 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 except for the note receivable of HK$468,000,000, which is receivable from a company incorporated in the Cayman Islands.

6. REVENUE

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

	2006 HK$'000	2005 HK$'000
Continuing operations:		
Mobile services and applications income	**241,542**	268,237
Internet and media	**78,503**	70,163
	320,045	338,400
Discontinued operation:		
Online games	**254,536**	48,915
	574,581	387,315

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – mobile services and applications and internet and media. 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;

and

Internet and media – sale of online banner advertising, sponsorships, offline advertising campaigns, direct mailings and online sales.

The Group was also involved in the distribution of online games. That operation was discontinued in December 2006 (see note 9).

Segment information about these businesses is presented below.

Year ended 31st December, 2006

	Continuing operations				Discontinued operation	
	Mobile services and applications HK$'000	Internet and media HK$'000	Elimination HK$'000	Total HK$'000	Online games HK$'000	Consolidated HK$'000
REVENUE						
External sales	241,542	78,503	–	320,045	254,536	574,581
Inter-segment sales	–	10,023	(10,023)	–	–	–
Total	241,542	88,526	(10,023)	320,045	254,536	574,581
RESULT						
Segment results	(694)	(8,041)	–	(8,735)	78,151	69,416
Gain on disposal of discontinued operation				–	564,435	564,435
Interest income and unallocated other corporate income				37,197	–	37,197
Interest expense on bank borrowings wholly repayable within five years				(4,175)	–	(4,175)
Unallocated corporate expenses				(35,243)	–	(35,243)
(Loss) profit before tax				(10,956)	642,586	631,630
Income tax expense				(7,559)	–	(7,559)
(Loss) profit for the year				(18,515)	642,586	624,071

Inter-segment sales are charged at prevailing market rates.

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For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

As at 31st December, 2006

	Mobile services and applications HK$'000	Internet and media HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	730,134	53,118	783,252
Available-for-sale investments and unallocated corporate assets			1,715,816
Total assets			2,499,068
LIABILITIES			
Segment liabilities	26,442	29,222	55,664
Unallocated corporate liabilities			137,023
Total liabilities			192,687

For the year ended 31st December, 2006

	Continuing operations				Discontinued operation	
	Mobile services and applications HK$'000	Internet and media HK$'000	Unallocated HK$'000	Total HK$'000	Online games HK$'000	Consolidated HK$'000
OTHER INFORMATION						
Depreciation and amortisation	12,893	3,694	–	16,587	36,631	53,218
Allowance for bad and doubtful debts	3,400	2,605	(6)	5,999	48	6,047
Share based payments expense	–	–	17,484	17,484	–	17,484
Gain (loss) on disposal of plant and equipment	641	–	–	641	(273)	368
Capital expenditure:						
Plant and equipment *(note 15)*	3,598	3,688	–	7,286	15,117	22,403
Other intangible assets *(note 17)*	18,298	–	–	18,298	25,186	43,484

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Year ended 31st December, 2005

	Continuing operations				Discontinued operation	
	Mobile services and applications HK$'000	**Internet and media** HK$'000	**Eliminations** HK$'000	**Total** HK$'000	**Online games** HK$'000	**Consolidated** HK$'000
REVENUE						
External sales	268,237	70,163	–	338,400	48,915	387,315
Inter-segment sales	–	4,694	(4,735)	(41)	41	–
Total	268,237	74,857	(4,735)	338,359	48,956	387,315
RESULT						
Segment results	36,866	(14,333)	–	22,533	(20,874)	1,659
Interest income and unallocated other corporate income				27,258	216	27,474
Interest expense on bank borrowings wholly repayable within five years				(3,173)	(10)	(3,183)
Unallocated corporate expenses				(21,689)	–	(21,689)
Profit (loss) before tax				24,929	(20,668)	4,261
Income tax charge				(7,662)	–	(7,662)
Loss for the year				17,267	(20,668)	(3,401)

Inter-segment sales are charged at prevailing market rates.

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For the year ended 31st December, 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

As at 31st December, 2005

	Continuing operations		Discontinued operation	
	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

	Continuing operations				Discontinued operation	
	Mobile services and applications HK$'000	Internet and media HK$'000	Unallocated HK$'000	Total HK$'000	Online games HK$'000	Consolidated HK$'000
OTHER SEGMENT INFORMATION						
Depreciation and amortisation	12,364	3,073	–	15,437	20,052	35,489
Loss on disposal of available-for-sale investments	–	–	160	160	–	160
Allowance for bad and doubtful debts	334	511	84	929	–	929
Share based payments expense	–	–	8,508	8,508	–	8,508
Gain on disposal of plant and equipment	–	–	156	156	–	156
Capital expenditure:						
Plant and equipment *(note 15)*	1,543	2,473	–	4,016	10,006	14,022
Other intangible assets *(note 17)*	76	–	–	76	10,139	10,215

Geographical segments

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

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

	Revenue from continuing operations by geographical market	
	2006	2005
	HK$'000	HK$'000
PRC	**256,914**	286,933
Hong Kong	**617**	1,557
Singapore	**62,514**	49,910
	320,045	338,400

Revenue from the Group's discontinued operation was derived principally from the PRC (2006: HK$254,536,000, 2005: HK$48,915,000).

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	
			Year ended	Year ended
	31.12.2006	31.12.2005	**31.12.2006**	31.12.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**740,409**	892,384	**64,762**	24,058
Singapore	**42,537**	35,603	**1,088**	68
Hong Kong	**306**	685	**37**	111
	783,252	928,672	**65,887**	24,237

8. INCOME TAXES EXPENSE

	2006	2005
	HK$'000	HK$'000
Current tax charge for the year – overseas	**11,068**	6,308
Deferred tax (credit) charge *(note 25)*	**(3,509)**	1,354
	7,559	7,662

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 made in the financial statements as the Group had no significant assessable profits in Hong Kong for either year.

