



China.com Inc.

中華網科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8006)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2007**

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 announcements 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 announcement, 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 announcement.

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

CHAIRMAN'S STATEMENT

During 2007, our Portal experienced robust growth while our Mobile Value Added Service (MVAS) business continued to be impacted by previously announced industry-wide regulatory changes.

Here are some financial and business highlights for China.com Inc. and its subsidiaries (collectively the "Group"):

- Revenue from continuing operations decreased 52% to HK\$154.7 million in 2007 from HK\$320.0 million in 2006
- Gross profit from continuing operations decreased 55% to HK\$83.5 million from HK\$186.7 million in 2006
- Loss attributable to equity holders was HK\$599.7 million, as compared to a profit attributable to equity holders of HK\$621.5 million in 2006
- Basic loss per share was 13.69 HK cents, as compared to a basic earnings per share (EPS) of 14.42 HK cents in 2006
- Balance sheet remained strong, with more than HK\$1.2 billion in net cash, held-for-trading investments and available-for-sale investments as of 31st December, 2007
- In view of the difficult regulatory environment for the MVAS business in China, in February 2008, the Group announced it was in the process of reducing the MVAS workforce and that it intended to scale down its emphasis on the business. This resulted in a one-time write-down of all the goodwill and intangible assets attributable to the MVAS business amounting to HK\$533,419,000
- In 2006, the Group made two principal protected structured finance investments: i) a collateralized debt obligation (CDO) that is backed by US mortgage backed securities, including sub-prime mortgages, and ii) a collateralized loan obligation (CLO) backed by corporate loan and debt obligations. Based on the decline in the market conditions of the US mortgage industry, the Group conducted an assessment on these investments. Management determined the decline in the value of the CDO and CLO, all being principal protected at maturity, was other than temporary and, according to the relevant accounting standards, was required to write down these investments to their fair market value. This resulted in the recording of an impairment charge of HK\$77,489,000 against the CDO and CLO in 2007

As previously announced, we believe that the regulatory environment for the MVAS industry will continue to be challenging and we foresee conditions to remain difficult for the entire MVAS sector in the future. Since the beginning of the regulatory changes starting in June 2006, we have significantly reduced headcount in our MVAS business and the marketing and promotion expenses incurred for the MVAS business. In 2007, we worked hard to explore various strategies to achieve long term growth. These strategies included: 1) Continue to move further upstream into the content provider segment of the business. 2) Continue to launch popular mobile games. 3) Develop mobile applications for enterprises and government offices in China.

However, as the regulatory environment for the MVAS industry continued to be difficult and we see no reasonable instance where our MVAS business may turn profitable in the foreseeable future, in February 2008, the Group announced that it was in the process of reducing the MVAS workforce and intended to scale down its emphasis on this business. After the scale down, the Group will re-channel its resources to expanding and developing automobile, games, and travel vertical portal business as well as new media business operations.

The portal business represents the company's origin. Thanks to our strong brand recognition and booming growth of online advertising in mainland China, we have produced encouraging financial returns. For the year ended 31st December 2007, our portal revenue increased 53% to HK\$24,515,000 from 2006. The increasing sales were mainly attributable to enhanced brand equity, strategic partnership with an increasing number of industry leaders and encouraging sales growth over the automobile and games channels.

The China.com portal and Google formed a strategic partnership in July 2006. After a year of successful and deepening cooperation, in July 2007, the two companies expanded their strategic partnership in search and advertisement services to improve the search experiences for Internet users in China. In addition, China.com portal will utilize the Google AdSense program to deliver relevant advertisements that generate revenue and enhance the user experience. Through the partnership, advertisers on the China.com portal will be able to leverage the popular China.com portal and Google's proven AdSense program.

The China.com portal has a long history in online coverage of and involvement in sporting events in China. In January 2007, the China.com portal provided exclusive online coverage of the 2007 Asian Winter Games as the Games' exclusive web sponsor. Through such exclusive online coverage in the form of both information and video, 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 addition, strategic partnerships with other vertical sites such as China's number one real estate website "Soufun" has enriched our content in those channels and improved user experience. The China.com portal will continue to broaden its partnership with leading websites in various vertical sectors.

