

SINA CORP
Form 10-Q
May 10, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

OR

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-30698

**SINA CORPORATION
(Exact Name of Registrant as Specified in Its Charter)**

**Cayman Islands
(State or other jurisdiction of
incorporation or organization)**

**52-2236363
(I.R.S. Employer
Identification Number)**

**Room 1802, United Plaza
1468 Nan Jing Road West
Shanghai 200040, China
(86-21) 6289 5678**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's ordinary shares as of May 5, 2004 was 50,217,322.

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PART I UNAUDITED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SINA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 2004	December 31, 2003
	(unaudited)	(audited)
	(in U.S. dollars, in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 140,674	\$ 158,148
Short-term investments	97,468	69,016
Accounts receivable, net of allowances for doubtful accounts of \$1,329,000 and \$1,577,000, respectively	26,714	17,606
Deferred tax assets	907	907
Prepaid expenses and other current assets	11,916	4,579
	<hr/>	<hr/>
Total current assets	277,679	250,256
Investment in Sun Media Group	8,236	6,793
Property and equipment, net of accumulated depreciation of \$15,026,000 and \$13,719,000, respectively	9,573	8,646
Long-term investments	4,722	2,085
Intangible assets, net of accumulated amortization of \$6,671,000 and \$6,187,000, respectively	5,446	569
Goodwill	28,812	18,091
Other assets	3,302	3,457
	<hr/>	<hr/>
Total assets	\$ 337,770	\$ 289,897
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,507	\$ 1,147
Accrued liabilities	36,573	27,442
Income taxes payable	2,826	1,801
	<hr/>	<hr/>

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Total current liabilities	40,906	30,390
Convertible Debt	100,000	100,000
Other long-term liabilities	2,265	
	<u> </u>	<u> </u>
Total liabilities	143,171	130,390
	<u> </u>	<u> </u>
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Ordinary Shares: \$0.133 par value; 150,000,000 shares authorized; 50,216,000 and 48,627,000 shares issued and outstanding	6,682	6,471
Additional paid-in capital	253,523	236,222
Ordinary shares subject to subsequent issuance: 0 and 177,000 shares		1,349
Accumulated deficit	(67,012)	(83,054)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on investment in marketable securities	1,373	(1,510)
Cumulative translation adjustments	33	29
	<u> </u>	<u> </u>
Total shareholders' equity	194,599	159,507
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$337,770	\$289,897
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SINA CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(in U.S. dollars)****(unaudited, in thousands, except per share amounts)**

	Three months ended	
	March 31	
	2004	2003
Net revenues:		
Advertising	\$13,118	\$ 7,298
Non-advertising	28,270	10,816
	<u>41,388</u>	<u>18,114</u>
Cost of revenues:		
Advertising	4,332	2,840
Non-advertising	8,194	3,267
	<u>12,526</u>	<u>6,107</u>
Gross profit	<u>28,862</u>	<u>12,007</u>
Operating expenses:		
Sales and marketing	7,098	4,461
Product development	1,974	1,495
General and administrative	3,215	2,265
Amortization of intangible assets	484	505
Total operating expenses	<u>12,771</u>	<u>8,726</u>
Income from operations	16,091	3,281
Interest income	1,220	401
Amortization of convertible debt issuance cost	(171)	
Gain on investment in Sun Media Group	59	
Loss on equity investments	(333)	(306)

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	_____	_____
Income before income taxes	16,866	3,376
Provision for income taxes	(824)	
	_____	_____
Net income	\$16,042	\$ 3,376
	_____	_____
Basic net income per share	\$ 0.33	\$ 0.07
	_____	_____
Diluted net income per share	\$ 0.28	\$ 0.07
	_____	_____

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in U.S. dollars)
(unaudited, in thousands)

	<u>Ordinary Shares</u>		<u>Additional</u>	<u>Ordinary</u> <u>Shares</u> <u>Subject</u> <u>to</u>	<u>Accumulated</u>	<u>Others</u>	<u>Total</u> <u>Shareholders'</u> <u>Equity</u>	<u>Comprehensive</u> <u>Income</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Subsequent</u> <u>Issuance</u>	<u>Deficit</u>			
Balances at December 31, 2003	48,627	\$6,471	\$236,222	\$ 1,349	\$(83,054)	\$(1,481)	\$159,507	
Issuance of ordinary shares pursuant to stock plans	1,217	162	7,466				7,628	
Business acquisition	372	49	9,835	(1,349)			8,535	
Comprehensive income:								
Net income					16,042		16,042	\$ 16,042
Unrealized gain on investments in marketable securities						2,883	2,883	\$ 2,883
Currency translation adjustments						4	4	4
Comprehensive income								\$ 18,929
Balances at March 31, 2004	50,216	\$6,682	\$253,523	\$	\$(67,012)	\$ 1,406	\$194,599	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in U.S. dollars)
(unaudited, in thousands)

	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 16,042	\$ 3,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on equity investments	333	306
Loss on disposal of fixed assets	5	3
Depreciation	1,348	1,268
Stock-based compensation		244
Amortization of convertible debt issuance cost	171	
Amortization of intangible assets	484	505
Gain on investment in Sun Media Group	(59)	
Changes in assets and liabilities (net of effect of acquisition):		
Accounts receivable, net	(5,181)	(1,909)
Prepaid expenses and other current assets	(367)	(192)
Other assets	1	55
Accounts payable	127	(436)
Income taxes payable	(185)	
Accrued liabilities	6,918	531
	<hr/>	<hr/>
Net cash provided by operating activities	19,637	3,751
	<hr/>	<hr/>
Cash flows from investing activities:		
Acquisition of property and equipment	(2,106)	(921)
Cash paid for business acquisition, net of cash acquired	(8,729)	(7,922)
Investments in joint ventures	(670)	(2,818)
Deposit for business acquisition	(6,282)	
Purchase of short-term investments	(27,247)	(7,696)
Proceeds from sale of investment in Sun Media Group	295	
	<hr/>	<hr/>
Net cash used in investing activities	(44,739)	(19,357)
	<hr/>	<hr/>
Cash flows from financing activities:		

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Proceeds from issuance of ordinary shares, net	7,628	397
Repayments of notes receivable from shareholders	<u> </u>	<u>300</u>
Net cash provided by financing activities	<u>7,628</u>	<u>697</u>
Net decrease in cash and cash equivalents	(17,474)	(14,909)
Cash and cash equivalents at the beginning of the period	<u>158,148</u>	<u>53,262</u>
Cash and cash equivalents at the end of the period	<u>\$ 140,674</u>	<u>\$ 38,353</u>
Supplemental disclosure of investing activities:		
Cash paid for business acquisition	\$ (10,246)	\$ (10,278)
Cash acquired	<u>1,517</u>	<u>2,356</u>
Cash paid for business acquisition, net	<u>\$ (8,729)</u>	<u>\$ (7,922)</u>
Supplemental disclosure of noncash financing activities:		
Ordinary shares issued for business acquisition	<u>\$ 9,884</u>	<u>\$ 4,281</u>
Ordinary shares subject to subsequent issuance for business acquisition	<u>\$</u>	<u>\$ 4,281</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SINA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in U.S. dollars, unaudited)

1. The Company and basis of presentation

SINA CORPORATION (SINA or the Company), a Cayman Islands corporation, is a leading online media company and value-added information service provider in the People's Republic of China (the PRC or China) and the global Chinese communities. With a branded network of localized websites targeting greater China and overseas Chinese, the Company provides an array of services to its users including region-focused online portals, mobile value-added services, search and directory, free and premium email, online games, virtual ISP, classified listings, e-commerce, e-learning and enterprise e-solutions.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences may be material to the financial statements. Certain reclassifications have been made in prior year's financial statements to conform to classifications used in the current year.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary to a fair statement of the results for the interim periods presented. Results for the three months ended March 31, 2004 are not necessarily indicative of results for the entire fiscal year ending December 31, 2004 or future periods. These financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

2. Recent accounting pronouncements

In November 2002, the EITF No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF No. 00-21) was issued, addressing accounting for revenue arrangements with multiple deliverables and requiring that elements of an arrangement be separately accounted based on the fair value of the individual elements. EITF No. 00-21 is effective for fiscal periods beginning after June 15, 2003. The adoption of EITF No. 00-21 did not have a significant impact on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46) Consolidation of Variable Interest Entities. Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a Variable Interest Entity (VIE), as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. In December 2003, the FASB issued a revision to Interpretation 46 (FIN 46R) to clarify some of the provisions of FIN 46 Consolidation of Variable Interest Entities , and to exempt certain entities from its requirements. Depending on the type and creation date of the VIEs, the effective dates of FIN 46 and FIN 46R vary from the end of the first interim or annual reporting period ending after December 15, 2003 to the end of the first interim or annual reporting period ending after March 15, 2004. Early adoption is allowed. The adoption of FIN46 and FIN46R for VIEs did not have a significant impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). SFAS 150 changes the accounting for certain financial instruments that under previous guidance issuers could account for as equity. It requires that those instruments be classified as liabilities in balance sheets. The guidance in SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective on July 1, 2003. The adoption of SFAS 150 did not have a significant impact on the Company's financial position, cash flows or results of operations.

3. Variable interest entities

The Company has adopted FASB Interpretation No.46 (FIN46) Consolidation of Variable Interest Entities (VIEs), an Interpretation of ARB No.51 . FIN 46 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns.

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To comply with PRC laws and regulations the Company conducts substantially all its Internet content provision, advertising and mobile value-added services in the PRC via its VIEs. These VIEs are wholly or partially owned by certain employees of the Company. The capital is funded by the Company and recorded as interest-free loans to these PRC employees. These loans are eliminated for accounting purposes with the capital of the VIEs during consolidation.

Under various contractual agreements, employee shareholders of the VIEs are required to transfer their ownership in these entities to the Company's subsidiaries in the PRC when permitted by PRC laws and regulations or to designees of the Company at any time in exchange for cancellation of loans outstanding; all voting rights of the VIEs are assigned to the Company and the Company has the right to appoint all directors and senior management personnel of the VIEs. The Company has also entered into exclusive service agreements with the VIEs under which the Company provides technical and other services to the VIEs in exchange for substantially all net income of the VIEs. In addition, employee shareholders of the VIEs have pledged their shares in the VIEs as collateral for the non-payment of loans or for the fees for technical and other services due to the Company. As of March 31, 2004, the amount of interest-free loans to the employee shareholders of VIEs amounted to \$6.6 million.

The following is a summary of the VIEs of the Company:

Beijing SINA Internet Information Service Co., Ltd. (the ICP Company), a PRC company controlled through business agreement. The ICP Company is responsible for operating www.sina.com.cn in connection with its Internet content company license and placing advertisements on www.sina.com.cn for its third party customers under its advertising license. It is also responsible for providing mobile value-added services in the PRC via third party mobile operators to the users. It is 3% owned by Yan Wang, the Company's Chief Executive Officer, and 97% owned by six other non-executive PRC employees of the Company. The registered capital of the ICP Company is \$1.2 million.

Beijing SINA Interactive Advertising Co., Ltd. (the Ad Company), a PRC company controlled through business agreement. The Ad Company was responsible for placing advertisements on www.sina.com.cn for its third party customers under its advertising license. It is 75% owned by Yan Wang and 25% owned by Beijing SINA Information Technology Co. Ltd., one of the Company's subsidiaries in the PRC. This entity has become inactive after the ICP Company obtained online advertising license in May 2002. The registered capital of the Ad Company is \$0.1 million.

Guangdong SINA Internet Information Service Co., Ltd. (the GDICP Company), a PRC company controlled through business agreement. The GDICP Company is responsible for providing mobile value-added services in the PRC via third party mobile operators to the users under its Internet content company license. It is 10% owned by Yan Wang and 90% owned by five other non-executive PRC employees of the Company. The registered capital of the GDICP Company is \$0.4 million.

Guangzhou Media Message Technologies, Inc. (Xunlong), a PRC company controlled through business agreement. Xunlong is responsible for providing mobile value-added services in the PRC via third party mobile operators to the users under its Internet content company license. It is owned by five non-executive PRC employees of the Company. The registered capital of Xunlong is \$1.2 million.

Beijing Star-Village.com Cultural Development Co., Ltd. (StarVI), a PRC company controlled through business agreement. StarVI is responsible for providing mobile value-added services in the PRC via third party mobile operators to the users under its Internet content company license. It is owned by five non-executive PRC employees of the Company. The registered capital of StarVI is \$1.2 million.

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Shenzhen Wang Xing Technology Co., Ltd. (Wang Xing), a PRC company controlled through business agreement. Wang Xing is responsible for providing mobile value-added services in the PRC via third party mobile operators to the users under its Internet content company license. It is owned by five non-executive PRC employees of the Company. The registered capital of Wang Xing is \$1.2 million.

Beijing SINA Wireless Information Technology Co., Ltd. (BWIT), a PRC company controlled through business agreement. BWIT did not have activities during the three months ending March 31, 2004. It is owned by five non-executive PRC employees of the Company. The registered capital of BWIT is \$1.2 million.

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Beijing SINA Wireless Advertising Co., Ltd. (BSWA), a PRC company controlled through business agreement. BSWA did not have activities during the three months ending March 31, 2004. It is owned by five non-executive PRC employees of the Company. The registered capital of BSWA is \$0.1 million.

The Company began to consolidate the Ad Company in April 2000 and the ICP Company in October 2001 when the Company obtained complete control over these two companies. The Company obtained complete control over these two companies through ten-year proxies ending in the year 2011 and 2010 between Beijing SINA Information Technology Co. Ltd., or BSIT, the Company's subsidiary in China, and the ICP Company and the Ad Company, respectively. Therefore, the financial position and results of operations of these two companies were consolidated in the financial statements of the Company. The GDICP Company was established in 2002 but had not had activities until 2003 and the operation results for the GDICP Company were consolidated since January 2003. Xunlong and Star VI were acquired in the acquisition of Memestar Corporation (see Note 5 Acquisition, Memestar) in January 2003 and the operation results for these two companies were consolidated by the Company since then. Wang Xing was acquired in the acquisition of Crillion Corporation (see Note 5 Acquisition, Crillion) in March 2004 and the operation results for this company were consolidated by the Company since then.