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

8. INCOME TAXES EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit before tax per the income statement as follows:

Year ended 31st December, 2006

	PRC HK$'000	Hong Kong HK$'000	Singapore HK$'000	Total HK$'000
Profit (loss) before tax				
Continuing operations	(3,929)	(16,816)	9,789	(10,956)
Discontinued operation	78,151	564,435	–	642,586
	74,222	547,619	9,789	631,630
Statutory tax rate	33%	17.5%	20%	
Tax at the statutory tax rate	24,493	95,833	1,958	122,284
Tax effect of different tax rates of subsidiaries operating in PRC	(9,924)	–	–	(9,924)
Tax concession	(37,335)	–	–	(37,335)
Tax effect of income not taxable for tax purposes	–	(99,090)	(118)	(99,208)
Tax effect of expenses not deductible for tax purposes	18,901	524	533	19,958
Tax effect of tax losses not recognised	9,051	2,733	–	11,784
Tax expense	5,186	–	2,373	7,559

Year ended 31st December, 2005

	PRC HK$'000	Hong Kong HK$'000	Singapore HK$'000	Total HK$'000
Profit (loss) before tax				
Continuing operations	27,803	(7,123)	4,249	24,929
Discontinued operation	(20,668)	–	–	(20,668)
	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 purposes	(19)	(4,352)	(207)	(4,578)
Tax effect of expenses not deductible for tax purposes	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

9. 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 Prime Leader Holdings Limited and CDC Games Limited, subsidiaries established under the laws of the British Virgin Islands, and their subsidiaries (collectively "Online Games") in December 2006. Online Games was principally engaged in the development and operations of online games in the PRC.

The Group disposed of its entire shareholding in Online Games to CDC Games Corporation, a fellow subsidiary, for net proceeds of approximately HK$858,000,000 (US$110,000,000) in December 2006, with a carrying amount of approximately HK$293,565,000 at the date of disposal. The gain on disposal of the discontinued operation amounted to HK$564,435,000.

Pursuant to the share purchase agreement between the Group and CDC Games Corporation, a contingent consideration shall become payable to the Group from CDC Games Corporation where the online games business currently under Online Games is successfully listed within 12 months from December 2006 on NASDAQ, a stock exchange in the United Kingdom, or the main board of the Stock Exchange, and such amount payable, if any, shall be calculated at 5% of the market capitalization of the online games business on the first day of listing but in any event shall not exceed HK$195,000,000 (US$25,000,000), and shall be due within 30 days of the first day of the listing. As of 31st December, 2006, the directors of the Company did not consider the outcome of this contingency was probable and accordingly, no adjustment for the contingent payment has been recorded in the consolidated financial statements.

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

	2006
	HK$'000
Profit from discontinued operation	**78,151**
Gain on disposal of discontinued operation *(see note 30)*	**564,435**
	642,586
Attributable to:	
Equity holders of the Company	**638,985**
Minority interests	**3,601**
	642,586

9. DISCONTINUED OPERATION (continued)

The results of the discontinued operation for the period from 1st January, 2006 to the date of disposal, which have been included in the consolidated income statement, were as follows:

	2006	2005
	HK$'000	HK$'000
Revenue	**254,536**	48,915
Cost of sales	**(100,316)**	(31,250)
Gross profit	**154,220**	17,665
Other income	**674**	216
Selling and distribution costs	**(24,320)**	(18,672)
Administrative expenses	**(38,956)**	(13,272)
Other expenses	**(13,467)**	(6,595)
Interest expense on bank borrowings wholly repayable within five years	**–**	(10)
Profit (loss) before tax	**78,151**	(20,668)
Income tax expense	**–**	–
Profit (loss) for the period	**78,151**	(20,668)

During 2006, the discontinued operation generated HK$168,574,000 of the Group's net operating cash flows and used HK$29,663,000 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 30.

The comparative information for the consolidated income statement and cash flow statement has been reclassified to reflect the results of the discontinued operation for the year ended 31st December, 2005.

10. PROFIT (LOSS) FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):						
Depreciation of plant and equipment	**8,168**	7,838	**4,371**	1,405	**12,539**	9,243
Amortisation of other intangible assets included in:						
– cost of sales	**–**	–	**19,114**	12,214	**19,114**	12,214
– other expenses	**8,419**	7,599	**13,146**	6,433	**21,565**	14,032
Total depreciation and amortisation	**16,587**	15,437	**36,631**	20,052	**53,218**	35,489
Staff costs (including directors' emoluments)	**92,962**	91,283	**33,278**	9,372	**126,240**	100,655
Retirement benefits scheme contributions	**3,873**	4,022	**607**	637	**4,480**	4,659
Total staff costs	**96,835**	95,305	**33,885**	10,009	**130,720**	105,314
Auditors' remuneration	**3,876**	4,382	**3,432**	70	**7,308**	4,452
Net foreign exchange losses (gain)	**1,645**	553	**(38)**	(94)	**1,607**	459
(Gain) loss on disposal of plant and equipment	**(641)**	(156)	**273**	–	**(368)**	(156)
Marketing and promotion expenses	**73,441**	33,343	**13,163**	15,703	**86,604**	49,046
(Gain) loss on disposal of available-for-sale investments	**(258)**	160	**–**	–	**(258)**	160
Allowance for bad and doubtful debts (included in other expenses)	**5,999**	929	**48**	–	**6,047**	929
Interest income on available-for-sale investments	**(29,927)**	(21,992)	**–**	–	**(29,927)**	(21,992)
Other interest income	**(6,371)**	(5,266)	**(674)**	(216)	**(7,045)**	(5,482)

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11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2005: 13) directors were as follows:

	Salaries, Allowances and benefits in kind HK$'000	Share-based payments HK$'000	Fees HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31st December, 2006					
Executive directors:					
Mr. Yip Hak Yung, Peter *(note a)*	–	2,389	65	–	2,454
Ms. Chen Xiao Wei *(note b)*	1,055	568	–	–	1,623
Mr. Lam Wai Qun, Albert *(note c)*	1,995	1,807	–	39	3,841
	3,050	4,764	65	39	7,918
Independent non-executive directors:					
Mr. Wong Sin Just	–	148	195	–	343
Mr. Wang Cheung Yue, Fred	–	671	156	–	827
Mr. Chia Kok Onn	–	370	176	–	546
Mr. Lam Lee G. *(note b)*	–	–	3	–	3
	–	1,189	530	–	1,719
Non-executive directors:					
Dr. Ch'ien Kuo Fung, Raymond	–	901	–	–	901
Mr. Fang Xin	–	186	–	–	186
	–	1,087	–	–	1,087
	3,050	7,040	595	39	10,724

Notes:

a. Re-designated as executive director during the year ended 31st December, 2006.

b. Appointed as directors during the year ended 31st December, 2006.

c. Resigned as director during the year ended 31st December, 2006.