Recognizing the potential of the online gaming sector in China, the China.com portal is also building and strengthening its current games channel into an informational and interactive gaming platform. We are forging strategic partnership with leading domestic and international webpage games companies to launch webpage games, many of which are sports games, to capture a niche yet fast growing market and to capture the advertising opportunities brought on by the 2008 Olympics. We are also strengthening content on gaming news and information, offering the China.com gaming channel as an attractive choice for game advertisers.

Overall, we continue to believe that there are high growth opportunities in the PRC market. The Group will continue to identify, invest and operate compelling next generation businesses in media, technology and other related fields. We believe that this is the right strategy to assist the Group in returning to profitability and to create shareholder value in the years to come.

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 2007. We look forward to sharing our progress with you in the coming year.

Dr. Ch'ien Kuo Fung, Raymond
Chairman

Hong Kong, 25th March, 2008

RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st December 2007, together with the comparative figures for the year ended 31st December 2006.

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Continuing operations			
Revenue	3	154,665	320,045
Cost of sales		<u>(71,121)</u>	<u>(133,370)</u>
Gross profit		83,544	186,675
Other income		84,484	37,197
Selling and distribution expenses		(35,792)	(102,101)
Administrative expenses		(113,466)	(114,134)
Impairment loss		(612,110)	–
Other expenses		(20,319)	(14,418)
Interest expense on bank borrowings wholly repayable within five years		<u>(1,793)</u>	<u>(4,175)</u>
Loss before tax		(615,452)	(10,956)
Income tax credit (expense)	5	<u>2,796</u>	<u>(7,559)</u>
Loss for the year from continuing operations		<u>(612,656)</u>	<u>(18,515)</u>
Discontinued operation			
Profit for the year from discontinued operation	8	<u>–</u>	<u>642,586</u>
(Loss) profit for the year	4	<u>(612,656)</u>	<u>624,071</u>
Attributable to:			
Equity holders of the Company		(599,723)	621,487
Minority interests		<u>(12,933)</u>	<u>2,584</u>
		<u>(612,656)</u>	<u>624,071</u>
(Loss) earnings per share			
From continuing and discontinued operations	6		
Basic		<u>(13.69) cents</u>	<u>14.42 cents</u>
Diluted		<u>(13.69) cents</u>	<u>14.41 cents</u>
From continuing operations			
Basic		<u>(13.69) cents</u>	<u>(0.41) cent</u>
Diluted		<u>(13.69) cents</u>	<u>(0.41) cent</u>

CONSOLIDATED BALANCE SHEET
At 31st December, 2007

	2007 HK\$'000	2006 HK\$'000
ASSETS		
Non-current Assets		
Plant and equipment	8,593	10,864
Goodwill	450	520,281
Other intangible assets	–	28,473
Available-for-sale investments	175,426	525,921
Note receivable	491,592	468,000
	<u>676,061</u>	<u>1,553,539</u>
Current Assets		
Accounts receivable	23,850	39,366
Prepayments, deposits and other receivables	13,697	24,683
Available-for-sale investments	341,471	193,663
Held-for-trading investments	4,525	–
Amounts due from fellow subsidiaries	6,701	6,061
Amount due from ultimate holding company	697	697
Bank balances and cash	724,331	681,059
	<u>1,115,272</u>	<u>945,529</u>
Total Assets	<u>1,791,333</u>	<u>2,499,068</u>
EQUITY AND LIABILITIES		
Capital and Reserves		
Share capital	438,114	437,926
Reserves	1,302,966	1,855,522
Equity attributable to equity holders of the Company	1,741,080	2,293,448
Minority interests	–	12,933
Total Equity	<u>1,741,080</u>	<u>2,306,381</u>
Non-current Liabilities		
Deferred tax liabilities	128	4,743
Current Liabilities		
Accounts payable	10,660	16,890
Other payables and accrued liabilities	22,010	27,080
Deferred revenue	4,278	3,705
Tax liabilities	4,760	5,835
Amounts due to fellow subsidiaries	8,417	6,904
Bank borrowings	–	127,530
	<u>50,125</u>	<u>187,944</u>
Total Equity and Liabilities	<u>1,791,333</u>	<u>2,499,068</u>
Total assets less current liabilities	<u>1,741,208</u>	<u>2,311,124</u>

Notes:

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKAS”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under historical cost convention, except for certain financial instruments and other intangible assets, which are measured at fair value.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

- ¹ Effective for annual periods beginning on or after 1 January 2009
² Effective for annual periods beginning on or after 1 March 2007
³ Effective for annual periods beginning on or after 1 January 2008
⁴ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. Revenue

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

The Group discontinued the distribution of online games in December 2006 (see note 8).