As of March 31, 2004, the aggregate accumulated losses of the above VIEs were approximately \$2.9 million and have been reflected in the consolidated financial statements.

4. Short-term investments

The Company's investment in marketable debt securities is classified as available for sale securities. The Company invests in these securities with the intent to make such funds readily available for operating or business acquisition purposes and accordingly, classifies them as short-term investments. The aggregate fair value of marketable debt securities was \$97.5 million as of March 31, 2004 and was \$69.0 million as of December 31, 2003. During the three months ended March 31, 2004 and 2003, respectively, the Company recorded \$1.2 million and \$0.2 million of unrealized gains on its marketable debt securities as a component of comprehensive income.

5. Acquisitions

Memestar. In January, 2003, the Company completed the acquisition of Memestar Limited, a British Virgin Islands limited liability corporation (Memestar), through a purchase of all of the outstanding shares of Memestar. As a result of such acquisition, Memestar became a wholly-owned subsidiary of SINA. Memestar, through its various subsidiaries and exclusive contractual arrangements with two local entities in the PRC, is engaged in the business of providing mobile value-added services in the PRC. The primary purposes of the acquisition were to enhance the Company's mobile value-added services as well as increase its market share in the PRC mobile value-added services market.

The aggregate purchase price of \$24,255,113 is comprised of five elements: (a) \$10,277,675 in cash paid at the closing of the acquisition; (b) 560,369 newly issued SINA ordinary shares, valued at \$4,281,219 at the time of closing, delivered at the closing of the acquisition; (c) \$5,250,000 in cash to be paid in four equal installments after the closing date of the acquisition. The last payment would be forfeited if the non-compete clauses of certain members of Memestar's management are violated; (d) 560,369 newly issued SINA ordinary shares, valued at \$4,281,219 at the time of closing, to be delivered on the first anniversary of the closing date of the acquisition, 383,733 of which were issued in August 2003, prior to the first anniversary of the closing, as a result of an amendment to the share purchase agreement, and (e) approximately \$165,000 in legal and professional fees related to the acquisition.

The purchase price was allocated as follows (in thousands):

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Cash	\$ 2,356
Accounts receivable	2,946
Other assets	351
Intangible assets	2,228
Goodwill	18,091
Current liabilities	<u>(1,717)</u>
Purchase price	<u>\$24,255</u>

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Amortizable intangible assets acquired, including customer list and non-competition arrangements with certain Memestar executives, have estimated useful lives ranging from fourteen to eighteen months. The amortization expense for the three months ended March 31, 2004 and 2003 amounted to \$0.4 million and \$0.4 million, respectively. Goodwill of \$18.1 million represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired, and is not deductible for tax purposes. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. The Company assesses the carrying value of intangible assets and goodwill on an annual basis and when factors are present that indicate an impairment may have occurred. The Company performed an impairment test relating to goodwill arising from Memestar acquisition and concluded there was no impairment as to the carrying value of the goodwill as of December 31, 2003. During the three months ended March 31, 2004, no factors were presented indicating an impairment may have occurred. The purchase price allocation for Memestar acquisition is based on an appraisal performed by an independent appraisal firm in the United States.

Immediately after the signing of the definitive agreement, the Company obtained effective control over Memestar; accordingly, the operating results of Memestar have been consolidated with those of the Company starting January 6, 2003. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of Memestar had occurred on January 1, 2002 (in thousands, except per share amounts):

	Three months ended March 31, 2003
Net revenues	\$ 18,363
Net income	\$ 3,476
Basic earnings per share	\$ 0.07
Diluted earnings per share	\$ 0.07

Bravado. In February, 2004, the Company completed the acquisition of Bravado Investments Limited, a British Virgin Islands limited liability corporation (Bravado), through a purchase of all of the outstanding shares of Bravado. As a result of such acquisition, Bravado became a wholly-owned subsidiary of SINA. Bravado, through its subsidiary in the PRC, is engaged in the business of providing online and offline hotel reservation services under the brand Fortune Trip in the PRC. The primary purpose of the acquisition was to enter the PRC online travel market.

The aggregate purchase price is comprised of an initial consideration and a contingent consideration on achieving specified earnings in future period. The initial consideration of \$1,836,414 is comprised of two elements: (a) \$1,812,251 in cash of which \$241,633 was paid after the closing of the acquisition; and (b) approximately \$24,163 in legal and professional fees related to the acquisition. The contingent consideration is based on Bravado's financial performance in 2004. The contingent consideration will be \$303,000 or \$606,000 in cash, provided that Bravado achieves certain earning targets for 2004.

The initial purchase price of \$1,836,414 was allocated as follows (in thousands):

Cash	\$ 64
Accounts receivable	82
Other assets	109
Intangible assets	895
Goodwill	824

Current liabilities	(138)
	<hr/>
Purchase price	\$1,836
	<hr/>

Amortizable intangible assets acquired, including hotel reservation contracts and non-competition arrangements with certain Bravado executives, have estimated useful lives ranging from twenty-eight to thirty-six months. The amortization expense for the three months ended March 31, 2004 was \$62,000. Goodwill of \$824,000 represents the excess of the initial purchase price over the fair value of the net tangible and identifiable intangible assets acquired, and is not deductible for tax purposes. The contingent consideration, if any, will be recorded as additional goodwill. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. Immediately after the closing of the acquisition, the operating results of Bravado have been consolidated with those of the Company starting February 1, 2004.

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Crillion. In March 2004, the Company completed the acquisition of Crillion Corporation, a British Virgin Islands limited liability corporation (Crillion), through a purchase of all of the outstanding shares of Crillion. As a result of such acquisition, Crillion became a wholly-owned subsidiary of SINA. Crillion, through its subsidiary and exclusive contractual arrangement with a local entity in the PRC, is engaged in the business of providing mobile value-added services in the PRC. The primary purposes of the acquisition were to enhance the Company's mobile value-added services as well as increase its market share in the PRC mobile value-added services market.

The aggregate purchase price is comprised of an initial consideration and two contingent considerations on achieving specified earnings in future periods. The initial consideration of \$18,958,486 is comprised of three elements: (a) \$9,898,785 in cash, of which \$8,691,056 was paid at the closing of the acquisition and the remaining balance was paid on April 13, 2004; (b) 195,593 newly issued SINA ordinary shares, valued at \$8,534,701 at the time of closing, delivered at the closing of the acquisition; and (c) approximately \$525,000 in legal and professional fees related to the acquisition. The two contingent considerations are based on Crillion's financial performances in 2004 and 2005. The contingent considerations would roughly be 1.5 to 2.0 times of 2004 and 2005 earnings basis, respectively, provided that Crillion's pretax net income for 2004 and 2005 is over \$6.7 million and \$13.3 million, respectively. The total consideration is subject to a cap of \$125.0 million and will be 60% in cash and 40% in SINA ordinary shares.

The initial purchase price of \$18,958,486 was allocated as follows (in thousands):

Cash	\$ 1,453
Accounts receivable	3,845
Other assets	772
Intangible assets	4,466
Goodwill	9,898
Current liabilities	(1,475)
	<hr/>
Purchase price	\$18,959
	<hr/>

Amortizable intangible assets acquired, including customer list, content provider contracts and non-competition arrangements with certain Crillion executives, have estimated useful lives ranging from sixteen to thirty-six months. The amortization expense for the three months ended March 31, 2004 was \$48,000. Goodwill of \$9.9 million represents the excess of the initial purchase price over the fair value of the net tangible and identifiable intangible assets acquired, and is not deductible for tax purposes. The contingent consideration, if any, will be recorded as additional goodwill. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. The purchase price allocation for Crillion acquisition is based on an appraisal performed by an independent appraisal firm in the United States. Immediately after the closing of the acquisition, the operating results of Crillion have been consolidated with those of the Company starting March 25, 2004.

The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisitions of Bravado and Crillion had occurred on January 1, 2003 (in thousands, except per share amounts):

Three months ended

March 31

	2004	2003
Net revenues	\$46,450	\$18,695
Net income	\$17,527	\$ 2,761
Basic earnings per share	\$ 0.36	\$ 0.06
Diluted earnings per share	\$ 0.30	\$ 0.05

6. Investment in Shanghai NC-SINA

In January 2003, the Company formed a joint venture named Shanghai NC-SINA Information Technology Co. Ltd. (Shanghai NC-SINA) in the PRC with NC Soft, a Korean online game company. The Company invested \$2.6 million in cash for 51% of the equity interest in the joint venture. The Company accounted for the investment in the joint venture using the equity method of accounting as NC Soft has certain participating rights as defined in EITF 96-16. The Company recorded \$0.2 million and \$0.3 million of equity loss from this investment for the three months ended March 31, 2004 and 2003, respectively. As of March 31, 2004, the carrying value of this investment was \$1.4 million.

Table of Contents**7. Intangible assets**

The following table summarizes the intangible assets acquired from Memestar, Bravado and Crillion:

	Carrying value (In thousands)	Estimated useful lives (Months)
	<hr/>	<hr/>
Memestar:		
Non-competition arrangements	\$ 1,256	18
Customer list	972	14
	<hr/>	
	\$ 2,228	
	<hr/>	
Bravado:		
Non-competition arrangements	\$ 121	36
Hotel reservation contracts.	774	28
	<hr/>	
	\$ 895	
	<hr/>	
Crillion:		
Non-competition arrangements	\$ 1,891	36
Customer list	\$ 2,494	16
Content provision contracts.	81	20
	<hr/>	
	\$ 4,466	
	<hr/>	

8. Investment in Sun Media Group

In September 2001, the Company completed the acquisition of an approximately 27.6% equity interest in Sun Media Group (Sun Media), a Hong Kong Stock Exchange listed company, from Ms. Lan Yang, the chairperson and a major shareholder of Sun Media for consideration of \$7.9 million in cash and approximately 4.6 million of the Company's newly issued ordinary shares and transaction costs of \$731,000 for a total purchase price of \$13.7 million.

The above investment was accounted for using the equity method of accounting until September 30, 2002 when the Company's equity interest in Sun Media dropped to below 20% and the Company ceased to maintain significant influence over its operations. Commencing October 1, 2002, such investment was accounted for as an investment in marketable equity securities under the provisions of SFAS 115 and was classified as available for sale and reported at fair value with unrealized gains (losses), if any, recorded as a component of comprehensive income (loss) included in

shareholders' equity.

The Company had recorded \$0.9 million of equity loss from this investment through September 30, 2002 and the carrying value of this investment was \$12.9 million at the time when the accounting method changed. The fair market value of this investment began to drop below the carrying value starting May 2003. At December 31, 2003, the fair market value of this investment was \$6.8 million. The Company considered the decline in the value of this investment to be other than temporary and recognized \$6.1 million as impairment of investment during the three months ended December 31, 2003. During the three months ended March 31, 2004, the Company sold \$0.2 million of this investment and obtained a gain of \$59,000. The realized gain was recorded as gain on investment in Sun Media Group for the three months ended March 31, 2004. The fair market value of this investment was \$8.2 million as of March 31, 2004. The Company recorded \$1.7 million of unrealized gains on this investment as a component of comprehensive income in shareholders' equity for the three month ended March 31, 2004. The Company recorded \$2.6 million of unrealized loss on this investment as a component of comprehensive income in shareholders' equity for the three month ended March 31, 2003.

9. Income taxes

The Company is registered in Cayman Islands and has operations in four tax jurisdictions including the PRC, the United States of America, Hong Kong and Taiwan. Taiwan is a branch office of the subsidiary in the United States. For operations in the United States of America, Hong Kong and Taiwan, the Company has incurred net accumulated operating losses for income tax purposes. The Company believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future and hence the Company has not recorded income tax provisions or benefits for these locations as of March 31, 2004. The Company generated

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substantially all its net income from its PRC operations for the three months ended March 31, 2004 and the Company had recorded income tax provisions for the three months ended March 31, 2004.

The components of income before income taxes are as follows:

	Three months ended March 31,	
	2004	2003
	(In thousands, except percentage)	
Loss subject to non PRC operations	\$ (874)	\$ (2,395)
Income subject to the PRC operations	17,740	5,771
	<hr/>	<hr/>
Income before taxes	\$ 16,866	\$ 3,376
	<hr/>	<hr/>
Income tax expenses subject to non PRC operations	\$	\$
Effective tax rate for non PRC operations		
Income tax expenses subject to the PRC operations	\$ 824	\$
Effective tax rate for the PRC operations	5%	

Pursuant to the PRC Income Tax Laws, the Company's subsidiaries and VIEs are generally subject to Enterprise Income Taxes (EIT) at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. Some of these subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to preferential tax rate of 15%. In addition, some of the Company's subsidiaries are Foreign Investment Enterprise and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first operating year, or a two-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first profitable year.

The provision for income taxes for the three months ended March 31, 2004 and 2003 differs from the amount computed by applying the EIT primarily due to the tax holidays and preferential tax rate enjoyed by certain of the Company's entities in the PRC. The increase in effective tax rate to 5% for the three months ended March 31, 2004 as compared to the same period in 2003 was primarily due to the increase in net income generated from certain of the Company's taxable entities.