11. DIRECTORS' EMOLUMENTS (continued)

	Salaries, Allowances and benefits in kind HK$'000	Share-based payments HK$'000	Fees 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 d)*	1,950	507	–	12	2,469
Mr. Lam Wai Qun, Albert *(note e)*	137	380	–	1	518
Mr. Wang Xiao Hui *(note d)*	–	–	–	–	–
Mr. Zhou Shun Ao *(note d)*	–	–	–	–	–
Mr. Lam Kwok Tai, Anthony *(note f)*	–	–	–	–	–
Mr. Keith Geoffrey Oliver *(note d)*	–	–	–	–	–
	2,087	887	–	13	2,987
Independent non-executive directors:					
Mr. Chou Kei Fong, Silas *(note d)*	–	131	117	–	248
Mr. Wong Sin Just	–	50	195	–	245
Mr. Wang Cheung Yue, Fred	–	362	156	–	518
Mr. Chia Kok Onn	–	126	176	–	302
	–	669	644	–	1,313
Non-executive directors:					
Dr. Ch'ien Kuo Fung, Raymond *(note g)*	–	507	–	–	507
Mr. Yip Hak Yung, Peter *(note g)*	–	507	76	–	583
Mr. Fang Xin *(note e)*	–	46	–	–	46
	–	1,060	76	–	1,136
	2,087	2,616	720	13	5,436

Notes:

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

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

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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. During the year ended 31st December, 2006, 248,357,000 (2005: 21,500,000) 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 28.

11. DIRECTORS' EMOLUMENTS (continued)

During the year ended 31st December, 2006, 4,845,000 (2005: 740,000) share options to subscribe for Class A common shares in CDC Corporation (the "CDC Share Options") 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, 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, 4,800,000 (2005: 145,000) CDC Share Options were held by Asia Pacific Online Limited ("Asia Pacific"), a company owned by the spouse of Mr. Yip Hak Yung, Peter, and a trust established for the benefit of Mr. Yip's children.

During the year ended 31st December, 2006, 915,000 (2005: Nil) stock appreciation rights to subscribe for Class A common shares in the capital of CDC Corporation ("SARs") were granted by CDC Corporation to certain directors of the Company under a stock appreciation rights plan of CDC Corporation in respect of the services of the directors to the CDC Corporation group, which entitle the holders of the SARs to receive an amount equal to the excess, if any, of the fair market value of one share on the date of exercise of the SARs over the exercise price, subject to certain vesting provisions. Out of the SARs held by the directors, 600,000 (2005: Nil) SARs were held by Asia Pacific.

No value in respect of the CDC Share Options or SARs granted during the year has been charged to the Group's consolidated income statement, or is otherwise included in the above directors' remuneration disclosures (2005: Nil).

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**6,750**	2,838
Retirement benefits scheme contributions	**6**	231
Performance related incentive payments	**2,090**	12
	8,846	3,081

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK$Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**3**	–
	3	3

13. DIVIDENDS

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

14. (LOSS) 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:

	2006 HK$'000	2005 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	**621,487**	9,737

Number of shares

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,311,304**	4,152,551
Effect of dilutive potential ordinary shares: Options	**408**	6,713
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**4,311,712**	4,159,264

From continuing operations

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

	2006 HK$'000	2005 HK$'000
Earnings		
Profit for the year attributable to equity holders of the Company	**621,487**	9,737
Less: (Profit) loss for the year from discontinued operations attributable to equity holders of the Company	**(638,985)**	20,668
(Loss) earnings for the purposes of basic (loss) earnings per share from continuing operations	**(17,498)**	30,405

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

From discontinued operation

Basic earnings per share for the discontinued operation is 14.82 cents per share (2005: basic loss per share of 0.50 cents) and diluted earnings per share for the discontinued operation is 14.82 cents per share (2005: diluted loss per share of 0.50 cents), based on the profit for the year from the discontinued operations attributable to equity holders of the Company of HK$638,985,000 (2005: loss of 20,668,000) and the denominators detailed above for both basic and diluted earnings per share.

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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, 2005	3,918	778	10,106	44,848	1,444	61,094
Exchange realignments	99	73	286	470	35	963
Acquisition of subsidiaries	–	–	–	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
Exchange realignments	72	40	157	1,090	13	1,372
Acquisition of subsidiaries *(note 29)*	–	–	144	1,164	–	1,308
Additions	1,701	353	879	17,679	483	21,095
Disposals	–	(112)	(54)	(416)	(1,314)	(1,896)
Disposal of subsidiaries *(note 30)*	(989)	(290)	(67)	(27,528)	(171)	(29,045)
Reclassification	–	–	(766)	766	–	–
At 31st December, 2006	3,986	1,019	11,851	49,997	490	67,343
ACCUMULATED DEPRECIATION						
At 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
Exchange realignments	45	12	137	371	(15)	550
Provided during the year	1,440	327	2,625	7,797	350	12,539
Disposals	–	(56)	(31)	(218)	(1,243)	(1,548)
Disposal of subsidiaries *(note 30)*	(365)	(19)	(20)	(5,257)	(101)	(5,762)
Reclassification	–	–	(558)	558	–	–
At 31st December, 2006	3,055	550	8,733	44,081	60	56,479
CARRYING VALUES						
At 31st December, 2006	931	469	3,118	5,916	430	10,864
At 31st December, 2005	1,267	742	4,978	16,412	410	23,809

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 AND CARRYING VALUES	
At 1st January, 2005	498,311
Exchange adjustments	337
Additional acquisition consideration	3,271
Arising on acquisition of subsidiaries	11,863
Arising on acquisition of additional equity interest in subsidiaries	5,917
Adjustment *(note)*	1,497
At 31st December, 2005	521,196
Exchange adjustment	413
Arising on acquisition of additional equity interest in subsidiaries *(note 29a)*	94,748
Arising on acquisition of subsidiaries *(note 29b)*	17,517
Eliminated on disposal of subsidiaries *(note 30)*	(113,593)
At 31st December, 2006	520,281

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 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.