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Continuing operations:		
Mobile services and applications income	65,672	241,542
Internet and media	88,993	78,503
	<hr/>	<hr/>
	154,665	320,045
Discontinued operation:		
Online games	–	254,536
	<hr/>	<hr/>
	154,665	574,581
	<hr/> <hr/>	<hr/> <hr/>

4. (Loss) profit for the year

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Depreciation of plant and equipment	7,153	8,168	-	4,371	7,153	12,539
Amortisation of other intangible assets included in:						
- cost of sales	-	-	-	19,114	-	19,114
- other expenses	14,885	8,419	-	13,146	14,885	21,565
Total depreciation and amortisation	22,038	16,587	-	36,631	22,038	53,218
Staff costs (including directors' emoluments)	72,122	92,962	-	33,278	72,122	126,240
Retirement benefits scheme contributions	3,700	3,873	-	607	3,700	4,480
Total staff costs	75,822	96,835	-	33,885	75,822	130,720
Auditors' remuneration	3,028	3,876	-	3,432	3,028	7,308
Impairment loss	612,110	-	-	-	612,110	-
(Gain) loss on disposal of plant and equipment (included in other income)	(7)	(641)	-	273	(7)	(368)
Other interest income (included in other income)	(55,790)	(6,371)	-	(674)	(55,790)	(7,045)
Interest income on available-for-sale investments (included in other income)	(26,337)	(29,927)	-	-	(26,337)	(29,927)
Gain on held-for-trading investments (included in other income)	(1,992)	-	-	-	(1,992)	-
Gain on disposal of available-for-sale investments (included in other income)	(358)	(258)	-	-	(358)	(258)
Allowance for bad and doubtful debts (included in other expenses)	5,434	5,999	-	48	5,434	6,047
Net foreign exchange loss (gain)	11,475	1,645	-	(38)	11,475	1,607

5. Income tax

No provision for Hong Kong profits tax has been made in the consolidated 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.

6. (Loss) earnings per share

For continuing and discontinued operations

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

	2007 HK\$'000	2006 <i>HK\$'000</i>
<i>Earnings</i>		
(Loss) profit for the year attributable to equity holders of the Company	(599,723)	621,487
	2007 '000	2006 <i>'000</i>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	4,380,258	4,311,304
Effect of dilutive potential ordinary shares:		
Options	—	408
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	4,380,258	4,311,712

For the year ended 31 December 2007, the computation of diluted loss per share does not assume the exercise of options since it would result in a decrease in loss per share.

From continuing operations

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

	2007 HK\$'000	2006 <i>HK\$'000</i>
<i>Earnings</i>		
(Loss) profit for the year attributable to equity holders of the Company	(599,723)	621,487
Less: Profit for the year from discontinued operations attributable to equity holders of the Company (<i>note 8</i>)	—	(638,985)
Loss for the purposes of basic and diluted loss per share from continuing operations	(599,723)	(17,498)

	2007 '000	2006 '000
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>4,380,258</u>	<u>4,311,304</u>

The computation of diluted loss per share does not assume the exercise of options since it would result in a decrease in loss per share from continuing operations.

From discontinued operation

For the year ended 31 December 2006, both the basic and diluted earnings per share for the discontinued operation are 14.82 cents per share, based on the profit for the year from the discontinued operations attributable to equity holders of the Company of HK\$638,985,000 and the denominators of 4,311,304,000 shares and 4,311,712,000 shares for basic and diluted earnings per share respectively.

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 8).

Segment information about these businesses is presented below.