10. Earnings per share

Basic earnings per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of ordinary share and ordinary share equivalents outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share for the periods presented:

	Three months ended March 31,	
	2004	2003
	(In thousands, except per share amounts)	
Numerator:		
Net income	\$ 16,042	\$ 3,376
Amortization of convertible debt issuance cost	171	
	<hr/>	<hr/>
Net income used in computing diluted earnings per share	\$ 16,213	\$ 3,376
	<hr/>	<hr/>
Denominator:		
Weighted average ordinary shares outstanding	49,329	46,401
Weighted average ordinary shares to be issued for business acquisition		373
	<hr/>	<hr/>
Shares used in computing basic earnings per share	49,329	46,774
	<hr/>	<hr/>
Weighted average ordinary share equivalents:		
Stock options	4,620	4,004
Unvested restricted shares		66
Convertible debt	3,877	
	<hr/>	<hr/>

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	Three months ended March 31,	
	2004	2003
	(In thousands, except per share amounts)	
	8,497	4,070
Shares used in computing diluted earnings per share	57,826	50,844
Basic earnings per share	\$ 0.33	\$ 0.07
Diluted earnings per share	\$ 0.28	\$ 0.07

11. Stock-based compensation

The Company's stock-based compensation plans include three stock option plans (collectively the "Stock Plans") and an Employee Stock Purchase Plan (the "Purchase Plan"). The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as amended by FASB Interpretation No. (FIN) 44 and Emerging Issues Task Force (EITF) No. 00-23 and complies with the disclosure provisions of SFAS No. 123 Accounting for Stock-Based Compensation as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. Under APB No. 25, as amended, compensation cost is, in general, recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for companies that voluntarily change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Stock Plans: Total compensation cost as determined at the grant date of option is recorded in shareholders' equity as additional paid-in capital with an offsetting entry recorded to deferred stock compensation. Deferred stock compensation is amortized over the vesting period of 4 years on an accelerated basis using the model presented in paragraph 24 of FIN 28. Accordingly, the percentages of the deferred compensation amortized in the first, second, third and fourth years following the option grant date are approximately 52%, 27%, 15% and 6%, respectively. Prior to the Company's initial public offering, the fair value of each option grant was determined using the minimum value method. Options granted subsequent to the initial public offering have been valued using the Black-Scholes model considering the expected volatility of SINA stock price, determined in accordance with SFAS 123, in arriving at an option valuation. The minimum value method does not consider stock price volatility.

Purchase Plan: The Purchase Plan is implemented by a series of overlapping periods of approximately 24 months duration, with new offering periods (other than the first offering period which will be approximately 9 1/2 months) commencing on February 1 and August 1 of each year. The price at which stock is purchased under the Purchase Plan

is equal to the lower of 85% of the fair market value of the ordinary shares at the beginning of each offering period or at the end of each purchase period.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates or purchase dates for the awards under a method prescribed by SFAS No. 123, the Company's earnings per share would have been adjusted to the pro forma amounts as follows:

	Three months ended March 31	
	2004	2003
	(In thousands, except per share amounts)	
Net income:		
As reported	\$ 16,042	
Added: Stock-based employee compensation expenses included in reported net income		244
Deduct: Employee stock purchase plan related compensation expenses determined under fair value based method	(33)	(26)
Deduct: Stock-based employee compensation expenses determined under fair value based method	(1,882)	(614)
Pro forma	<u>\$ 14,127</u>	<u>\$ 2,980</u>
Earnings per share, basic and diluted:		
As reported	<u>\$ 0.28</u>	<u>\$ 0.07</u>
Pro forma	<u>\$ 0.25</u>	<u>\$ 0.06</u>

Table of Contents**12. Segment information**

Based on the criteria established by Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company currently operates in three principal business segments globally. The Company does not allocate any operating costs or assets to its advertising, mobile value-added services and other segments as management does not use this information to measure the performance of these operating segments. Management does not believe that allocating these expenses or assets is necessary in evaluating these segments performance.

The following is a summary of revenues and cost of revenues:

	Three months ended March 31,	
	2004	2003
	(In thousands, except percentages)	
Revenues:		
Advertising	\$ 13,118	\$ 7,298
Mobile value-added services	25,786	9,197
Other	2,484	1,619
	<u>\$ 41,388</u>	<u>\$ 18,114</u>
Cost of revenues:		
Advertising	\$ 4,332	\$ 2,840
Mobile value-added services	7,977	3,032
Other	217	235
	<u>\$ 12,526</u>	<u>\$ 6,107</u>
Gross profit margins:		
Advertising	67%	61%
Mobile value-added services	69%	67%
Other	91%	86%
Overall	70%	66%

The following is a summary of the Company's geographic operation:

<u>U.S.</u>	<u>The PRC</u>	<u>Hong Kong</u>	<u>Taiwan</u>	<u>Total</u>
-------------	----------------	----------------------	---------------	--------------

(In thousands)

**Three months ended and as of
March 31, 2004:**

Revenue	\$582	\$40,042	\$ 452	\$ 312	\$41,388
Long-lived assets	45	8,736	85	707	9,573

**Three months ended and as of
March 31, 2003:**

Revenues	\$599	\$16,507	\$ 613	\$ 395	\$18,114
Long-lived assets	278	5,654	377	1,202	7,511

13. Concentration of credit risk and major customers

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable debt securities and accounts receivable. The Company limits its exposure to credit loss by depositing its cash and cash equivalents with financial institutions in the U.S., the PRC, Hong Kong and Taiwan which management believes are of high credit quality. The Company also limits investment in marketable debt securities to debt securities with A ratings or above.

Accounts receivable consist primarily of advertising agencies, direct advertising customers and third party mobile operators. As of March 31, 2004, approximately 96% of the accounts receivables, net, were derived from the Company's operations in the PRC. Regarding its advertising operations, no individual advertising customer accounted for more than 10% of total net revenues for the three months ended March 31, 2004 and 2003. Also, no individual advertising customer accounted for more than 10% of accounts receivables as of March 31, 2004 and 2003. For its mobile value-added services operations in the PRC, the Company contracts with

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third party mobile operators, China Mobile Communication Corporation (China Mobile) and its subsidiaries and China Unicom Co., Ltd (China Unicom) and its subsidiaries, for utilizing their transmission gateways for message delivery and billing systems to collect subscription or usage fees from its subscribers. Mobile value-added services fees charged to users via these third party mobile operators accounted for 62% and 51% of the Company's net revenues for the three months ended March 31, 2004 and 2003, respectively. Accounts receivable from these third party mobile operators represent mobile value-added services fees collected on behalf of the Company after deducting their billing services and transmission charges. The Company maintains allowances for potential credit losses and historically the Company did not notice any significant direct write off of bad debts.

The following table summarizes accounts receivable concentration from the Company's significant accounts receivable:

Customer	% of total accounts receivable	
	As of March 31, 2004	As of December 31, 2003
China Mobile and its subsidiaries	58%	45%

The Company operates in business segments which are characterized by rapid technological advances, changes in customer requirements and evolving regulatory requirements and industry standards. Any failure by the Company to anticipate or to respond adequately to technological changes in its industry segments, changes in customer requirements or changes in regulatory requirements or industry standards, could have a material adverse effect on the Company's business and operating results. The Company relies on a number of third-party suppliers for various other services, including web server hosting, banner advertising delivery software, Internet traffic measurement software and transmission and billing of mobile value-added services. Any failure of these suppliers to provide services to the Company or any termination of these services with the Company could have a material adverse effect on the Company's business and operating results.

The majority of the Company's revenues derived and expenses and liabilities incurred were in Chinese renminbi. Accordingly, the Company may experience economic losses and negative impacts on earnings and equity as a result of exchange rate fluctuations in the currency of the PRC.

14. Convertible debt

As of March 31, 2004, the Company has \$100 million of zero coupon convertible subordinated notes (the Notes) due 2023. The Notes were issued at par and bear no interest. The Notes will be convertible into SINA ordinary shares, upon satisfaction of certain conditions, at an initial conversion price of \$25.79 per share, subject to adjustments for certain events.

One of the conditions for conversion of the Notes to SINA ordinary shares is conversion upon satisfaction of market price condition, when the sale price (defined as closing per share sales price) of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are (i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and (ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is

more than 115% of the conversion price per ordinary share. For the two consecutive fiscal quarters ended December 31, 2003 and March 31, 2004, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes are therefore convertible into SINA ordinary shares according to the threshold (i) during the quarter ending June 30, 2004. As of March 31, 2004, the Company did not receive any request for conversion of the Notes to SINA ordinary shares.

Upon conversion, the Company has the right to deliver cash in lieu of ordinary shares, or a combination of cash and ordinary shares. The Company may redeem for cash all or part of the Notes on or after July 15, 2012, at a price equal to 100% of the principal amount of the Notes being redeemed. The purchasers may require the Company to repurchase all or part of the Notes for cash on July 15 annually from 2007 through 2013, and on July 15, 2018, or upon a change of control, at a price equal to 100% of the principal amount of the Notes.

15. Commitments and contingencies

Commitments: The following table sets forth the contractual commitments and obligations of the Company as of March 31, 2004:-

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	Payments due by period				
	Total	Less than one year	One to three years	Three to five years	More than five years
(In thousands)					
Contractual obligations:					
Long-term debt obligations	\$ 100,000	\$	\$	\$ 100,000	\$
Operating lease obligations	3,227	1,319	1,597	311	
Purchase and other obligations	47,374	45,271	2,103		
Other long-term liabilities	2,265		1,345	920	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total contractual obligations	\$ 152,866	\$46,590	\$ 5,045	\$ 101,231	\$
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Long-term debt obligations represent the zero coupon convertible subordinated notes issued on July 7, 2003. Please see Note 14 Convertible debts for further information. Operating lease obligations include the commitments under the lease agreements for the Company's office premises. Purchase obligations mainly include the commitments for Internet connection fees associated with web sites production, content fees associated with web sites production and mobile value-added services, advertising serving services, advertising tracking services and marketing activities. Other long-term liabilities mainly include outstanding considerations for the Company's business acquisition and investment in joint venture.

The Company is also obligated to pay contingent considerations on its acquisitions of Bravado and Crillion in addition to the initial considerations. The contingent consideration of Bravado acquisition is based on Bravado's financial performance in 2004. The contingent consideration will be \$303,000 or \$606,000 in cash, provided that Bravado achieves certain earning targets for 2004. The contingent considerations of Crillion acquisition are based on Crillion's financial performances in 2004 and 2005. The contingent considerations would roughly be 1.5 to 2.0 times of 2004 and 2005 earnings basis, respectively, provided that Crillion's pretax net income for 2004 and 2005 is over \$6.7 million and \$13.3 million, respectively. The total consideration is subject to a cap of \$125.0 million and will be 60% in cash and 40% in SINA ordinary shares.

Apart from the above, the Company did not have any other material long-term debt obligations, capital lease obligations, operating lease obligations or purchase obligations as of March 31, 2004.

Contingencies: There are uncertainties regarding the legal basis of the Company's ability to operate an Internet business and provide telecom value-added services in the PRC. Although the country has implemented a wide range of market-oriented economic reforms, the telecommunication, information and media industries remain highly regulated. Not only are restrictions currently in place, but also regulations are unclear regarding in what specific segments of these industries companies with foreign investors, including the Company, may operate. Therefore, the Company might be required to limit the scope of its operations in the PRC, and this could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect", "anticipate", "intend", "believe" or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth below under the caption "Risk Factors" set forth herein. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties, including the factors identified in "Risk Factors", that could cause actual results to differ materially from those in the forward-looking statements.

Overview

We are a leading online media company and value-added information services provider in the People's Republic of China (the "PRC" or "China") and the global Chinese communities. With a branded network of localized websites, targeting Greater China and overseas Chinese, we provide an array of services to our users including region-focused online portals, mobile value-added services, search and directory, free and premium email, online games, virtual ISP, classified listings, e-commerce and enterprise e-solutions. In turn, we generate revenue through advertising, mobile value-added services, fee-based services, e-commerce and enterprise services.

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Our focus of business is our operation in the PRC where we derived approximately 97% of our net revenues for the three months ended March 31, 2004.

From 1999 to 2001, our growth was mainly driven by online advertising business and revenues from online advertising accounted for a majority of our total revenues. We began offering mobile value-added services under arrangements with third party mobile operators in the PRC in late 2001 and have since experienced significant growth in mobile value-added services revenues. Our advertising revenues and mobile value-added services revenues accounted for 32% and 62%, respectively, of our net revenues for the three months ended March 31, 2004. We expect they will continue to be the major sources of our revenues in the near future. With the recent development in our travel and hotel booking services, we had a new stream of revenues during the three months ended March 31, 2004. However, such revenue did not constitute a significant portion of our current revenues and is not expected to constitute a significant portion of our revenues in the near future in view of the relatively undeveloped and competitive hotel booking market in the PRC.

Acquisitions and investments

In January 2003, we completed the acquisition of Memestar Limited, a British Virgin Islands limited liability corporation (Memestar), through a purchase of all of the outstanding shares of Memestar. As a result of such acquisition, Memestar became a wholly-owned subsidiary of SINA. Memestar, through its various subsidiaries and exclusive contractual arrangements with two local entities in the PRC, is engaged in the business of providing mobile value-added services in the PRC. The primary purposes of the acquisition were to enhance our mobile value-added services as well as increase our market share in the PRC mobile value-added services market. The aggregate purchase price of \$24,255,113 is comprised of five elements: (a) \$10,277,675 in cash paid at the closing of the acquisition; (b) 560,369 newly issued SINA ordinary shares, valued at \$4,281,219 at the time of closing, delivered at the closing of the acquisition; (c) \$5,250,000 in cash to be paid in four equal installments after the closing date of the acquisition. The last payment would be forfeited if the non-compete clauses of certain members of Memestar's management are violated; (d) 560,369 newly issued SINA ordinary shares, valued at \$4,281,219 at the time of closing, to be delivered on the first anniversary of the closing date of the acquisition, 383,733 of which were issued in August 2003, prior to the first anniversary of the closing, as a result of an amendment to the share purchase agreement, and (e) approximately \$165,000 in legal and professional fees related to the acquisition.