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, 2005	1,396	–	68,890	27,024	1,339	98,649
Adjustment *(note)*	–	–	(4,103)	–	–	(4,103)
Acquisition of subsidiaries	–	30	36	10	–	76
Fair value adjustment arising on acquisition of additional equity interest in subsidiaries	(13)	11,980	5,196	–	215	17,378
At 31st December, 2005	1,383	12,010	70,019	27,034	1,554	112,000
Fair value adjustment arising on acquisition of additional equity interest in subsidiaries *(note 29)*	22	8,497	16,301	–	910	25,730
Addition	773	–	24,413	–	–	25,186
Acquisition of subsidiaries *(note 29)*	2,894	7,004	460	7,940	–	18,298
Exchange realignment	26	–	–	–	–	26
Disposal of subsidiaries	(912)	(12,490)	(92,363)	–	(910)	(106,675)
At 31st December, 2006	4,186	15,021	18,830	34,974	1,554	74,565
ACCUMULATED AMORTISATION						
At 1st January, 2005	276	–	661	3,691	148	4,776
Amortisation provided during the year	268	5,009	12,613	6,950	1,406	26,246
At 31st December, 2005	544	5,009	13,274	10,641	1,554	31,022
Amortisation provided during the year	393	12,906	19,534	7,164	682	40,679
Disposal of subsidiaries	(93)	(9,368)	(15,466)	–	(682)	(25,609)
At 31st December, 2006	844	8,547	17,342	17,805	1,554	46,092
CARRYING VALUES						
At 31st December, 2006	3,342	6,474	1,488	17,169	–	28,473
At 31st December, 2005	839	7,001	56,745	16,393	–	80,978

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 to the fair values of the underlying other intangible assets acquired and the corresponding goodwill.

Completed technologies represent those services available to be delivered to telecom operators.

Customer base is recognised as an intangible asset through business combination as it is less expensive and less time consuming to do business with customers.

Licenses consist of game license fees paid to the game developers and value-added telecom service operation license fees paid to the Ministry of Information Industry in the PRC.

Partnership agreements represent agreements signed with telecom operators for service delivery.

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 – $1^1/_2$ years
Licenses	1 – 7 years
Partnership agreements	1 – 6 years
Distribution networks	1 year

Except for the acquisitions of completed technologies and licenses from third parties during the year ended 31st December, 2006, amounting to HK$773,000 and HK$24,413,000 respectively, all of the Group's intangible assets were purchased through business combination.

18. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill have been allocated to the following two individual cash-generating units ("CGUs"). The carrying amounts of goodwill as at 31st December, 2006 allocated to these units are as follows:

	Goodwill
	HK$'000
Mobile services and applications	519,831
Internet and media	31,643
	551,474
Included in:	
Assets	520,281
Reserves	31,193
	551,474

During the year ended 31st December, 2006, 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 17%. Cash flows beyond the one-year period are extrapolated using growth rates of 8% 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.

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 20%. Cash flows beyond the one-year period are extrapolated using growth rates of 6% to 31% 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. ACCOUNTS RECEIVABLE/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Accounts receivable	**46,593**	49,533
Less: Accumulated impairment	**(7,227)**	(5,581)
	39,366	43,952

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:

	2006 HK$'000	2005 HK$'000
Within 90 days	**36,863**	40,254
91 – 120 days	**1,082**	1,196
121 – 180 days	**989**	1,654
Over 180 days	**432**	848
	39,366	43,952

The fair value of the Group's accounts receivable and certain other receivables at 31st December, 2006 approximated to the corresponding carrying amounts.

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st December, 2006 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. The maturity dates and effective interest rates of these debt securities range from January 2007 to October 2014 and from 3% to 12% respectively.

During the years ended 31st December, 2006 and 2005, the Group entered into repurchase agreements 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 27). 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.

20. AVAILABLE-FOR-SALE INVESTMENTS (continued)

As at 31st December, 2006, certain overseas publicly traded debt securities of the Group of approximately HK$193,663,000 (2005: HK$99,184,000) were pledged to banks as collaterals under the repurchase agreement for securing short term bank borrowings of approximately HK$127,530,000 (2005: HK$85,800,000) (note 27).

21. NOTE RECEIVABLE

Note receivable represents a US$60,000,000 promissory note issued by CDC Games Corporation, a fellow subsidiary, on 29th December, 2006 in relation to the disposal of subsidiaries as disclosed in note 30. The interest rate of the promissory note is 5% per annum, which is equal to its effective interest rate. The entire amount of principal and interest will be receivable on 28th June, 2008. The fair value of note receivable at 31st December, 2006 approximated the corresponding carrying amounts.

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, 2006 approximated the corresponding carrying amounts because of their short maturity period.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 1% to 5%. The fair value of these assets approximated to the corresponding carrying amounts.

24. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	**2006 HK$'000**	2005 HK$'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	**4,170,765,645**	4,144,186,053	**417,077**	414,419
Exercise of share options	**38,748**	26,579,592	**4**	2,658
Acquisition of additional equity interest in a subsidiary *(note 29a)*	**181,132,095**	–	**18,113**	–
Acquisition of subsidiaries *(note 29b)*	**27,320,490**	–	**2,732**	–
At end of year	**4,379,256,978**	4,170,765,645	**437,926**	417,077

25. DEFERRED TAXATION

The following are the major deferred tax assets (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, 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)
(Charge) credit to profit for the year	(19)	1,552	1,976	3,509
Arising from acquisition of additional equity interest in a subsidiary	–	(3,578)	–	(3,578)
Arising from acquisition of subsidiaries	(239)	(1,790)	–	(2,029)
Disposal of subsidiaries	–	3,489	–	3,489
At 31st December, 2006	(18)	(7,137)	2,412	(4,743)

At the balance sheet date, the Group had tax losses arising in the PRC of HK$285,583,000 (2005: HK$259,967,000) and in Hong Kong of HK$160,728,000 (2005: HK$150,138,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. The utilisation of tax losses arising in the PRC will expire from one to five years while that arising in Hong Kong will carry forward indefinitely. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future taxable profit streams.