Year ended 31 December 2007

	Continuing operations			
	Mobile services and applications	Internet and media	Elimination	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE				
External sales	65,672	88,993	–	154,665
Inter-segment sales	–	8,539	(8,539)	–
	<u>65,672</u>	<u>88,993</u>	<u>(8,539)</u>	<u>154,665</u>
Total	<u><u>65,672</u></u>	<u><u>97,532</u></u>	<u><u>(8,539)</u></u>	<u><u>154,665</u></u>
RESULT				
Segment results	<u>(578,877)</u>	<u>(3,879)</u>	<u>–</u>	(582,756)
Interest income and unallocated other corporate income				84,484
Interest expense on bank borrowings wholly repayable within five years				(1,793)
Impairment loss on available-for-sale investments				(77,489)
Unallocated corporate expenses				<u>(37,898)</u>
Loss before tax				(615,452)
Income tax credit				<u>2,796</u>
Loss for the year				<u><u>(612,656)</u></u>

Inter-segment sales are charged at prevailing market rates.

As at 31 December 2007

	Mobile services and applications <i>HK\$'000</i>	Internet and media <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
BALANCE SHEET			
ASSETS			
Segment assets	142,933	64,290	207,223
Available-for-sale investments, held-for-trading investments and unallocated corporate assets			1,584,110
Total assets			<u>1,791,333</u>
LIABILITIES			
Segment liabilities	12,165	29,474	41,639
Unallocated corporate liabilities			8,614
Total liabilities			<u>50,253</u>

For the year ended 31 December 2007

	Continuing operations			
	Mobile services and applications <i>HK\$'000</i>	Internet and media <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION				
Depreciation and amortisation	18,458	3,580	–	22,038
Allowance for bad and doubtful debts	3,022	2,412	–	5,434
Share based payments expense	–	–	20,028	20,028
(Gain) loss on disposal of plant and equipment	39	(46)	–	(7)
Impairment loss	533,419	1,202	77,489	612,110
Capital expenditure: Plant and equipment	<u>1,268</u>	<u>3,583</u>	<u>29</u>	<u>4,880</u>

Year ended 31 December 2006

	Continuing operations			Discontinued operation		Consolidated HK\$'000
	Mobile services and applications HK\$'000	Internet and media HK\$'000	Elimination HK\$'000	Total HK\$'000	Online games HK\$'000	
REVENUE						
External sales	241,542	78,503	–	320,045	254,536	574,581
Inter-segment sales	–	10,023	(10,023)	–	–	–
Total	<u>241,542</u>	<u>88,526</u>	<u>(10,023)</u>	<u>320,045</u>	<u>254,536</u>	<u>574,581</u>
RESULT						
Segment results	<u>(694)</u>	<u>(8,041)</u>	<u>–</u>	(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				<u>(35,243)</u>	<u>–</u>	<u>(35,243)</u>
(Loss) profit before tax				(10,956)	642,586	631,630
Income tax expense				<u>(7,559)</u>	<u>–</u>	<u>(7,559)</u>
(Loss) profit for the year				<u>(18,515)</u>	<u>642,586</u>	<u>624,071</u>

Inter-segment sales are charged at prevailing market rates.

As at 31 December 2006

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

For the year ended 31 December 2006

	<u>Continuing operations</u>			<u>Discontinued operation</u>	Consolidated <i>HK\$'000</i>	
	Mobile services and applications <i>HK\$'000</i>	Internet and media <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>		Online games <i>HK\$'000</i>
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	3,598	3,688	–	7,286	15,117	22,403
Other intangible assets	<u>18,298</u>	<u>–</u>	<u>–</u>	<u>18,298</u>	<u>25,186</u>	<u>43,484</u>

Geographical segments

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

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

	Revenue from continuing operations by geographical market	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
PRC	89,607	256,914
Hong Kong	580	617
Singapore	64,478	62,514
	<u>154,665</u>	<u>320,045</u>

Revenue from the Group's discontinued operation for the year ended 31 December 2006 was derived principally from the PRC.

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	
	31.12.2007 <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>	Year ended 31.12.2007 <i>HK\$'000</i>	Year ended 31.12.2006 <i>HK\$'000</i>
PRC	156,170	740,409	4,583	64,762
Singapore	50,963	42,537	279	1,088
Hong Kong	90	306	18	37
	<u>207,223</u>	<u>783,252</u>	<u>4,880</u>	<u>65,887</u>

8. Discontinued operation

In December 2006, 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"). Online Games were 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 31 December 2007, the criteria for contingent consideration were not met and accordingly, no adjustment for the contingent payment has been recorded in the consolidated financial statements.