As a result of the acquisition, we recorded intangible assets relating to customer lists and non-competition clauses in the amount of \$2.2 million, which were amortized over periods ranging from fourteen to eighteen months. In addition, we recorded goodwill in the amount of \$18.1 million representing the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. We assess the carrying value of our intangible assets and goodwill on an annual basis and when factors are present that indicate an impairment may have occurred. We performed an impairment test relating to goodwill arising from Memestar acquisition and concluded there was no impairment as to the carrying value of the goodwill as of December 31, 2003. During the three months ended March 31, 2004, no factors were presented indicating an impairment may have occurred. The purchase price allocation for the Memestar acquisition is based on an appraisal performed by an independent appraisal firm in the United States. Immediately after the signing of the definitive agreement, we obtained effective control over MemeStar; accordingly, the operating results of MemeStar have been consolidated with our operating results starting January 6, 2003.

In January 2004, we entered into a definitive agreement with Yahoo!, the leading provider of comprehensive online products and services to consumers and businesses worldwide, to form a joint venture for providing online auction in the PRC. According to the agreement, we will contribute certain services, advertising spaces and cash in exchange for 33% equity interest in the joint venture. We accounted for the investment in the joint venture using the equity method of accounting.

In February 2004, we completed the acquisition of Bravado Investments Limited, a British Virgin Islands limited liability corporation (Bravado), through a purchase of all of the outstanding shares of Bravado. As a result of such acquisition, Bravado became a wholly-owned subsidiary of SINA. Bravado, through its subsidiary in the PRC, is engaged in the business of providing online and offline hotel reservation services under the brand Fortune Trip in the PRC. The primary purpose of the acquisition was to enter the PRC online travel market. The aggregate purchase price is comprised of an initial consideration and a contingent consideration on achieving specified earnings in future period. The initial consideration of \$1,836,414 is comprised of two elements: (a) \$1,812,251 in cash in which \$241,633 was paid after the closing of the acquisition; and (b) approximately \$24,163 in legal and professional fees related to the acquisition. The contingent consideration is based on Bravado s financial performance in 2004. The contingent consideration will be \$303,000 or \$606,000 in cash, provided that Bravado achieved certain earning targets for 2004. As a result of the acquisition, we recorded intangible assets relating to hotel reservation contracts and non-competition clauses in the amount of \$895,000, which were amortized over periods ranging from twenty-eight to thirty-six months. In addition, we recorded goodwill in the amount of \$824,000 representing the excess of the initial purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The contingent consideration, if any, will be recorded as additional goodwill. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. Immediately after the closing of the acquisition, the operating results of Bravado have been consolidated with our operating results starting February 1, 2004.

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In March 2004, we completed the acquisition of Crillion Corporation, a British Virgin Islands limited liability corporation (Crillion), through a purchase of all of the outstanding shares of Crillion. As a result of such acquisition, Crillion became a wholly-owned subsidiary of SINA. Crillion, through its subsidiary and exclusive contractual arrangement with a local entity in the PRC, is engaged in the business of providing mobile value-added services in the PRC. The primary purposes of the acquisition were to enhance our mobile value-added services as well as increase our market share in the PRC mobile value-added services market. The aggregate purchase price is comprised of an initial consideration and two contingent considerations on achieving specified earnings in future periods. The initial consideration of \$18,958,486 is comprised of three elements: (a) \$9,898,785 in cash in which \$8,691,056 was paid at the closing of the acquisition and the remaining balance was paid on April 13, 2004; (b) 195,593 newly issued SINA ordinary shares, valued at \$8,534,701 at the time of closing, delivered at the closing of the acquisition; and (c) approximately \$525,000 in legal and professional fees related to the acquisition. The two contingent considerations are based on Crillion's financial performances in 2004 and 2005. The contingent considerations would roughly be 1.5 to 2.0 times of 2004 and 2005 earnings basis respectively, provided that Crillion's pretax net income for 2004 and 2005 is over \$6.7 million and \$13.3 million, respectively. The total consideration is subject to a cap of \$125.0 million and will be 60% in cash and 40% in SINA ordinary shares. As a result of the acquisition, we recorded intangible assets relating to the customer list, content provider contracts and non-competition clauses in the amount of \$4.5 million, which were amortized over periods ranging from sixteen to thirty-six months. In addition, we recorded goodwill in the amount of \$9.9 million representing the excess of the initial purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The contingent consideration, if any, will be recorded as additional goodwill. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. The purchase price allocation for the Crillion acquisition is based on an appraisal performed by an independent appraisal firm in the United States. Immediately after the closing of the acquisition, the operating results of Crillion have been consolidated with our operating results starting March 25, 2004.

Critical accounting policies and estimates

Our discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. We based our estimates and judgments on historical experience, market trends, and other factors that we believed to be reasonable under the circumstances. The results of these estimates form the basis for judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2003 reflect the more significant judgments and estimates used in preparation of our financial statements. We have discussed the development, selection, and disclosure of these estimates with the Audit Committee of our Board of Directors. We believe there have been no material changes to our critical accounting policies and estimates during the three months ended March 31, 2004 compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2003.

Results of operations***Three months ended March 31, 2004 and 2003******Net revenues***

	Three months ended March 31,				
	2004		2003		Growth
	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues	
	(unaudited, in thousands, except percentages)				
Net Revenues					
Advertising	\$13,118	32%	\$ 7,298	40%	80%
Non-advertising					
Mobile value-added services	25,786	62%	9,197	51%	180%
Other	2,484	6%	1,619	9%	53%
Non-advertising	28,270	68%	10,816	60%	161%
Total net revenues	\$41,388	100%	\$18,114	100%	129%

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Our net revenues were \$41.4 million for the three months ended March 31, 2004, representing growth of 129% as compared to the same period in 2003. Our advertising revenues for the three months ended March 31, 2004 grew by 80% as compared to the same period in 2003 and accounted for 32% of our net revenues for the three months ended March 31, 2004. Our non-advertising revenues for the three months ended March 31, 2004 grew by 161% as compared to the same period in 2003 and accounted for 68% of our net revenues for the three months ended March 31, 2004. For the three months ended March 31, 2003, advertising and non-advertising revenues accounted for 40% and 60%, respectively, of our net revenues. The change in the composition of our net revenues was primarily driven by the increase in revenues from our mobile value-added services, which benefited from the growth in the PRC mobile value-added services market.

Advertising. Our advertising revenues were \$13.1 million for the three months ended March 31, 2004, representing growth of 80% as compared to the same period in 2003. The increase in our advertising revenues was primarily due to the growth in the number of advertisers as well as per advertiser spending in the PRC market as more advertisers began to accept the Internet as a medium for advertisement. For the three months ended March 31, 2004, advertising revenues from the PRC accounted for 93% of our total advertising revenues, compared to 84% of our total advertising revenues for the same period in 2003. The number of advertising customers in the PRC was approximately 386 for the three months ended March 31, 2004 as compared to 257 for the same period in 2003. Average revenues per advertising customer in the PRC were \$32,000 for the three months ended March 31, 2004 as compared to \$24,000 for the same period in 2003.

Non-advertising. Our non-advertising revenues were \$28.3 million for the three months ended March 31, 2004, representing growth of 161% as compared to the same period in 2003. The increases in non-advertising revenues were primarily driven by the growth in revenues from mobile value-added services in the PRC which represented 91% of our total non-advertising revenues for the three months ended March 31, 2004, as compared to 85% of our total non-advertising revenues for the same period in 2003.

Our mobile value-added services revenues for the three months ended March 31, 2004 were \$25.8 million, representing growth of 180% as compared to the same period in 2003. The growth was attributable to the introduction of new product offerings as well as the increasing number of unique paid users. Our product offerings for the mobile value-added service mainly include SMS, MMS, WAP and IVR. We launched SMS in late 2001, WAP services in December 2002, MMS in April 2003 and IVR services in December 2003. SMS is our primary mobile value-added service, accounting for 93% and nearly 100% of our mobile value-added services revenues for the three months ended March 31, 2004 and 2003, respectively. New product offerings like WAP, MMS and IVR services in aggregate contributed approximately \$1.7 million of mobile value-added services revenues for the three months ended March 31, 2004 and accounted for approximately 7% of our mobile value-added service revenues. We expect that revenues from these new products will account for a higher percentage of our mobile value-added service revenues in the future quarters. For the month of March 2004, we had approximately 9.9 million unique paid users, excluding the users from the acquisition of Crillion. This compared to 9.4 million unique paid users for the month of December 2003.

Our estimation of mobile value-added services revenue is based on our internal records of billings and transmissions for the month, adjusted by prior periods' confirmation rates with the third party mobile operators, and further adjusted by prior periods' discrepancies between our estimated revenue and actual revenue confirmed by the third party mobile operators. Historically, there were no significant true up adjustments to our estimates. To the extent that such revenues cannot be accurately estimated, we rely on the billing statements from the third party mobile operators to record revenues. Due to the time lag of receiving the billing statements from the third party mobile operators, for revenues recorded based on the billing statements from the third party mobile operators, we have adopted a one month lag reporting policy. Such policy has been applied on a consistent basis. For the three months ended March 31, 2004 and 2003, we recorded \$25.8 million and \$9.2 million of revenues from our mobile

value-added services, respectively. If we had not used the one month lag reporting policy, our revenues from our mobile value-added services for those periods would have been \$26.6 million and \$10.3 million, respectively.

Our other non-advertising revenues include fee-based services such as paid search and directory listings, virtual ISP, paid email services as well as e-commerce and other enterprise services. For the three months ended March 31, 2004, the increase in our other non-advertising revenues was primarily due to the increase in our revenues for paid search services and directory listings. For the three months ended March 31, 2004, revenues from paid search and directory listings amounted to \$1.3 million, as compared to \$0.4 million for the same period in 2003.

Cost of revenues

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	Three months ended March 31,		
	2004	2003	Growth
	(unaudited, in U.S. dollars, in thousands, except percentages)		
Cost of revenues:			
Advertising	\$ 4,332	\$ 2,840	53%
Non-advertising			
Mobile value-added services	7,977	3,032	163%
Other	217	235	(8%)
Non-advertising	8,194	3,267	151%
Total cost of revenues	\$ 12,526	\$ 6,107	105%

Our cost of revenues was \$12.5 million for the three months ended March 31, 2004, representing an increase of 105% as compared to the same period in 2003.

Advertising. Our cost of advertising revenues was \$4.3 million and \$2.8 million for the three months ended March 31, 2004 and 2003, respectively. Our cost of advertising revenues consists mainly of costs associated with the production of our web sites, which includes fees paid to third parties for Internet connection, content and services, personnel related costs and equipment depreciation expenses associated with our web site production. Cost of advertising revenues also includes the business taxes relating to advertising sales in the PRC. The business taxes levied on advertising sales were approximately 8.3% of the advertising revenues. The period-to-period increase in cost of advertising from the three months ended March 31, 2003 to the three months ended March 31, 2004 was due to an increase in web production cost driven by an increase in web production personnel and content fees as well as an increase in business taxes associated with higher advertising revenues.

Non-advertising. Our cost of non-advertising revenues was \$8.2 million and \$3.3 million for the three months ended March 31, 2004 and 2003, respectively. Our cost of non-advertising revenues consists mainly of fees paid to third party mobile operators for their services relating to the collection of our mobile value-added services fees and for using their transmission gateways, and fees or royalties paid to third party content providers for services and content associated with our mobile value-added services, equipment depreciation expenses and costs for providing our enterprise services. Cost of non-advertising revenues also includes the business taxes levied on non-advertising sales in the PRC. The period-to-period increase in cost of non-advertising revenues from the three months ended March 31, 2003 to the three months ended March 31, 2004 was mainly due to the increase in fees to mobile operators and third party content providers as well as an increase in business taxes associated with higher non-advertising revenues in the PRC. Business taxes levied on mobile value-added service are at 3% of mobile related revenues and at 5% for other non-advertising revenues. For the three months ended March 31, 2004, non-advertising costs included \$7.4 million of fees retained by or paid to mobile operators and third party content providers as compared to \$2.6 million for the same period in 2003.

Gross profit margins

	Three months ended March 31,	
	2004	2003
	(Unaudited, percentages)	
Gross profit margins:		
Advertising	67%	61%
Non-advertising		
Mobile value-added services	69%	67%
Other	91%	86%
Non-advertising	71%	70%
Overall	70%	66%

Our overall gross profit margin increased from 66% for the three months ended March 31, 2003 to 70% for the three months ended March 31, 2004. Both our advertising and non-advertising activities contributed to the improvement in gross profit margins.

Advertising. Our gross profit margins for advertising revenues increased from 61% for the three months ended March 31, 2003 to 67% for the three months ended March 31, 2004. The increase in gross profit margins was primarily due to the increase in advertising revenues at a faster rate than the increase in the costs associated with our web site production.

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Non-advertising. Our gross profit margins for non-advertising revenues increased from 70% for the three months ended March 31, 2003 to 71% for the three months ended March 31, 2004. This increase was driven by improvements in gross profit margins for our mobile value-added service revenue. Our gross profit margins for mobile value-added services revenue increased from 67% for the three months ended March 31, 2003 to 69% for the three months ended March 31, 2004. The improvement was primarily due to a decrease in business tax rate levied on mobile value-added service revenues from 5% to 3% in China.