At the balance sheet date, there is no significant unrecognised deferred tax liability (2005: 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:

	2006 HK$'000	2005 HK$'000
Within 90 days	**9,913**	15,573
91 – 120 days	**713**	552
121 – 180 days	**2,866**	2,267
Over 180 days	**3,398**	2,179
	16,890	20,571

The fair value of the Group's accounts payable and certain other payables and accrued liabilities at 31st December, 2006 approximated to the corresponding carrying amounts.

27. BANK BORROWINGS

Bank borrowings comprise:

	Maturity date	Effective interest rate %	Carrying amount 2006 HK$'000	Carrying amount 2005 HK$'000
Fixed-rate borrowing:				
2.32% secured US$ bank loan of US$4,350,000	29th January, 2007	2.32	**33,930**	–
Floating-rate borrowings:				
LIBOR plus 0.28% secured US$ bank loan of US$12,000,000	17th September, 2007	5.58	**93,600**	–
LIBOR plus 0.2% secured US$ bank loan of US$11,000,000	3rd February, 2006	3.47	**–**	85,800
			127,530	85,800

The Group's bank borrowings are secured by the pledge of certain debt securities of the Group (note 20). During the years ended 31st December, 2006 and 2005, the Group entered into repurchase agreements 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 the respective interest rate.

The fair value of the Group's bank borrowings at 31st December, 2006 approximate to the corresponding carrying amounts because of the short maturity period for the fixed-rate borrowing and the variable nature of the interest calculation for the floating-rate borrowing.

There was no financial covenant requirement from banks.

28. 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 and employees of CDC Corporation 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 and employees of CDC Corporation. 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 and employees of CDC Corporation (as defined in the 2002 Scheme).

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

The maximum number of shares which can be granted under the Pre-IPO Scheme and the Post-IPO Scheme must not exceed 10% of the issued share capital of the Company as at the date of listing of the shares on the GEM. For the 2002 Scheme, the maximum number of shares which can be granted must not exceed 10% of the issued share of the Company at the date of approval of such scheme. At 31st December, 2006, the number of shares issuable under the Pre-IPO Scheme, the Post-IPO Scheme and the 2002 Scheme was 12,038,120, 2,115,547 and 348,112,320, respectively, which represented approximately 8.27% in aggregate of the Company's shares in issue at that date. Pursuant to the Pre-IPO Scheme and the Post-IPO Scheme (the "Schemes"), no participant shall be granted an option which, if accepted and exercised in full, would result in such participant's maximum entitlement exceeding 25% of the aggregate number of shares of the Company subject to the Schemes. The maximum number of shares issuable as share options to each eligible participant in the 2002 Scheme in any 12-month period up to and including the date of the grant to such participant shall not exceed 1% of the issued share capital of the Company from time to time. Any further grant of options in excess of this 1% limit must be subject to shareholders' approval with that participant and his associates abstaining from voting.

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

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

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

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

The exercise price of the Post-IPO Scheme and the 2002 Scheme share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange 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, 2006, the remaining life of the Schemes is three years and two months and the remaining life of the 2002 Scheme is five years and four months.

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Pre-IPO Scheme

Year ended 31st December, 2006

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options HK$ *(note b)*	At 1st January, 2006	Number of share options: Transferred during the year *(note c)*	Forfeited during the year	Cancelled during the year	At 31st December, 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
			85,057,500	–	(67,019,380)	(6,000,000)	12,038,120
Number of share options exercisable at the end of the year							12,038,120

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Pre-IPO Scheme (continued)

Year ended 31st December, 2005

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options HK$ *(note b)*	At 1st January, 2005	Number of share options: Transferred during the year *(note c)*	Number of share options: Forfeited during the 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 d)*	9th March, 2000	1.880	–	180,000	–	–
Lam Kwok Tai, Anthony (resigned on 29th August, 2005) *(note d)*	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
Number of share options exercisable at the end of the year						85,057,500

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(ii) Post-IPO Scheme

Year ended 31st December, 2006

Name or category of participant	Date of grant of share options (*note a*)	Exercise price of share options HK$ (*note b*)	At 1st January, 2006	Number of share options Transferred during the year (*note c*)	Forfeited during the year	At 31st December, 2006
Director						
Wong Sin Just	10th April, 2001	0.286	600,000	–	–	600,000
Other Employees						
In aggregate	18th August, 2000 – 10th April, 2001	0.286 – 0.870	11,582,642	(10,000,000)	(129,175)	1,453,467
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
			12,844,722	–	(10,729,175)	2,115,547
Number of share options exercisable at the end of the year						2,115,547

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For the year ended 31st December, 2006

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(ii) Post-IPO Scheme (continued)

Year ended 31st December, 2005

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options HK$ *(note b)*	At 1st January, 2005	Number of share options: Transferred during the year *(note c)*	Exercised during the year	Forfeited during the year	At 31st December, 2005	Price of Company's share at exercise date of options HK$ *(note e)*
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	
Number of share options exercisable at the end of the year							12,844,722	