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

	2006 <i>HK\$'000</i>
Profit from discontinued operation	78,151
Gain on disposal of discontinued operation	564,435
	<hr/>
	642,586
	<hr/> <hr/>
Attributable to:	
Equity holders of the Company	638,985
Minority interests	3,601
	<hr/>
	642,586
	<hr/> <hr/>

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

	2006 <i>HK\$'000</i>
Revenue	254,536
Cost of sales	<u>(100,316)</u>
Gross profit	154,220
Selling and distribution expenses	(24,320)
Administrative expenses	(38,282)
Other expenses	<u>(13,467)</u>
Profit before tax	78,151
Income tax expense	<u>—</u>
Profit for the period	<u><u>78,151</u></u>

9. Consolidated statement of changes in equity for the year ended 31st December, 2007

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Intangible assets revaluation reserve HK\$'000	Reserve funds HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 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 31 December 2006 and 1 January 2007	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
Deficit on revaluation of available-for-sale investments	-	-	-	(392)	-	-	-	-	-	-	(392)	-	(392)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	18,147	-	-	18,147	-	18,147
Net (expense) income recognised directly in equity	-	-	-	(392)	-	-	-	18,147	-	-	17,755	-	17,755
Loss for the year	-	-	-	-	-	-	-	-	-	(599,723)	(599,723)	(12,933)	(612,656)
Investment revaluation reserve released on disposal of available-for-sale investments	-	-	-	153	-	-	-	-	-	-	153	-	153
Investment revaluation reserve released on impairment of available-for-sale investments	-	-	-	8,552	-	-	-	-	-	-	8,552	-	8,552
Total recognised income and expense for the year	-	-	-	8,313	-	-	-	18,147	-	(599,723)	(573,263)	(12,933)	(586,196)
Recognition of equity-settled share based payments	-	-	-	-	-	-	-	-	20,028	-	20,028	-	20,028
Shares issued upon exercises of share options	298	1,106	-	-	-	-	-	-	-	-	1,404	-	1,404
Transfer to share premium upon exercises of share options	-	703	-	-	-	-	-	-	(703)	-	-	-	-
Repurchase of shares	(110)	(427)	-	-	110	-	-	-	-	(110)	(537)	-	(537)
At 31 December 2007	438,114	1,020,109	(31,193)	(10,336)	110	-	24,123	36,262	52,493	211,398	1,741,080	-	1,741,080

10. Dividend

The Board does not recommend the payment of a dividend for the year ended 31st December, 2007 (2006: Nil).

11. Comparative figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue and gross profit

Revenue from continuing operations for the year ended 31st December, 2007 was HK\$154,665,000 representing a HK\$165,380,000, or 52%, decrease as compared with last year. The net decrease was primarily attributable to (1) a decrease in mobile services and applications revenue of HK\$175,870,000; and (2) an increase in advertising revenue from the internet and media segment of HK\$10,490,000.

Gross profit margin maintained at a relatively stable level of 54% in 2007, compared to 58% in 2006.

Other income

Other income increased by 127% to HK\$84,484,000 in 2007, compared with HK\$37,197,000 in 2006. The net increase was primarily due to (1) a HK\$25,827,000 increase in bank interest income during the year as a result of an increase in cash and bank balances and increasing yield of such cash and bank balances; (2) a HK\$23,592,000 increase in note interest income arising from the note receivable associated with the disposal of the online games segment; and (3) a HK\$3,590,000 decrease in interest income from available-for-sale investments.

Selling and distribution costs

Selling and distribution costs decreased to HK\$35,792,000 in 2007, compared with HK\$102,101,000 in 2006. The decrease was mainly attributable to the decrease in marketing and promotion expenses incurred for our mobile services and applications business amounting to HK\$66,840,000 in 2007.

Administrative expenses

Administrative expenses decreased by 1% to HK\$113,466,000 in 2007 versus HK\$114,134,000 in 2006. Administrative expenses include share option expenses in 2007 amounting to HK\$20,028,000 (2006: HK\$17,484,000) recognized in accordance with HKFRS 2.