Operating expenses

	Three months ended March 31,			
	2004		2003	
	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues
	(unaudited, in thousands, except percentages)			
Sales and marketing expenses	\$ 7,098	17%	\$ 4,461	25%
Product development expenses	\$ 1,974	5%	\$ 1,495	8%
General and administrative expenses	\$ 3,215	8%	\$ 2,265	13%

Sales and marketing expenses

Our sales and marketing expenses were \$7.1 million or 17% of total net revenues for the three months ended March 31, 2004, compared to \$4.5 million or 25% of total net revenues for the same period in 2003. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion expenditures and travel expenses. The period-to-period increase in the absolute dollar amount from the three months ended March 31, 2003 to the three months ended March 31, 2004 was due to an increase in sales commission expenses for advertising sales and increased promotion expenditures for mobile value-added services. The period-to-period decrease in sales and marketing expenses as a percentage of total net revenues from the three months ended March 31, 2003 to the three months ended March 31, 2004 was primarily due to the rapid growth of revenues. We believe that investment in sales and marketing is critical to our revenue growth and expect these expenses to increase in absolute dollar amount in the near future.

Product development expenses

Our product development expenses were \$2.0 million or 5% of total net revenues for the three months ended March 31, 2004, compared to \$1.5 million or 8% of total net revenues in the same period in 2003. Product development expenses consist primarily of personnel related expenses incurred for enhancement to and maintenance of our web sites as well as costs related to the development of our mobile services related and web-based products. The period-to-period increase in product development expenses in the absolute dollar amount from the three months ended March 31, 2003 to the three months ended March 31, 2004 was primarily due to increase in headcounts and the investment in new products. The period-to-period decrease in product development expenses as a percentage of total net revenues from the three months ended March 31, 2003 to the three months ended March 31, 2004 was primarily due to an increase in labor productivity as well as the rapid growth of revenues. We expect that our product development expenses will continue to increase in absolute dollar amount in the near future.

General and administrative expenses

Our general and administrative expenses were \$3.2 million or 8% of total net revenues for the three months ended March 31, 2004, compared to \$2.3 million, or 13% of total net revenues for the same period in 2003. General and administrative expenses consist primarily of compensation for personnel, fees for professional services, and provisions for doubtful accounts. Our general and administrative expenses also include expenses relating to the transfer of the economic benefits generated from our VIEs in the PRC to our subsidiaries. The period-to-period increase in the absolute dollar amount from the three months ended March 31, 2003 to the three months ended March 31, 2004 was mainly due to an increase in expenses paid for transferring economic benefits generated from our VIEs in the PRC to our subsidiaries. For the three months ended March 31, 2004, such expenses amounted to \$1.1 million as compared to \$0.3 million for the same period of 2003. The period-to-period decrease as a percentage of total net revenues from the three months ended March 31, 2003 to the three months ended March 31, 2004 was primarily due to the rapid growth of revenues. We expect that our general and administrative expenses will continue to increase in absolute dollar amount in the near future. However, we do not expect the expenses as a percentage of total net revenues to vary significantly in the near future.

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Amortization of intangible assets

Amortization of intangible assets of \$0.5 million for the three months ended March 31, 2004 related to our acquisition of Memestar, Bravado and Crillion. Amortization of intangible assets of \$0.5 million for the three months ended March 31, 2003 related to our acquisition of Memestar and Techur.

As of March 31, 2004, the net carrying amount of our intangible assets mainly includes content provision contracts, hotel reservation contracts, customer list, and non-competition arrangements. These intangible assets are amortized over their respective useful lives. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding four years is as follows: nine months ending December 31, 2004: \$2.4 million; years ending December 31, 2005, 2006 and 2007: \$2.1 million, \$0.8 million and \$0.2 million, respectively.

Interest income

Interest income was \$1.2 million for the three months ended March 31, 2004 as compared to \$0.4 million for the same period in 2003. The increase in interest income was resulted from a higher balance of cash and cash equivalent and short-term investments during the period. See Item 3 Quantitative and Qualitative Disclosures about Market Risk for a description of our investment policy.

Amortization of convertible debt issuance cost

As a result of our sale of zero coupon convertible subordinated notes in July 2003, we recorded convertible debt issuance cost of approximately \$2.7 million, which is being amortized over four years. The amortization expense was \$0.2 million for the three months ended March 31, 2004.

Loss on equity investments

Our loss on equity investment for the three months ended March 31, 2004 and 2003 were mainly related to our investment in the Shanghai NC-SINA joint venture.

Provision for income taxes

We are incorporated in Cayman Islands where no income taxes are imposed. We have operations in four tax jurisdictions including PRC, the United States of America, Hong Kong and Taiwan. For the United States of America, Hong Kong and Taiwan, we have incurred net accumulated operating losses for income tax purposes. We believe that it is more likely than not that these net accumulated operating losses will not be utilized in the future and hence we have not recorded income tax provisions or benefits for these locations for the three months ended March 31, 2004.

We generated substantially all our net income from our PRC operations for the three months ended March 31, 2004. Our PRC operations are conducted through various subsidiaries and VIEs. Pursuant to the PRC Income Tax Laws, our subsidiaries and VIEs are generally subject to Enterprise Income Taxes (EIT) at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. However, some of our subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to preferential tax rate of 15%. In addition, some of our subsidiaries are Foreign Investment Enterprise and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing from the first operating year; or a two-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing from the first profitable year. We expect that based on our current operating and tax structure in the PRC, our effective income tax rates will be approximately 5%, 10% and 15% for the years ending

2004, 2005 and 2006, respectively. We are in the process of applying for new preferential tax treatments for certain of our subsidiaries and VIEs in the PRC and our projected effective tax rates will be reduced further if these applications are approved. Over the longer term, if the Chinese government phases out preferential tax treatment for foreign investment enterprise or for new technology enterprise, our effective tax rates can be increased to as high as 33%.

Our operations in the PRC were profitable on an overall basis for the three months ended March 31, 2004 and we had recorded income tax provisions in the amount of \$0.8 million for the three months ended March 31, 2004 relating to our PRC operations.

Due to our operating and tax structures in the PRC, we have entered into technical and other service agreements between our subsidiaries and our VIEs in the PRC pursuant to which our subsidiaries provide technical and other services to our VIEs in exchange

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for substantially all net income of these VIEs. We incur 5% business tax when our subsidiaries receive the fees from the VIEs which we include in our operating expenses as cost of transferring economic benefit generated from these VIEs. We believe that the terms of such service agreements are in compliance with the laws in the PRC. Some of these agreements were reviewed by the tax authorities in the PRC in the past and no comments were raised. However, due to the uncertainties surrounding the interpretation of the tax transfer pricing rules relating to related party transactions in the PRC, it is possible that tax authorities in the PRC might challenge the transfer prices that we used for the related party transactions among our entities in the PRC in the future.

Liquidity and Capital Resources

We have funded our recent operations and capital expenditures primarily using the net proceeds of \$97.5 million raised through the sale of preference shares, \$68.8 million raised from the sale of ordinary shares in the initial public offering and \$97.3 million raised from the sale of zero coupon convertible subordinated notes in July 2003, as well as net income from our operations.

On July 7, 2003, we sold \$100 million aggregate amount of zero coupon convertible subordinated notes (the Notes) due 2023 in a private offering, which resulted in net proceeds to us of approximately \$97.3 million. The Notes were issued at par and will bear no interest. The Notes will be convertible into our ordinary shares, upon satisfaction of certain conditions, at an initial conversion price of \$25.79 per share, subject to adjustments for certain events. Upon conversion, we have the right to deliver cash in lieu of ordinary shares, or a combination of cash and ordinary shares. We may redeem for cash all or part of the Notes on or after July 15, 2012, at a price equal to 100% of the principal amount of the Notes being redeemed. The purchasers may require us to repurchase all or part of the Notes for cash on July 15 annually from 2007 through 2013, and on July 15, 2018, and upon a change of control, at a price equal to 100% of the principal amount of the Notes. We filed a registration statement on Form S-3 for the resale of the Notes and the ordinary shares issuable upon conversion of the notes. The SEC has declared the registration statement to be effective.

One of the conditions for conversion of the Notes to SINA ordinary shares is that the sale price (defined as closing per share sales price) of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are (i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and (ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is more than 115% of the conversion price per ordinary share. For the two consecutive fiscal quarters ended December 31, 2003 and March 31, 2004, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes are therefore convertible into SINA ordinary shares according to the threshold (i) during the quarter ending June 30, 2004.

As of March 31, 2004, we did not receive any request for conversion of the Notes to SINA ordinary shares. Upon conversion in the future periods, we have the right to deliver cash in lieu of ordinary shares, or a combination of cash and ordinary shares.

We are parties to various lease agreements for our office premises in the PRC, the United States of America, Hong Kong and Taiwan. The obligations for the rental expenses under these operating leases were totaling \$3.2 million as of March 31, 2004, and are expected to be \$1.3 million, \$0.9 million, \$0.7 million and \$0.3 million for the years ending December 31, 2004, 2005, 2006 and 2007, respectively.

As of March 31, 2004, we had \$238.1 million in cash and cash equivalents and short-term investments to meet the future requirements on our operating, investing and financing activities. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and

other obligations for at least the next twelve months. However, we may sell additional equities or obtain credit facilities to enhance our liquidity position or to increase our cash reserve for future acquisitions. The sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

The following tables set forth the movements of our cash and cash equivalents for the periods presented.

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	Three months ended March 31	
	2004	2003
	(In thousands)	
Net cash provided by operating activities	\$ 19,637	\$ 3,751
Net cash used in investing activities	(44,739)	(19,357)
Net cash provided by financing activities	7,628	697
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(17,474)	(14,909)
Cash and cash equivalents at beginning of period	158,148	53,262
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 140,674	\$ 38,353
	<hr/>	<hr/>

Operating activities

Net cash provided by operating activities for the three months ended March 31, 2004 was \$19.6 million, including cash received from sales of approximately \$36.3 million. Net cash provided by operating activities was primarily attributable to our net income of \$16.0 million, adjusted by non-cash related expenses of \$2.3 million and a net increase in working capital items of \$1.3 million. Of the working capital changes, the increase in accrued liabilities of \$6.9 million (net of acquisition) was primarily due to the increase in accrual for services fees or royalties paid to third party content providers for services and content associated with our mobile-value added services, accrual for payroll withholding taxes and payroll related expenses, deferred revenue, business taxes payable and sales rebates. The increase in account receivables of \$5.2 million (net of acquisition) mainly resulted from an increase in our net revenues, especially our mobile value-added services during the three months ended March 31, 2004. To a lesser extent, the increase in accounts receivable was due to slower collection of receivables related to mobile value-added services in the three months ended March 31, 2004 as compared to the three months ended December 31, 2003. As most of receivables related to mobile value-added services as of March 31, 2004 were confirmed by mobile operators, we believe that the slower collection of such receivable is mainly a timing issue.

Net cash provided by operating activities for the three months ended March 31, 2003 was \$3.8 million, including cash receipts from sales of approximately \$17.0 million. Net cash provided by operating activities was primarily attributable to our net income of \$3.4 million, adjusted by non-cash related expenses of \$2.4 million and a net decrease in working capital items of \$2.0 million. Of the working capital changes, the increase in account receivables of \$1.9 million was primarily resulted from the increase in our net revenues, especially our mobile value-added services during the three months ended March 31, 2003.

The period-to-period increase in net cash provided by operating activities from the three months ended March 31, 2003 to the three months ended March 31, 2004 was primarily attributable to the significant increase in cash received from sales without significant expansion of our operating expenses in the PRC.

Investing activities

Net cash used in investing activities for the three months ended March 31, 2004 was \$44.7 million. This was

primarily due to the purchase of equipment of \$2.1 million, business acquisitions (net of cash acquired) of \$8.7 million, deposit for business acquisition of \$6.3 million and purchase of short-term investments of \$27.3 million.

Net cash used in investing activities for the three months ended March 31, 2003 was \$19.4 million. This was primarily due the purchase of equipment of \$0.9 million, acquisition of Memestar (net of cash acquired) of \$7.9 million, investment in joint ventures of \$2.8 million and purchase of short-term investments of \$7.7 million.

Financing activities

Net cash provided by financing activities for the three months ended March 31, 2004 and 2003 were \$7.6 million and \$0.7 million, respectively, both representing the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan.

Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2004:-

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	Payments due by period				
	Total	Less than one year	One to three years	Three to five years	More than five years
	(In thousands)				
Contractual obligations:					
Long-term debt obligations	\$ 100,000	\$	\$	\$ 100,000	\$
Operating lease obligations	3,227	1,319	1,597	311	
Purchase and other obligations	47,374	45,271	2,103		
Other long-term liabilities	2,265		1,345	920	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total contractual obligations	<u>\$ 152,866</u>	<u>\$ 46,590</u>	<u>\$ 5,045</u>	<u>\$ 101,231</u>	<u>\$</u>

Long-term debt obligations represent the zero coupon convertible subordinated notes issued on July 7, 2003. Please see Note 14 Convertible debts in the Financial Statements for further information. Operating lease obligations include the commitments under the lease agreements for our office premises. Purchase obligations mainly include the commitments for Internet connection fees associated with web site production, content fees associated with web site production and mobile value-added services, advertising serving services, advertising tracking services and marketing activities. Other long-term liabilities mainly include outstanding considerations for our business acquisition and investment in joint venture.

We are also obligated to pay contingent considerations on our acquisitions of Bravado and Crillion in addition to the initial considerations. The contingent consideration of Bravado acquisition is based on Bravado's financial performance in 2004. The contingent consideration will be \$303,000 or \$606,000 in cash, provided that Bravado achieved certain earning targets for 2004. The contingent considerations of Crillion acquisition are based on Crillion's financial performances in 2004 and 2005. The contingent considerations would roughly be 1.5 to 2.0 times of 2004 and 2005 earnings basis respectively, provided that Crillion's pretax net income for 2004 and 2005 is over \$6.7 million and \$13.3 million, respectively. The total consideration is subject to a cap of \$125.0 million and will be 60% in cash and 40% in SINA ordinary shares.

Apart from the above, we did not have any other material long-term debt obligations, capital lease obligations, operating lease obligations or purchase obligations as of March 31, 2004.

Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research

and development services with us.