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iii) 2002 Scheme

Year ended 31st December, 2006

Name or category of participant	Date of grant of share options *(note a)*	Exercise price of share options *(note b)* HK$	At 1st January, 2006	Number of share options: Transferred during the year *(note c)*	Granted during the year	Exercised during the year	Forfeited during the year	At 31st December, 2006	Price of Company's share *(note e)*: 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		
	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	0.520	
	14th August, 2006	0.445	–	–	239,356,507 *(note f)*	–	–	239,356,507	0.445	
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)	–		
(resigned on 3rd August, 2006)	23rd November, 2005	0.570	20,000,000	–	–	–	(20,000,000)	–		
Chen Xiao Wei	15th September, 2005	0.560	–	4,000,000	–	–	–	4,000,000		
(appointed on 3rd August, 2006)	3rd January, 2006	0.526	–	11,200,000	–	–	–	11,200,000		
	1st July, 2006	0.460	–	7,500,000	–	–	–	7,500,000		
Other employees										
In aggregate	19th August, 2002	0.200	77,496	–	–	(38,748)	–	38,748		0.560
	24th February, 2003	0.171	32,290	–	–	–	–	32,290		
	29th May, 2003	0.716	271,240	–	–	–	(129,160)	142,080		
	5th June, 2003	0.626	4,450,000	(4,000,000)	–	–	(300,000)	150,000		
	22nd December, 2003	0.634	219,560	–	–	–	(116,240)	103,320		
	7th September, 2004	0.510	3,355,195	–	–	–	(3,051,660)	303,535		
	26th November, 2004	0.528	374,580	–	–	–	(129,160)	245,420		
	15th September, 2005	0.560	36,166,667	(4,000,000)	–	–	(19,066,667)	13,100,000		
	10th October, 2005	0.630	4,000,000	(4,000,000)	–	–	–	–		
	3rd January, 2006	0.526	–	(11,200,000)	15,950,000	–	(2,500,000)	2,250,000	0.520	
	1st July, 2006	0.460	–	(7,500,000)	7,500,000	–	–	–	0.460	
	11th September, 2006	0.464	–	–	3,000,000 *(note g)*	–	–	3,000,000	0.470	
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	0.520	
	25th August, 2006	0.450	–	–	5,000,000 *(note h)*	–	–	5,000,000	0.435	
			129,437,448	–	316,056,507	(38,748)	(97,342,887)	348,112,320		
Number of share options exercisable at the end of the year								36,182,908		

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(iii) 2002 Scheme (continued)

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)*	Granted during the year	Exercised during the year	Forfeited during the year	At 31st December, 2005	Price of Company's share *(note e)*: 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		
	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)	5th June, 2003	0.626	–	1,500,000	–	–	–	–		
Lam Kwok Tai, Anthony (resigned on 29th August, 2005)	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 12th 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		
Number of share options exercisable at the end of the year								20,108,723		

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes:

(a) Save as disclosed herein, 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.

Save as disclosed herein, 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.

Save as disclosed herein, 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.

Save as disclosed herein, 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 within the Group between directors and employees during the year. Options held by option holders who have been transferred from the Group and CDC Corporation group have been reclassified to the category "Other Eligible Persons".

(d) This director was appointed and resigned as a director during the year ended 31st December, 2005. He was granted 180,000 share options under the Pre-IPO 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.

(e) The price of the Company's shares disclosed immediately before 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 immediately before 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.

(f) This option grant was approved by the shareholders of the Company at the extraordinary general meeting held on 18th September, 2006. 108,798,412 of such option shall vest quarterly over 2 years effective from 1st October, 2006 to 1st July, 2008 subject to the terms and conditions as set out in the Executive Services (Acting CEO) Agreement (the "Services Agreement") as follows:

– 12.5% options shall vest from 1st October, 2006
– 12.5% options shall vest from 1st January, 2007
– 12.5% options shall vest from 1st April, 2007
– 12.5% options shall vest from 1st July, 2007
– 12.5% options shall vest from 1st October, 2007
– 12.5% options shall vest from 1st January, 2008
– 12.5% options shall vest from 1st April, 2008
– 12.5% options shall vest from 1st July, 2008

Of the 130,558,095 options, 50% shall vest upon the occurrence of an event (the date of occurance shall be the vesting date for such options) pursuant subject to the terms and conditions as set out in the Services Agreement as described below provided (i) Mr. Yip Hak Yung, Peter remains at the Company to provide the services on the day vesting of the relevant portion of those options takes place and (ii) the Services Agreement has not otherwise been terminated:

– Event 1: The grant by the relevant authorities in the PRC of an asset management license or equivalent that would allow the Company or its affiliate or associate to raise and manage a Renminbi denominated fund or funds which will invest in any of the following: a) "A" shares listed on a recognized stock exchange in the PRC; b) pre-initial public offering "A" shares; and c) convertible loans. For Event 1, the vesting date shall be the date of the grant of the license.

– Event 2: The completion of a real estate development project in the PRC which will comprise of both residential and commercial units for use by the Company and CDC Corporation and for rental to third parties. For Event 2, the vesting date shall be the date of the completion of the real estate development project, such date to be determined by the board of the Company in their absolute discretion.

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes: (continued)

(g) Out of the 3,000,000 options granted on 11th September, 2006, the vesting schedule of 1,500,000 ("Option I") of such options is as follows:

- no Option I shall vest from date of grant to end of 28th February, 2007.
- up to 25% of Option I shall vest from 1st March, 2007 to 29th February, 2008.
- up to 50% of Option I, less such options which were exercised previously shall vest from 1st March, 2008 to 28th February, 2009.
- up to 75% of Option I, less such options which were exercised previously shall vest from 1st March, 2009 to 28th February, 2010.
- all such Option I which were not previously exercised shall vest from 1st March, 2010 to the end of 10th September, 2016.

For the remaining 1,500,000 options ("Option II") out of the 3,000,000 options granted on 11th September, 2006, the vesting schedule is as follows:

- no Option II shall vest from date of grant to end of 30th October, 2006.
- up to 25% of Option II shall vest from 1st November, 2006 to 30th October, 2007.
- up to 50% of Option II, less such options which were exercised previously shall vest from 1st November, 2007 to 30th October, 2008.
- up to 75% of Option II, less such options which were exercised previously shall vest from 1st November, 2008 to 30th October, 2009.
- all such Option II which were not previously exercised shall vest from 1st November, 2009 to the end of 10th September, 2016.

(h) These options shall vest in equal installments, every three months, over a period of three years.