Impairment loss

In 2007, the Group recorded an impairment charge of HK\$612,110,000 which included (1) a HK\$519,831,000 impairment of goodwill associated with the Group's mobile services and application segment; (2) a HK\$13,588,000 impairment of intangible assets related to the Group's mobile services and application segment; and (3) a HK\$78,691,000 impairment loss on available-for-sale investments.

Other expenses

Other expenses increased by about HK\$5,901,000 to HK\$20,319,000 in 2007, compared to HK\$14,418,000 in 2006. The increase was primarily due to the increase in amortization expense of intangible assets.

Income tax

The Group recorded an income tax credit of HK\$2,796,000 in 2007, compared to an income tax expense of HK\$7,559,000 in 2006. The provision of income tax was HK\$1,819,000 in 2007 which was offset by the deferred tax income of HK\$4,615,000.

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 8.

Minority interests

Loss shared by minority interests was HK\$12,933,000 in 2007, compared to a profit shared by minority interests of HK\$2,584,000 in 2006. Loss shared by minority interests in 2007 represented minority interests' share of loss in the Group's mobile services and applications segment.

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.

(Loss) profit for the year attributable to equity holders of the Company

Loss for the year attributable to equity holders of the Company was HK\$599,723,000 in 2007, compared with profit attributable to equity holders of the Company of HK\$621,487,000 in 2006.

Liquidity and financial resources

The Group generally financed its operations with its internally generated cash flows. The Group continued to be in a strong financial position with HK\$1,741,080,000 shareholders' funds as at 31st December, 2007. Shareholders' funds as at 31st December, 2006 were HK\$2,293,448,000. Total assets amounted to HK\$1,791,333,000 as at 31st December, 2007 as compared to HK\$2,499,068,000 as at 31st December, 2006, of which HK\$724,331,000 were bank balances and cash versus HK\$681,059,000 as at 31st December, 2006, HK\$4,525,000 were held-for-trading investments versus nil as at 31st December, 2006 and HK\$516,897,000 were available-for-sale investments versus HK\$719,584,000 as at 31st December, 2006.

Capital structure

Except for the full repayment of the Group's bank borrowings amounting to HK\$127,530,000 during the year, there was no change in the capital structure of the Group as at 31st December, 2007 as compared with that as at 31st December, 2006.

Charges on the Group's assets

As at 31st December, 2007, none (2006: HK\$194,000,000) of the Group's available-for-sale investments was held by banks as collateral for securing the Group's bank borrowings which was fully repaid as at 31st December, 2007 (2006: HK\$127,530,000). Neither time deposits nor bank balances (2006: nil) were pledged to banks as guarantee.

Gearing ratio

The Group's gearing ratio, representing total bank borrowings divided by shareholders' funds, decreased from 6% as at 31st December, 2006 to 0% as at 31st December, 2007. The change was due to the full repayment of bank borrowings of HK\$127,530,000 during the year ended 31st December, 2007.

The Group's net cash, held-for-trading investments, and available-for-sale investments was HK\$1,245,753,000 (2006: HK\$1,273,113,000), comprising of bank balances and cash of HK\$724,331,000 (2006: HK\$681,059,000), held-for-trading investments of HK\$4,525,000 (2006: nil), available-for-sale investments of HK\$516,897,000 (2006: HK\$719,584,000) and bank borrowings of nil (2006: HK\$127,530,000).

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, 2007, no related hedges were made by the Group.

Contingent liabilities

The directors of the Company have assessed the contingent tax liability amounting to HK\$110,000,000 that may arise from the disposal of Online Games as detailed in note 8 and considered 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.

BUSINESS REVIEW

Mobile Value Added Services

As noted in prior announcements, the Group was alerted in June 2006 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.

As a result of this prolonged, industry-wide impact, for the year ended 31st December 2007, our total mobile services and application revenue was HK\$65.7 million, down 73% from 2006. During the year, SMS and MMS were our major revenue generators, representing 52% and 24% respectively of the total mobile services and applications revenue. Remaining was mainly shared by our WAP and IVR services.

In order to minimize the industry wide impact, in 2007 the Group had emphasized three strategies to achieve long term growth: 1) Continue to move further upstream into the content provider segment of the business. 2) Continue to launch popular mobile games. 3) Develop mobile application for enterprises and government offices in China.