Risk Factors

Because our operating history is limited and the revenue and income potential of our business and markets are unproven, we cannot predict whether we will meet internal or external expectations of future performance.

We believe that our future success depends on our ability to significantly increase revenue from our operations, for which we have a limited operating history. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in an early stage of development. These risks include our ability to:

- offer new and innovative products;
- attract buyers for our mobile value-added services;
- attract advertisers;
- attract a larger audience to our network;
- derive revenue from our users from fee-based Internet services;

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respond effectively to competitive pressures and address the effects of strategic relationships or corporate combinations among our competitors;

maintain our current, and develop new, strategic relationships;

increase awareness of our brand and continue to build user loyalty;

attract and retain qualified management and employees;

upgrade our technology to support increased traffic and expanded services; and

expand the content and services on our network.

Until recently, we had incurred net losses since inception and we may incur future losses.

We recorded a net income of approximately \$16.0 million for the three months ended March 31, 2004. However, as of March 31, 2004, we had an accumulated deficit of approximately \$67.0 million. We have only recently attained profitability and we cannot be certain we will sustain profitability. If we do not sustain profitability, the market price of our ordinary shares may decline.

We are relying on advertising sales as a significant part of our future revenue, but the Internet has not been proven as a source of significant advertising revenue in Greater China.

For the three months ended March 31, 2004, advertising revenue constituted 32% of our total net revenue and our advertising revenue grew from approximately \$7.3 million for the three months ended March 31, 2003 to approximately \$13.1 million for the three months ended March 31, 2004. Our revenue growth is dependent on increased revenue from the sale of advertising space on our network. Online advertising in Greater China is an unproven business and many of our current and potential advertisers have limited experience with the Internet as an advertising medium, have not traditionally devoted a significant portion of their advertising expenditures or other available funds to web-based advertising, and may not find the Internet to be effective for promoting their products and services relative to traditional print and broadcast media. Our ability to generate and maintain significant advertising revenue will depend on a number of factors, many of which are beyond our control, including:

the development of a large base of users possessing demographic characteristics attractive to advertisers;

increased competition and potential downward pressure on online advertising prices;

the development of independent and reliable means of verifying levels of online advertising and traffic; and

the effectiveness of our advertising delivery, tracking and reporting systems.

If the Internet does not become more widely accepted as a medium for advertising, our ability to generate increased revenue could be negatively affected.

Our growth in advertising revenues, to a certain extent, will also depend on our ability to increase the advertising space on our network. If we fail to increase our advertising space at a sufficient rate, our growth in advertising revenues could be hampered. Further, the expansion of Internet advertising blocking software may result in a decrease of our advertising revenues as the advertisers may choose not to advertise on Internet if the third parties' Internet advertising blocking software is widely used.

We are relying on mobile value-added services for a significant portion of our future revenue, and we rely on China Mobile and China Unicom for service delivery and fee collection.

The majority of our recent revenue growth was from the development of our mobile value-added services. Our revenues from mobile value-added services accounted for 91% of our total non-advertising revenues for the three months ended March 31, 2004, and we are deriving an increasing portion of our revenues from these services. If users do not adopt our mobile value-added services, at a sufficient rate, our revenue growth could be negatively affected.

Our mobile value-added services offerings depend mainly on the cooperation of China Mobile Communication Corporation (China Mobile) and its subsidiaries and to a lesser extent China Unicom Co., Ltd (China Unicom) and its subsidiaries. We have established cooperation arrangements with China Mobile and China Unicom and their subsidiaries. As of April 30, 2004, we had entered into cooperation and revenue sharing contracts with 29 provincial and local subsidiaries of China Mobile and 11 provincial subsidiaries of China Unicom for various mobile value-added services. The term of these contracts is generally for one year with a few exceptions in which the term is for six months or for two years. The contract is typically renewed on an annual basis.

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We rely on China Mobile and China Unicom in the following ways:

utilizing their network and gateway to provide mobile value-added services to subscribers;

utilizing their billing systems to charge the fees to our subscribers through the subscribers' mobile phone bill;

utilizing their collection services to collect payments from subscribers;

relying on their infrastructure development to further develop our new products and services.

Under the agreements with China Mobile and its subsidiaries, China Mobile generally retains 15% of the fee for content value-added services we provide to our users via their platform for fee collection. In addition, China Mobile deducts transmission fees from our portion of the service fees. The amount of such transmission fee is charged on a per message basis and varies for different products and the message volume. For the three months ended March 31, 2004, on average we received 78% of the amount we charged to our users from China Mobile platform after China Mobile deducted the fees for collection and transmission. Under the agreements with China Unicom and its subsidiaries, China Unicom typically retains 12% of the fee for content value-added services we provide to our users via their platform if they charge us for transmission cost or between 21% and 29% if they do not charge us for transmission cost. For the three months ended March 31, 2004, on average we received 70% of the amount we charged to our users from China Unicom platform after China Unicom deducted the fees for collection and transmission.

Our fee arrangements with China Mobile and China Unicom could change at any time due to the dominance of these two mobile service providers, the large number of providers of mobile value-added services, and the consequent power of the mobile service providers to dictate the terms of such fee arrangements. If China Mobile and China Unicom choose to increase fees charged for providing their services, our gross margin for mobile value-added services and our operating profitability could be negatively affected.

China Mobile and China Unicom could change their operating policy at any time, which might result in discontinuation of some of our mobile value added services, which in turn, could result in material reduction of our revenues derived from mobile value-added services. In April 2003, China Mobile announced or reinforced the policy which prohibited utilizing its billing gateway for services that are not directly related to the mobile value-added service and prohibited billing for monthly services that have not been used by a subscriber for more than three months. These policy changes did not have a material impact on our mobile value-added services revenues but did have an impact on our planned product offerings in the subsequent periods. In July 2003, China Mobile disallowed mobile value-added service providers from utilizing third party web sites which do not possess ICP license or Web Union to promote their mobile value-added service products. Our online promotions for our mobile value-added services were mainly relying on our own web sites and hence the Web Union issue did not have a significant impact on us.

Over 80% of our mobile value-added service revenues are derived from services charged on a monthly subscription basis. If China Mobile or China Unicom restricts or disallows some or all of mobile value-added services to be charged on a monthly subscription basis, our revenues from mobile value-added services will be severely impacted. We currently charge our users who have registered to be billed on a monthly basis even if they do not use the service in a particular month. If China Mobile or China Unicom does not allow us to charge monthly fee for users who do not use our service in a particular month, our mobile value-added service revenues will be negatively impacted.

Further if China Mobile's or China Unicom's systems encounter technical problems or they refuse to cooperate with us, our mobile value-added services offerings may cease or be severely disrupted, which could have a significant and adverse impact on our operating results. China Mobile and its subsidiaries have recently started transitioning mobile

value-added service providers to a new billing platform and they will require us to switch to the new billing platform in the future. China Unicom and its subsidiaries are also in the process of implementing a new billing system. The new billing platforms may result in higher failure rate for fee collection from our users or make it more difficult for us to recruit new users and hence reduce our revenues from mobile value-added services significantly.

In the past, China Mobile and China Unicom have imposed penalties on mobile value-added service providers for violating certain operating policies relating to mobile value-added services. In some cases, they stopped making payments to certain service providers for a particular month for severe violations. To date, the penalties we have received have been insignificant in dollar amounts and have been accrued for. In the future, if China Mobile or China Unicom were to impose more severe penalties on us for policy violations, our revenues from mobile value-added services may be negatively impacted for the period when such penalties are imposed.

We are relying on new mobile value-added services such as MMS, IVR and WAP for a significant part of our future revenue growth for mobile value-added services, but we are not certain that revenues from these services will become a significant portion of our total mobile value-added service revenues.

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Our mobile value-added service offerings include SMS, MMS, IVR and WAP. In the three months ended March 31, 2004, we saw significant increase in revenues from MMS, IVR and WAP services. These services accounted for approximately 7% of our total mobile value-added service revenues for the three months ended March 31, 2004 as compared to 2% in the previous three months. We are relying on the growth of these services to drive a significant part of our revenue growth in mobile value-added services in future periods. However, the current market size is relatively small and adoption rates are still relatively low for these services comparing to SMS services. We are not certain that revenues from these services will become a significant portion of our total mobile value-added service revenues.

Our investment in online game, travel and online auctions may not be successful.

Online game and travel are currently some of the fastest growing online services in the PRC. We have invested and intend to expand in these areas. For example, we have formed a joint venture in the PRC with NCSOFT to pursue online game; we recently acquired Bravado Investment Limited to enter into the online travel business in the PRC. Some of our competitors have entered these markets ahead of us and have achieved significant market positions. We cannot assure you that we will succeed in these markets despite our investments of time and funds to address these markets. If we fail to achieve a significant position in these markets, we will fail to realize our intended returns in these investments. Moreover, our competitors who succeed may enjoy increased revenues and profit, and our results and share price could suffer as a result.

We recently entered into a joint venture agreement with Yahoo! to provide online auctions in the PRC. The market for these services is unproven in the PRC and we currently have no experience in this industry.

If we fail to successfully develop and introduce new products and services, our competitive position and ability to generate revenues could be harmed.

We are developing new products and services. The planned timing or introduction of new products and services is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Moreover, we cannot be sure that any of our new products and services will achieve widespread market acceptance or generate incremental revenue.

We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our business operations could be disrupted as we develop or license replacement software.

Pursuant to the Regulations for the Administration of Commercial Encryption promulgated at the end of 1999, foreign and domestic Chinese companies operating in China are required to register and disclose to Chinese regulatory authorities the commercial encryption products they use. Because these regulations have just recently been adopted and because they do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant Chinese regulatory authorities for, our current or future encryption software. If Chinese regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations.

The markets for mobile value-added services and Internet services are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors, some of which have greater financial resources than we do or currently enjoy a superior market position than we do.

Approximately 62% of our net revenues for the three months ended March 31, 2004 were from our mobile value-added services. The competition among providers of these services is highly competitive. A large number of independent mobile value-added service providers compete against us. We may be unable to continue to grow our revenues from these services in this competitive environment. In addition, the major mobile operators in China, China Mobile and China Unicom, may potentially enter the business of content development. Any of our present or future competitors may offer mobile value-added services which provide significant technology, performance, price, creativity or other advantages, over those offered by us, and therefore achieve greater market acceptance than ours. In addition, in March 2004, we acquired Crillion Corporation to enhance our products and our market share in the mobile value-added service market in the PRC. If we are unable to compete and grow our mobile value-added service business, the payments that we are required to make under this agreement, or in our other investments in this area, could adversely affect our results of operations and profitability.

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The Chinese market for Internet content and services is competitive and rapidly changing. Barriers to entry are minimal, and current and new competitors can launch new web sites at a relatively low cost. Many companies offer Chinese language content and services, including informational and community features, fee-based services and email and electronic commerce services in the Greater China market that may be competitive with our offerings. We also face competition from providers of software and other Internet products and services that incorporate search and retrieval features into their offerings. In addition, entities that sponsor or maintain high-traffic web sites or provide an initial point of entry for Internet users, such as ISPs, including large, well-capitalized entities such as Microsoft (MSN), Yahoo! and AOL, currently offer and could further develop or acquire content and services that compete with those that we offer. We expect that as Internet usage in Greater China increases and the Greater China market becomes more attractive to advertisers and for conducting electronic commerce, large global competitors may increasingly focus their resources on the Greater China market. We also compete for advertisers with traditional media companies, such as newspapers, television networks and radio stations, that have a longer history of use and greater acceptance among advertisers. In addition, providers of Chinese language Internet tools and services may be acquired by, receive investments from or enter into other commercial relationships with large, well-established and well-financed Internet, media or other companies.

In the areas of online game, travel and auctions, our other areas of focus for future business growth, there is intense competition from domestic and international companies. These include domestic companies focused on one sector and large, international companies that want to extend their businesses in the China market. The online game industry, for example, is dominated by domestic independent online game operators. In auctions, Ebay has acquired a domestic company to address the auctions market. Many of our competitors have a longer history of providing these online services and currently offer a greater breadth of products which may be more popular than our online offerings.

A number of our current and potential future competitors have greater financial and other resources than we have, and may be able to more quickly react to changing consumer requirements and demands, deliver competitive services at lower prices and more effectively respond to new Internet technologies or technical standards.

Increased competition could result in reduced page views, loss of market share and revenues, and lower profit margins from reduced pricing for Internet-based services.

Our strategy of acquiring complementary assets, technologies and businesses and entering into joint ventures may fail and may result in equity or earnings dilution.

As part of our business strategy, we have acquired and intend to identify and acquire assets, technologies and businesses that are complementary to our existing business. In January 2003 we acquired Memestar, a mobile value-added service company, in January 2004 we entered into a joint venture agreement with Yahoo! to start an online auction business in China, in February 2004 we acquired Bravado, an online and offline hotel booking service company, and in March 2004 we acquired Crillion, a mobile value-added services company. We have significant potential ongoing financial obligations with respect to certain of these transactions. Acquired businesses or assets may not yield the results we expected. In addition, acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to potential unknown liabilities of acquired business. Moreover, the costs of identifying and consummating acquisitions, and integrating the acquired business into ours, may be significant. In addition, we may have to obtain approval from the relevant PRC governmental authorities for the acquisitions and have to comply with any applicable PRC rules and regulations, which may be costly.

Wireless technology changes rapidly, and we may not be successful in working with new technology standards.

Wireless technology undergoes rapid changes. Our current mobile value-added services business consists principally of text messaging. As the technology evolves to accommodate multi-media messaging services, wireless e-commerce and music download, and other applications, we would need to adapt to and support these services in order to be successful. If we fail to anticipate and adapt to these and other technological changes, our market share and our profitability could suffer.

You should not place undue reliance on our financial guidance, nor should you rely on our quarterly operating results as an indication of our future performance because our results of operations are subject to significant fluctuations.