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
5th October, 2000	5th October, 2001 to 4th October, 2010	0.582
24th November, 2000	24th November, 2001 to 23rd November, 2010	0.518
28th February, 2002	28th February, 2003 to 27th February, 2012	0.347

28. 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
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
3rd January, 2006	3rd January, 2007 to 2nd January, 2016	0.526
1st July, 2006	1st July, 2007 to 30th June, 2017	0.460
14th August, 2006	As detailed in note f	0.445
25th August, 2006	As detailed in note h	0.450
11th September, 2006	As detailed in note g	0.464

The 38,748 share options exercised during the year resulted in the issue of 38,748 ordinary shares of the Company and new share capital of HK$4,000 and share premium of HK$4,000 (before issue expenses). As at 31st December, 2006, the Company had in aggregate 362,265,987 (2005: 227,339,670) share options outstanding under the three schemes, which represented approximately 8.27% 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 362,265,987 additional ordinary shares of the Company and additional share capital of approximately HK$36,227,000 and share premium of approximately HK$254,440,000 (before issue expenses).

During the year ended 31st December, 2006, options were granted on 3rd January, 2006, 1st July, 2006, 14th August, 2006, 25th August, 2006 and 11th September, 2006 respectively. The estimated fair values of the options granted on these dates are HK$0.3200, HK$0.2900, HK$0.2700, HK$0.2700 and HK$0.2800 respectively. During the year ended 31st December, 2005, options were granted on 15th September, 2005, 10th October, 2005 and 23rd November 2005 respectively. All of the options granted on 23rd November, 2005 forfeited during the year ended 31st December, 2006. The estimated fair values of the options granted on 15th September, 2005, 10th October, 2005 and 23rd November, 2005 are HK$0.3307, HK$0.4000 and HK$ 0.3500 respectively.

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

	2006 **HK$'000**	2005 HK$'000
Weighted average share price	**HK$0.435 – HK$0.510**	HK$0.560 – HK$0.630
Exercise price	**HK$0.445 – HK$0.526**	HK$0.560 – HK$0.630
Expected volatility	**70.09% – 72.68%**	67.78% – 73.29%
Expected life	**5 years**	5 years
Risk-free rate	**4.00% – 4.69%**	3.53% – 4.24%
Expected dividend yield	**–**	–

28. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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$17,484,000 for the year ended 31st December, 2006 (2005: HK$8,508,000) in relation to share options granted by the Company.

The company's share options granted to other participants are measured by reference to the fair value of options granted as these participants render services similar to those as employees.

The number of share options granted expected to vest has been reduced to reflect historical experience of forfeiture of 11% of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted. At each balance date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Equity-settled share option scheme of CDC Corporation

Pursuant to the CDC Corporation ("CDC")'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.

CDC Share Options and SARs were granted to certain directors, as disclosed in note 11, and certain employees of the Group in 2006 and 2005. No value in respect of these CDC share Options or SARs granted has been charged to the Group's consolidated income statement.

Pursuant to the CDC Corporation's 2005 Stock Incentive Plan (the "Plan"), CDC may grant stock appreciation rights ("SARs") to subscribe for Class A common shares in the capital of CDC to provide equity-based incentives to key employees and certain outside consultants and advisors to CDC and its subsidiaries. The maximum number of SARs which may be awarded to any grantee during any annual period during the term of the Plan is 1,000,000 in aggregate. The maximum term of any SAR granted under the Plan is seven years. The SARs granted under the Plan are vested on a quarterly basis over a period of 3 years from the date of grant.

29. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/ACQUISITION OF SUBSIDIARIES

(a) Acquisition of additional interest in a subsidiary

In March 2006, the Group acquired an additional 52% equity interest in Equity Pacific Limited, which was represented by a minority interest of HK$35,850,000, for a total consideration of HK$140,400,000. The consideration was settled by cash of HK$37,698,000 and the issue of 181,132,095 restricted shares of the Company with a par value of HK$0.10 each. The restricted shares can only be sold or transferred over a period of two years with 25% can be sold or transferred on the first six-month anniversary of 17th March, 2006 and 12.5% can be sold or transferred on each subsequent three-month anniversary of 17th March, 2006 thereafter. The fair value of the restricted shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$102,702,000. This acquisition has been accounted for using the purchase method. The fair value of other intangible assets as of the date of acquisition was HK$25,730,000 higher than their net book value and fair value adjustment was recorded accordingly. 48% of this fair value adjustment was credited to the intangible asset revaluation reserve amounting to HK$12,350,000 and the remaining 52% of that was credited to minority interest. The amount of goodwill and deferred tax liability arising as a result of the acquisition was HK$94,748,000 and HK$3,578,000 respectively.

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.

Pursuant to an option agreement entered into in 2004, 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 was then presently exercisable, notwithstanding the Group only has a 48% equity interest before the acquisition in March 2006, the directors considered it was appropriate to consolidate the results of Equity Pacific Limited since 2004. Accordingly the acquisition of the additional 52% interest in Equity Pacific Limited in March 2006 has been accounted for as an acquisition of an additional interest in a subsidiary.

In December 2006, Equity Pacific Limited, a wholly-owned subsidiary after the acquisition in March 2006, was disposed of together with its subsidiaries and CDC Games Limited as detailed in note 30.

(b) Acquisition of subsidiaries

(i) In November 2006, the Group acquired 100% of the issued share capital of TimeHeart Science Technology Limited and its subsidiaries (the "TimeHeart Group") for a total consideration of HK$42,858,000. TimeHeart Group engages in value-added telecom services. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$17,517,000.

29. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of subsidiaries (continued)

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	1,308	–	1,308
Intangible assets	–	18,298	18,298
Accounts receivable	8,250	–	8,250
Prepayments, deposits and other receivables	1,799	–	1,799
Bank balances and cash	3,328	–	3,328
Accounts payable	(150)	–	(150)
Other payables and accrued liabilities	(5,463)	–	(5,463)
Deferred tax liabilities	(239)	(1,790)	(2,029)
	8,833	16,508	25,341
Goodwill			17,517
Total consideration			42,858
Satisfied by:			
Cash			16,428
Shares issued *(note 1)*			12,480
Minority interest arising from disposal of 10% of the issued share capital of a subsidiary *(note 2)*			13,950
Total consideration			42,858
Net cash outflow arising on acquisition:			
Cash consideration paid			(16,428)
Bank balances and cash acquired			3,328
			(13,100)

29. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of subsidiaries (continued)

Note 1: As part of the consideration for the acquisition of TimeHeart Group, 27,320,490 restricted shares of the Company with a par value of HK$0.10 each were issued. The restricted shares can only be sold or transferred after 90 days upon the issuance of the corresponding share certificate. The fair value of the restricted shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$12,480,000.