Continue to move further upstream into the content provider segment of the business

In April 2007, we entered into a mobile content agreement with Jiangsu Wuxi Mobile, a subsidiary of China Mobile. Under the terms of the agreement, we will provide the carrier with rich MMS (Multimedia Message Service) and WAP (Wireless Application Protocol) content, including ring tones, graphics, weather forecast, and more. We will also send the content on behalf of the carrier to designated mobile subscribers. Expanding on such cooperation, we had subsequently entered into another WAP content contract with Jiangsu Wuxi Mobile.

Continue to launch popular mobile games

We are one of the mobile gaming providers in China, and provided mobile games over various technical platforms including WAP, JAVA and Brew, and compatible to all available handset models.

According to each mobile game title's characteristic, we have a variety of charging methods for game players to choose from, including monthly payment, single time downloading, single time downloading in limited time usage, single time play, etc. Moreover, we are also the pioneer of free mobile game model adopter.

Develop mobile applications for enterprises and government offices in China

We explored opportunities in enterprise service applications and sought opportunities to develop mobile applications for enterprises and government offices in China. During 2007, we had completed several projects for other local governments, including SMS voting projects for Chang Tu City government, Liao Yang City government and Jin Zhou City government.

However, as the regulatory environment for the MVAS industry continued to be difficult and we see no reasonable instance where our MVAS business may turn profitable in the foreseeable future, in February 2008, the Group announced that it was in the process of reducing its workforce in its MVAS business and intended to scale down its emphasis on this business.

Portal

The portal business is the company's origin. Thanks to our strong brand recognition and the booming growth of online advertising in mainland China, we brought encouraging financial return to our investors. During 2007, the China.com portal has enjoyed robust growth through various innovative practices, including acquiring a leading Web2.0 company, exploring advertising opportunity in automobile and gaming channels, and establishing strategic partnerships with industry leaders such as Google and www. Alibaba.com.

For the year ended 31st December 2007, our portal revenue increased 53% to HK\$24,515,000 from 2006. The increasing sales were mainly attributable to enhanced brand equity, strategic partnership with an increasing number of industry leaders and encouraging sales growth over the automobile and gaming channels.

In 2007, the China.com portal received several awards which highlighted our portal's achievements including "Outstanding Web Channel of 2007" award from State Council Information office of the People's Republic of China, Internet News Research Institute and Internet Society of China; "Innovative Internet Firm of 2007" from China Internet Annual Meeting held by China Center for Information Industry Development ("CCID"). In addition, various channels of our portal also received several leading industry awards. The automobile channel received "Annual Innovative Business Model Award" in China Information Industry Annual Meeting and "The Most Recommended Internet Advertising Platform by Customer" in China Internet Annual Meeting held by CCID. The Gaming channel received "The Most Potential Channel Award" in China Internet Annual Meeting held by CCID and "Top Ten Gaming Media of 2007" in China Game Industry Annual Meeting.

The increasing pageviews and strong brand recognition helped the China.com portal to acquire more advertising contracts and reputable clients such as IBM, Haier, Unilever, Menniu, and including Honda, Toyota, Nissan, Volkswagen in the automobile industry, and Giant and Shanda in the gaming industry.

The China.com portal and Google formed a strategic partnership in July 2006. After a year of successful and deepening cooperation, in July 2007, the two companies expanded their strategic partnership in search and advertisement services to improve search experiences for Internet users in China. Under the agreement, Google's WebSearch service will be embedded in China.com's search box, allowing users to easily and conveniently switch between online content and web page search. In addition, China.com portal will utilize Google AdSense program to deliver relevant advertisements that generate revenue and enhance the user experience. Through the partnership, advertisers on China.com portal will be able to leverage the popular China.com portal and Google's proven AdSense program.

The China.com portal has a long history in online coverage and involvement in sporting events in China. In January 2007, the China.com portal provided exclusive online coverage of the 2007 Asian Winter Games as the Games' exclusive web sponsor. 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 in the forms of both information and video, 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 addition, strategic partnerships with other vertical sites such as China's number one real estate website "Soufun" has enriched our content in those channels and improve user's experience. The China.com portal will continue to broaden its partnership with leading websites in various vertical sectors.