We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are outside our control. Factors that may cause our quarterly operating results to fluctuate include: our ability to retain existing users, attract new users at a steady rate and maintain user satisfaction; the announcement or introduction of new or enhanced services, content and

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products by us or our competitors; significant news events that increase traffic to our web sites; technical difficulties, system downtime or Internet failures; demand for advertising space from advertisers; seasonality of advertising market; the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; governmental regulation; seasonal trends in Internet use; a shortfall in our revenues relative to our forecasts and a decline in our operating results due to our inability to adjust our spending quickly; and general economic conditions and economic conditions specific to the Internet, electronic commerce and the Greater China market. As a result of these and other factors, you should not place undue reliance on our financial guidance, nor should you rely on quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our quarterly revenue and earnings per share guidance is our best estimate at the time we provide guidance. Our operating results may be below our expectations or the expectations of public market analysts and investors in one or more future quarters. If that occurs, the price of our ordinary shares could decline and you could lose part or all of your investment.

Our business and growth could suffer if we are unable to hire and retain key personnel that are in high demand.

We depend upon the continued contributions of our senior management and other key personnel, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could harm our business. We have experienced recent changes to our executive management team. Our future success will also depend on our ability to attract and retain highly skilled technical, managerial, editorial, marketing, sales and customer service personnel, especially qualified personnel for our international operations in Greater China. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

We may not be able to manage our expanding operations effectively, which could harm our business.

We expanded rapidly in 2003 and 2004 by acquiring two new mobile value-added services providers and one online and offline hotel booking company, and entering into two new joint ventures, including the Yahoo! joint venture. These new business and joint ventures provide various services such as mobile value-added services, online and offline hotel booking, and online auctions. We anticipate significant continued expansion of our business, both through further acquisitions and internal growth, as we address growth in our customer base and market opportunities. In addition, the geographic dispersion of our operations as a result of acquisitions and overall internal growth requires significant management resources that our locally-based competitors do not need to devote to their operations. In order to manage the expected growth of our operations and personnel, we will be required to improve and implement operational and financial systems, procedures and controls, and expand, train and manage our growing employee base. Further, our management will be required to maintain and expand our relationships with various other web sites, Internet and other online service providers and other third parties necessary to our business. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations.

We may be adversely affected by complexity, uncertainties and changes in PRC regulation of Internet business and companies, including limitations on our ability to own key assets such as our web site.

The Chinese government heavily regulates its Internet sector including the legality of foreign investment in the Chinese Internet sector, the existence and enforcement of content restrictions on the Internet and the licensing and permit requirements for companies in the Internet industry. Because these laws, regulations and legal requirements with regard to the Internet are relatively new and evolving, their interpretation and enforcement involve significant uncertainty. In addition, the Chinese legal system is a civil law system in which decided legal cases may be cited for reference but have little precedential value. As a result, in many cases it is difficult to determine what actions or omissions may result in liability. Issues, risks and uncertainties relating to China government regulation of the

Chinese Internet sector include the following:

We only have contractual control over our web site in China; we do not own it due to the restriction of foreign investment in businesses providing value-added telecommunication services, including computer information services, mobile value-added services or electronic mail box services.

In addition, uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices, gives rise to the risk that permits, licenses or operations at some of our companies may be subject to challenge, which may be disruptive to our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effect on us.

On December 11, 2001, the day China formally joined the WTO, the PRC State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, or the FI Telecom Regulations, which became effective

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on January 1, 2002. The FI Telecom Regulations stipulate that the foreign party to a foreign-invested telecommunications enterprise can hold equity share in such foreign-invested telecommunications enterprise that provides basic telecom services or value-added telecom services, ultimately not to exceed 49% or 50% respectively. The Administrative Measures for Telecommunications Business Operating License were promulgated by MII on January 4, 2002 to supplement the FI Telecom Regulations. However, there are still uncertainties regarding the interpretation and application of the FI Telecom Regulations.

The numerous and often vague restrictions on acceptable content in China subject us to potential civil and criminal liability, temporary blockage of our web site or complete cessation of our web site. For example, the State Secrecy Bureau, which is directly responsible for the protection of state secrets of all Chinese government and Chinese Communist Party organizations, is authorized to block any web site it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information.

Certain Chinese governmental authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern Internet activities. The areas of regulation currently include online advertising, online news reporting, online publishing, and the provision of industry-specific (e.g., drug-related) information over the Internet. Other aspects of our online operations may be subject to regulation in the future. Our operations may not be consistent with these new regulations when put into effect and, as a result, we could be subject to severe penalties as discussed above.

The interpretation and application of existing Chinese laws, regulations and policies, the stated positions of the MII and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China, including our business.

In order to comply with PRC regulatory requirements, we operate our main businesses through companies in which we do not have controlling ownership. If the PRC government determines that these agreements are not in compliance with applicable regulations, our business in the PRC could be adversely affected.

The Chinese government restricts foreign investment in Internet-related, mobile value-added services and advertising businesses, including Internet access, distribution of content over the Internet and mobile value-added services, and advertising via the Internet. Accordingly, we operate our Internet-related and mobile value-added service businesses in China through several variable interest entities that are owned principally or completely by certain of our PRC employees or PRC employees of our subsidiaries. We control these companies and operate these business through contractual arrangements with the respective companies and their individual owners but we have no equity control over these companies. Such restrictions and arrangements are prevalent in other PRC companies we acquired.

Although we believe we are in compliance with current PRC regulations, we cannot be sure that the PRC government would view these operating arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If we are determined not to be in compliance, the PRC government could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our web site, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. We may also encounter difficulties in obtaining performance under or enforcement of related contracts.

We rely on contractual arrangements with our variable interest entities for our China operations, which may not be as effective in providing control over these entities as direct ownership.

Because PRC regulations restrict our ability to provide Internet content, mobile value-added services and advertising services directly in China, we are dependent on our variable interest entities in which we have little or no equity ownership interest and must rely on contractual arrangements to control and operate these businesses. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, the variable interest entities could fail to take actions required for our business or fail to maintain our China web sites despite their contractual obligation to do so. These companies are able to transact business with parties not affiliated with us. If these companies fail to perform under their agreements with us, we may have to rely on legal remedies under Chinese law, which we cannot be sure would be effective. In addition, we cannot be certain that the individual equity owners of the variable interest entities would always act in the best interests of SINA, especially if they leave the SINA.

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Substantially all profits generated from our variable interest entities are paid to the subsidiaries of ours in China through related party transactions under contractual agreements. We believe that the terms under these contractual agreements are in compliance with the laws in China. The tax authorities in China have examined some of these contractual agreements in the past and have not raised any comment. However, due to the uncertainties surrounding the interpretation of the transfer pricing rules relating to related party transactions in China, it is possible that tax authorities in China may challenge the transfer prices that we have used for related party transactions among our entities in China in the future.

Even if we are in compliance with Chinese governmental regulations relating to licensing and foreign investment prohibitions, the Chinese government may prevent us from distributing content that it believes is inappropriate and we may be liable for such content.

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet or through mobile value-added services that it believes to violate Chinese law, including content that it believes is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any web site maintained outside China at its sole discretion. Even if we comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government were to take any action to limit or prohibit the distribution of information through our network or via our mobile value-added services, or to limit or regulate any current or future content or services available to users on our network, our business could be significantly harmed.

We are also subject to potential liability for content on our web sites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems. Furthermore, we are required to delete content that clearly violates the laws of China and report content that we suspect may violate Chinese law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our web sites.

We have contracted with third parties to provide content and services for our portal network and to distribute our software, and we may lose users and revenue if these arrangements are terminated.

We have arrangements with a number of third parties to provide content and services to our web sites and to distribute our software. In the area of content, we have relied and will continue to rely almost exclusively on third parties for content that we publish under the SINA brand. Although no single third party content provider is critical to our operations, if these parties fail to develop and maintain high-quality and successful media properties, or if a large number of our existing relationships are terminated, we could lose users and advertisers and our brand could be harmed. We have recently experienced fee increases from some of our content providers. If this trend continues, our gross profit from online advertising may be adversely affected. In addition, Chinese government has the ability to restrict or prevent state-owned media from cooperating with us in providing certain content to us which will result in a significant decrease of the amount of content we can publish on our website. We may lose users if Chinese government chooses to restrict or prevent state-owned media from cooperating with us and in which case our revenues will be impacted negatively.

In the area of web-based services, we have contracted with Google for integrated web search technology to complement our directory and navigational guide, and with various third-party providers for our principal Internet connections. If we experience significant interruptions or delays in service, or if these agreements terminate or expire, we may incur additional costs to develop or secure replacement services and our relationship with our users could be

harmed.

A substantial part of our non-advertising revenues is generated through mobile value-added services where we depend on mobile network operators for services delivery and payment collection. If we were unable to continue these arrangements, our mobile value-added services could be severely disrupted or discontinued. Furthermore, we are highly dependent on these mobile service providers for our profitability, in that they can choose to increase their service fees at will.

We depend on a third party's proprietary and licensed advertising serving technology to deliver advertisements to our network. If the third party fails to continue to support its technology or if its services fail to meet the advertising needs of our customers and we cannot find an alternative solution on a timely basis, our advertising revenue could decline.

In order to create traffic for our online properties and make them more attractive to advertisers and consumers, we have entered into distribution agreements and informal relationships with ISPs and personal computer manufacturers for the distribution of our software. These distribution arrangements typically are non-exclusive, and may be terminated upon little or no notice. If our software

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distributors were to terminate or modify their distribution arrangements, our ability to promote our network and generate revenue could be harmed.

If tax benefits currently available to us in China were no longer available, our effective income tax rates for our China operations could increase to 33%.

We are incorporated in Cayman Islands where no income taxes are imposed. We have operations in four tax jurisdictions including China, the United States of America, Hong Kong and Taiwan. For the United States of America, Hong Kong and Taiwan, we have incurred net accumulated operating losses for income tax purposes. We believe that it is more likely than not that these net accumulated operating losses will not be utilized in the future and hence we have not recorded income tax provisions or benefits for these locations. We do not expect that we will record any income tax provisions for our operations in United States, Hong Kong and Taiwan in foreseeable future.

We generated substantially all our net income from our China operations for the three months ended March 31, 2004. Our China operations are conducted through various subsidiaries and VIEs. Pursuant to the PRC Income Tax Laws, our subsidiaries and VIEs are generally subject to Enterprise Income Taxes (EIT) at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. However, some of our subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to preferential tax rate of 15%. In addition, some of our subsidiaries are Foreign Investment Enterprise and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first operating year; or a two-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first profitable year. We expect that based on our current operating structure and preferential tax treatments available to us in China, our effective income tax rates will be approximately 5%, 10% and 15% for the years ending 2004, 2005 and 2006, respectively. We are in the process of applying for new preferential tax treatments for certain of our subsidiaries and VIEs in China and our projected effective tax rates will be reduced further if these applications are approved. Over the longer term, if the Chinese government phases out preferential tax treatment for foreign investment enterprise or for new technology enterprise, our effective tax rates for the PRC operation can be increased to as high as 33%.

Underdeveloped telecommunications infrastructure has limited, and may continue to limit, the growth of the Internet market in China which, in turn, could limit our ability to grow our business.

The telecommunications infrastructure in China is not well developed. Although private sector ISPs exist in China, almost all access to the Internet is accomplished through ChinaNet, China's primary commercial network, which is owned and operated by China Telecom and China Netcom under the administrative control and regulatory supervision of Chinese Ministry of Information Industry (MII). The underdeveloped Internet infrastructure in China has limited the growth of Internet usage in China. If the necessary Internet infrastructure is not developed, or is not developed on a timely basis, future growth of the Internet in China could be limited and our business could be harmed.

We must rely on the Chinese government to develop China's Internet infrastructure and if it does not develop this infrastructure our ability to grow our business could be hindered.

The Chinese government's interconnecting, national networks connect to the Internet through government-owned international gateways, which are the only channels through which a domestic Chinese user can connect to the international Internet network. We rely on this backbone and China Telecom and China Netcom to provide data communications capacity primarily through local telecommunications lines. Although the Chinese government has announced plans to aggressively develop the national information infrastructure, we cannot assure you that this infrastructure will be developed. In addition, we have no guarantee that we will have access to alternative networks and services in the event of any disruption or failure. If the necessary infrastructure standards or protocols or

complementary products, services or facilities are not developed by the Chinese government, the growth of our business could be hindered.

Privacy concerns may prevent us from selling demographically targeted advertising in the future and make us less attractive to advertisers.

We collect personal data from our user base in order to understand better our users and their needs and to help our advertisers target specific demographic groups. If privacy concerns or regulatory restrictions prevent us from selling demographically targeted advertising, we may become less attractive to advertisers. For example, as part of our future advertisement delivery system, we may integrate user information such as advertisement response rate, name, address, age or email address, with third-party databases to

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generate comprehensive demographic profiles for individual users. In Hong Kong, however, we would be in violation of the Hong Kong Personal Data Ordinance unless individual users expressly consented to this integration of their personal information. The Ordinance provides that an Internet company may not collect information on its users, analyze the information for a profile of the user's interests and sell or transmit the profiles to third parties for direct marketing purposes without the user's consent. If we are unable to construct demographic profiles for Internet users because they refuse to give consent, we will be less attractive to advertisers and our business could suffer.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our products is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriations of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.

Third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

Concerns about the security of electronic commerce transactions and confidentiality of information on the Internet may reduce use of our network and impede our growth.

A significant barrier to electronic commerce and communications over the Internet in general has been a public concern over security and privacy, especially the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our destination sites and impede our growth.