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

TimeHeart Group contributed HK$2,622,000 to the Group's revenue and HK$199,000 to the Group's profit for the year between the date of acquisition and the balance sheet date. If the acquisition had been completed on 1st January, 2006, total group revenue (including both continued and discontinued operations) for the year would have been HK$640,779,000, and profit for the year would have been HK$652,847,000. The pro forma 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, 2006, nor is it intended to be a projection of future results.

Note 2: As part of the consideration of TimeHeart Group, 10% of the issued share capital of CDC Mobile Media Corporation, a subsidiary of the Company, was transferred to the original owners of TimeHeart Group. The fair value of that, determined using both the market approach and income approach, amounted to HK$13,950,000, was recorded in the minority interest in the consolidated balance sheet.

Pursuant to the amendment to the share purchase agreement of the acquisition (the "Agreement"), the total consideration includes a contingent consideration. The contingent consideration is in the form of restricted shares of the Company, equivalent to a maximum amount of US$2,080,000 (HK$16,224,000). The restricted shares shall be vested after 90 days upon the issuance of the corresponding share certificate. This part of consideration is calculated based on a formula set out in the Agreement which will vary based on the performance of TimeHeart Group in the fourth quarter of 2006 and in the year 2007. The number of restricted shares to be issued will also vary based on the future average market price as set out in the Agreement. As of 31st December, 2006, the directors of the Company did not consider the payment of this contingent consideration was probable and accordingly, no adjustment for the contingent payment has been recorded in the consolidated financial statements.

(ii) 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. Unitedcrest Group engages in provision of mobile value-added services and applications. 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.

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29. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY/ACQUISITION OF SUBSIDIARIES (continued)

The net assets acquired in the transaction, and the goodwill arising, were 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 was 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 2005 between the date of acquisition and 31st December, 2005. 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 and 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.

30. DISPOSAL OF SUBSIDIARIES

As referred to note 9, the Group disposed of Online Games in December 2006. The net assets of Online Games at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Plant and equipment	23,283
Other intangibles assets	81,066
Accounts receivable	4,596
Prepayments, deposits and other receivables	5,558
Bank balances and cash	159,292
Accounts payable	(22,014)
Other payables and accrued liabilities	(32,179)
Amounts due to fellow subsidiaries	(1,930)
Deferred revenue	(31,910)
Deferred tax liabilities	(3,489)
Attributable goodwill	113,593
	295,866
Realisation of translation reserve	(2,301)
Gain on disposal	564,435
Total consideration	858,000
Satisfied by:	
Cash	390,000
Deferred consideration	468,000
	858,000
Net cash inflow arising on disposal:	
Cash consideration	390,000
Bank balances and cash disposed of	(159,292)
	230,708

The deferred consideration represents a note receivable as disclosed in note 21.

The impact of the disposal of Online Games on the Group's results and cash flows in the year ended 31st December, 2006 is disclosed in note 9.

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For the year ended 31st December, 2006

31. CONTINGENT LIABILITIES

(a) The directors of the Company assess the contingent tax liability that may arise from the disposal of Online Games as detailed in note 30 and consider such contingent tax liability is possible and will be confirmed only when the Inland Revenue Department concludes that the gain arising from the disposal is taxable. The directors of the Company do not consider such contingent tax liability is probable based on the information currently available and therefore no tax provision has been made in the consolidated financial statements. If such tax provision is recorded, the profit for the year will decrease approximately by HK$110,000,000.

(b) Beijing He He Technology Co., Ltd ("Beijing He He") has benefited from the preferential tax treatment as a high technology enterprise and is subject to an income tax rate of 15%. This preferential tax treatment is required to be applied every two years. While Beijing He He is in the process of completing this application for 2006, the Company's directors consider it probable that the application will be successful and therefore Beijing He He has made a provision for income tax using the preferential tax rate of 15%. If such a preferential tax treatment application is unsuccessful, the profit for the year would be reduced by approximately HK$6,500,000.

32. OPERATING LEASES

The Group as lessee

	2006	2005
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year in respect of office premises	**9,713**	9,976

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

	2006	2005
	HK$'000	HK$'000
Within one year	**3,752**	6,060
In the second year	**1,661**	3,613
	5,413	9,673

Leases are negotiated for an average term of two years.

33. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 HK$'000
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	–	131

34. 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.

35. RELATED PARTY TRANSACTIONS

During the year, in addition to the acquisition of an additional 52% equity interest in Equity Pacific Limited from former minority interests (note 29) and the disposal of Online Game to a fellow subsidiary (note 30), the Group entered into the following transactions with related parties:

	2006 **HK$'000**	2005 HK$'000
Operating lease rentals in respect of office premises charged by a fellow subsidiary	**554**	785
Management fee charged by a fellow subsidiary	**–**	1,264

In addition to the above transactions, during the years ended 31st December, 2006 and 2005, the Group was licensed the right to use the Uniform Resources Locator ("URL") of hongkong.com and china.com by China Internet Corporation, a fellow subsidiary, at nil (2005: nil) consideration and at an annual license fee of US$1 (equivalent to HK$8) (2005: HK$8), respectively.

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:

	2006 **HK$'000**	2005 HK$'000
Short-term benefits	**3,684**	2,820
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
Share-based payments	**7,040**	2,616
	10,724	5,436

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.

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31st December, 2006 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 Directly %	Indirectly %	Principal activities
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 value-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 value-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
Beijing He He Technology Co. 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

36. 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
TimeHeart (Beijing) Network Technology Limited *(note a)*	PRC	US$30,000	–	100	Provision of short messaging services and other mobile value-added services and applications
Beijing TimeHeart Information Technology Limited *(note b)*	PRC	RMB14,290,000	–	100	Provision of short messaging services and other mobile value-added services and applications
TimeHeart Science Technology Limited	British Virgin Islands	US$1	–	100	Investment holding

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.

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, 2006.