Recognizing the potential of the online gaming sector in China, the China.com portal is also building and strengthening its current games channel into an informational and interactive gaming platform. We are forging strategic partnerships with leading domestic and international webpage games companies to launch webpage games, many of which are sports games, to capture a niche yet fast growing market and to capture the advertising opportunities brought on by 2008 Olympics. We are also strengthening content on gaming news and information, offering the China.com gaming channel as an attractive choice for game advertisers.

Overall, we will continue to focus on increasing China.com's brand equity, and deepening strategic partnerships with industry leaders. We believe this strategic focus, combined with various new sales initiatives, will help the portal business to maintain a robust growth.

Media and Travel

TTG has done well in 2007 with consistent quarterly performance and overall results exceeding annual budget. The good performance in 2007, growing 3% to HK\$64,478,000, can be attributed to the better than expected advertising revenues from print as well as from ad hoc special projects.

TTG events/exhibitions launched 2 new travel trade events in Shanghai; IT&CM China and CT&TW China. IT&CM China is an exhibition platform for buyers and sellers from the Meetings, Incentives, Convention & Exhibition (MICE) sector of the travel industry to meet and conduct business whereas, CT&TW is a conference for corporate travel managers in China. Both events were well received by delegates and exhibitors.

During the year, TTG also successfully organized 3 other events namely; Incentive Travel & Conventions, Meetings Asia/Corporate Travel World, The Gift & Stationary Fair and International Feng Shui Convention.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

There were no material acquisitions, disposals or significant investment during the year.

EMPLOYEE INFORMATION

As at 31st December, 2007, the Group has 307 (2006:445) full-time employees of which 5 (2006:9) are based in Hong Kong, 262 (2006: 394) in China and 40 (2006: 42) 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.

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

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, net of transaction costs. 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 were 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:	<u>1,100,000</u>		

The repurchased shares have been cancelled during the quarter ended 31st March, 2007.

Save as disclosed herein, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2007.

In February 2008, the Company has repurchased a total of 1,066,000 ordinary shares of the Company on the Stock Exchange for an aggregate amount of HK\$334,720, net of transaction costs. 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 were as follows:–

Date of repurchase	Number of shares repurchased	Price per share repurchased	
		Highest (HK\$)	Lowest (HK\$)
14th February, 2008	96,000	0.3100	–
18th February, 2008	150,000	0.3100	0.3000
19th February, 2008	470,000	0.3150	–
20th February, 2008	200,000	0.3200	0.3150
22nd February, 2008	150,000	0.3150	–
Total:	<u>1,066,000</u>		

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

COMPETING INTERESTS

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

SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31st December, 2007, the Company has not adopted a code of conduct regarding the directors' securities transactions but has applied the principles of the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules ("Required Standard of Dealings"). Having made specific enquiry of all directors of the Company, the directors confirmed that they have complied with or they were not aware of any non-compliance with the Required Standard of Dealings during the year ended 31st December, 2007.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company has applied the principles of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules and is satisfied that the Company has complied throughout the year ended 31st December, 2007 with the Code.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2000 with written terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 15 of the GEM Listing Rules. The audit committee comprises four independent non-executive directors namely Messrs. Wong Sin Just (Committee Chairman), Wang Cheung Yue, Fred, Chia Kok Onn and Dr. Lam Lee G. The primary duties of the audit committee are to oversee that management (i) has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Company; (ii) has established and maintained processes to assure that an adequate system of internal control is functioning within the Company; and (iii) has established and maintained processes to assure compliance by the Company with all applicable laws, regulations and corporate policy. The audit committee has met four times in 2007 (with an attendance rate of 100%). The Company’s annual results for the year ended 31st December, 2007 have been reviewed by the audit committee of the Company.

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

Hong Kong, 25th March, 2008

As at the date of this announcement, the executive directors of the Company are Mr. Yip Hak Yung, Peter, Dr. Cheng Loi; the non-executive directors are Dr. Ch’ien Kuo Fung, Raymond, Mr. Fang Xin; and the independent non-executive directors are Mr. Wong Sin Just, Mr. Wang Cheung Yue, Fred, Mr. Chia Kok Onn, Dr. Lam Lee G. and Mr. Anson Wang.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.inc.china.com.