We may be classified as a Passive Foreign Investment Company which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the nature of our income and assets, we may be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to you. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to more burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis, and those determinations depend on the composition of our income and assets, including goodwill, from time to time. Although in the past we have operated our business, and in the future we intend to operate our business so as to minimize the risk of PFIC treatment, you should be aware that certain factors that could affect our classification as PFIC are out of our control. For example, the calculation of assets for purposes of the PFIC rules depends in large part upon the amount of our goodwill, which in turn is based, in part, on the then market value of our shares, which is subject to change. Similarly, the composition of our income and assets is affected by the extent to which we spend the cash we

have raised on acquisitions and capital expenditures. In addition, the relevant authorities in this area are not clear and so we operate with less than clear guidance in our effort to minimize the risk of PFIC treatment. Therefore, we cannot be sure whether we were not and will not be a PFIC for the current or any future taxable year.

Our stock price has been volatile historically, which may make it more difficult for you to resell shares when you want at prices you find attractive.

The trading price of our ordinary shares has been and may continue to be subject to wide fluctuations. During the three months ended March 31, 2004, the closing sale prices of our ordinary shares on the Nasdaq National Market ranged from \$35.96 to \$48.25 and the sale price of our ordinary shares closed at \$28.40 on May 5, 2004. Our stock price may fluctuate in response to a number of

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events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for China-related and Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

Future outbreaks of Severe Acute Respiratory Syndrome (SARS) and other widespread public health problems could adversely affect our business.

Future outbreaks of SARS and other widespread public health problems in China and surrounding areas, where most of our employees work, could negatively impact our business in ways that are hard to predict. Prior experience with the SARS virus suggests that a future outbreak of SARS may lead public health authorities to enforce SARS quarantines, which could result in closures of some of our offices and other disruptions of our operations. A future SARS outbreak or other widespread public health problems could result in reduction of our advertising and fee-based revenues.

Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or unauthorized tamperings with our systems.

The continual accessibility of our web sites and the performance and reliability of our network infrastructure are critical to our reputation and our ability to attract and retain users, advertisers and merchants. Any system failure or performance inadequacy that causes interruptions in the availability of our services or increases the response time of our services could reduce our appeal to advertisers and consumers. Factors that could significantly disrupt our operations include: system failures and outages caused by fire, floods, earthquakes, power loss, telecommunications failures and similar events; software errors; computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems; and security breaches related to the storage and transmission of proprietary information, such as credit card numbers or other personal information.

We have limited backup systems and redundancy. Recently, we experienced an unauthorized tampering of the mail server of our China web site which briefly disrupted our operations. Future disruptions or any of the foregoing factors could damage our reputation, require us to expend significant capital and other resources and expose us to a risk of loss or litigation and possible liability. We do not carry sufficient business interruption insurance to compensate for losses that may occur as a result of any of these events. Accordingly, our revenues and results of operations may be adversely affected if any of the above disruptions should occur.

The law of the Internet remains largely unsettled, which subjects our business to legal uncertainties that could harm our business.

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business.

Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and may take years to resolve. For example, new tax regulations may subject us or our customers to additional sales and income taxes. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations.

We may be subject to claims based on the content we provide over our network and the products and services sold on our network, which, if successful, could cause us to pay significant damage awards.

As a publisher and distributor of content and a provider of services over the Internet, we face potential liability for: defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute; the selection of listings that are accessible through our branded products and media properties, or through content and materials that may be posted by users in our classifieds, message board and chat room services; losses incurred in reliance on any

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erroneous information published by us, such as stock quotes, analyst estimates or other trading information; unsolicited email, lost or misdirected messages, illegal or fraudulent use of email or interruptions or delays in email service; and product liability, warranty and similar claims to be asserted against us by end users who purchase goods and services through our SinaMall and any future electronic commerce services we may offer.

We may incur significant costs in investigating and defending any potential claims, even if they do not result in liability. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate enough to indemnify us against all potential liabilities.

We issued \$100 million of zero coupon convertible subordinated convertible notes due 2023, or possibly earlier upon a change of control, which we may not be able to repay in cash and could result in dilution of our basic earnings per share.

In July 2003, we issued \$100 million of zero coupon convertible subordinated notes due July 15, 2023, first putable to us on July 15, 2007. Each \$1,000 principal amount of the notes is convertible into 38.7741 shares of our ordinary shares prior to July 15, 2023 if the sale price of our ordinary shares issuable upon conversion of the notes reaches a specified threshold or specified corporate transactions have occurred. On July 15 annually from 2007 to 2013, and on July 15, 2018, or upon a change of control, holders of the notes may require us to repurchase all or a portion of the notes for cash. Upon a conversion, we may choose to pay the purchase price of the notes in cash, ordinary shares, or a combination of cash and ordinary shares. We may not have enough cash on hand or have the ability to access cash to pay the notes if holders ask for repayment on the various put dates, or upon a change of control, or at maturity. In addition, the purchase of our notes with our ordinary shares or the conversion of the notes into our ordinary shares could result in dilution of our basic earnings per share.

Anti-takeover provisions in our charter documents may discourage our acquisition by a third party, which could limit our shareholders' opportunity to sell their shares at a premium.

Our Memorandum and Articles of Association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our Board of Directors has the authority, without further action by our shareholders, to issue up to 3,750,000 preference shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preference shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if the Board of Directors issues preference shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenues in U.S. dollar terms.

We generate revenues and incur expenses and liabilities in Chinese renminbi, Taiwan dollars, Hong Kong dollars, and U.S. dollars. As a result, we are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable

and the renminbi has appreciated slightly against the U.S. dollar. However, we can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. Our results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which our earnings and obligations are denominated. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of renminbi into foreign currency for current account items, conversion of renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of the renminbi in the future. Because a significant amount of our future revenues may be in

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the form of renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in renminbi to fund our business activities outside China, or to repay foreign currency obligations, including our debt obligations.

Restrictions on paying dividends or making other payments to us bind our subsidiaries and variable interest entities in China.

We are a holding company and do not have any assets or conduct any business operations in China other than our investments in our subsidiaries in China, including BSIT, Star-Village.com (Beijing) Internet Technology Limited, Beijing New Media Information Technology Co. Ltd., Beijing SINA Internet Technology Service Co. Ltd. and others; and our variable interest entities. As a result, we depend on dividend payments from our subsidiaries in China for our revenues after they receive payments from our variable interest entities in China under various services and other arrangements. We cannot make any assurance that our subsidiaries in China can continue to receive the payments as arranged under our contracts with those variable interest entities. In addition, under Chinese law, our subsidiaries are only allowed to pay dividends to us out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, our Chinese subsidiaries are required to set aside at least 10% of their respective accumulated profits, if any, up to 50% of their registered capital to fund certain mandated reserve funds that are not payable or distributable as cash dividends.

The Chinese legal system has inherent uncertainties that could limit the legal protections available to you.

Our contractual arrangements with our variable interest entities in China are governed by the laws of the People's Republic of China. China's legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the Chinese legislative bodies have promulgated laws and regulations dealing with such economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us.

We conduct our operations in China and a significant portion of our assets is located in China. In addition, some of our directors and executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon those directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, recognition and enforcement in China of judgments of a court of the United States or any other jurisdiction in relation to any matter may be difficult or impossible.

Political and economic conditions in Greater China are unpredictable and may disrupt our operations if these conditions become unfavorable to our business.

We expect to derive a substantial percentage of our revenues from the Greater China market. Changes in political or economic conditions in the region are difficult to predict and could adversely affect our operations or cause the Greater China market to become less attractive to advertisers, which could reduce our revenues. We maintain a strong local identity and presence in each of the regions in the Greater China market and we cannot be sure that we will be able to effectively maintain this local identity if political conditions were to change. Furthermore, many countries in

Asia have experienced significant economic downturns since the middle of 1997, resulting in slower real gross domestic product growth for the entire region as a result of higher interest rates and currency fluctuations. If declining economic growth rates persist in these countries, expenditures for Internet access, infrastructure improvements and advertising could decrease, which could negatively affect our business and our profitability over time.

Economic reforms in the region could also affect our business in ways that are difficult to predict. For example, since the late 1970s, the Chinese government has been reforming the Chinese economic system to emphasize enterprise autonomy and the utilization of market mechanisms. Although we believe that these reform measures have had a positive effect on the economic development in China, we cannot be sure that they will be effective or that they will benefit our business.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate and Security Market Risk

Our investment policy limits our investments of excess cash to government or quasi-government securities and in high-quality corporate securities and limits the amount of credit exposure to any one issuer. We protect and preserve our invested funds by limiting default, market and reinvestment risk. Due to the fact that a majority of our investments are in short-term instruments, we have concluded that there is no material market risk exposure in this area. As of March 31, 2004, we had unrealized losses of \$0.3 million included in accumulated other comprehensive loss in shareholders' equity.

Our convertible bonds issued in July 2003 in the amount of \$100 million bear no interest and are denominated in U.S. dollar and therefore there is no interest or foreign currency exchange risk associated with the outstanding convertible bonds.

Foreign Currency Exchange Rate Risk

The majority of our revenues derived and expenses and liabilities incurred were in Chinese renminbi, Taiwan dollars and Hong Kong dollars. Thus, our revenues and operating results may be impacted by exchange rate fluctuations in the currencies of China, Taiwan and Hong Kong. See Risk Factors Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenue in U.S. dollar terms. We have not tried to reduce our exposure to exchange rate fluctuations by using hedging transactions. However, we may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuation during the three months ended March 31, 2004 was not material to us.

Investment Risk

On September 28, 2001, we acquired an approximately 27.6% interest in the equity of Sun Media (Sun Media) Group, a satellite TV broadcaster and a cable TV program syndicator listed on the Hong Kong Stock Exchange. As of December 31, 2002, our interest had been diluted to 17.4% as a result of issuances of new shares by Sun Media. We invested in this company for business and strategic purposes and have classified this investment as a long-term investment, which had been accounted for using the equity method until September 30, 2002. We ceased to maintain significant influence over Sun Media's operations after our equity interest fell below 20% and our board representation was decreased. Accordingly, commencing October 1, 2002, we began accounting for our investment in Sun Media as an investment in marketable equity securities under the provisions of SFAS 115. Such investment is classified as available for sale and reported at fair market value with unrealized gains (losses), if any, recorded as a component of accumulated other comprehensive income (loss) in shareholders' equity.

We had recorded \$0.9 million of equity loss from this investment through September 30, 2002 so the carrying value of this investment was \$12.9 million at the time when the accounting method changed. The fair market value of this investment began to drop below the carrying value starting May 2003. At December 31, 2003, the fair market value of this investment was \$6.8 million. We considered the decline in the value of this investment to be other than temporary and recognized \$6.1 million as impairment of investment during the three months ended December 31, 2003. During the three months ended March 31, 2004, we sold \$0.2 million of our shares in this investment and obtained a gain of \$59,000. The fair market value of this investment was \$8.3 million as of March 31, 2004. We recorded \$1.7 million of unrealized gains on this investment as a component of comprehensive income in shareholders' equity for the three month ended March 31, 2004. We will continue monitor the developments of Sun Media closely.

If fair market value continues to drop, we will need to recognize additional impairment charges in the future periods.

Item 4. Controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the

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objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As required by Rule 15d-15(e) under the Securities Exchange Act of 1934, our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated our internal control over financial reporting to determine whether any changes occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, no such change in our internal control over financial reporting occurred during the most recent fiscal quarter.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On March 24, 2004, we completed the acquisition of all of the outstanding shares of Crillion Corp., a corporation organized under the laws of the British Virgin Islands (Crillion) from Darpin Holdings Ltd., Malando Inc., Kalin Enterprises Inc., Top Ace Assets Ltd., Golden Crown Assets Corp., Penligon Enterprises Holdings Corp., Regal Bond Assets Inc., Greenmore Assets Holdings Corp., and Unico Ventures Holdings Ltd. (the Crillion Sellers). In connection with the closing of such acquisition, we have issued to the Crillion Sellers an aggregate of 195,593 ordinary shares of SINA, par value \$0.133 per share, as part of the initial consideration for the acquisition. The ordinary shares issued to Crillion Sellers were issued in a private placement without registration under the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

On April 30, 2004, the Company issued a press release announcing the appointments of Xiaotao Chen and Songyi Zhang to its board of directors.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 2.1 Stock Purchase Agreement dated February 24, 2004, among SINA, Crillion, the shareholders of Crillion listed on Part I of Exhibit A of the Stock Purchase Agreement and the individuals listed on Part II of Exhibit A of the Stock Purchase Agreement (Filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
- 2.2 Amendment Agreement dated March 23, 2004, among SINA, Crillion, the shareholders of Crillion listed on Part I of Exhibit A of the Stock Purchase Agreement and the individuals listed on Part II of Exhibit A of the Stock Purchase Agreement (Filed as Exhibit 2.2 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
- 2.3 Equity Transfer Agreement dated February 24, 2004, among the individuals listed on Schedule A attached to the Equity Transfer Agreement, Shenzhen Wang Xing Technology Co., Ltd., a limited liability company organized and existing under the laws of the People's Republic of China, and the individuals listed on Schedule B attached to the Equity Transfer Agreement (Filed as Exhibit 2.3 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
- 10.1* Technical Services Agreement dated February 24, 2004 between Beijing New Media Information Technology Co., Ltd. and Shenzhen Wang Xing Technology Co., Ltd
- 31.1* Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certificate of Chief Executive Officer pursuant to 18 U.S.C. section 1350.
- 32.2* Certificate of Chief Financial Officer pursuant to 18 U.S.C. section 1350.

* Filed herewith.

(b) Reports on Form 8-K

On February 3, 2004, the Company furnished a Current Report on Form 8-K to report the announcement of our financial results for the three month period ended December 31, 2003.

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SIGNATURE

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINA CORPORATION

Dated: May 10, 2004

By: /s/ Charles Chao

Charles Chao
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit Number	Description
2.1	Stock Purchase Agreement dated February 24, 2004, among SINA, Crillion, the shareholders of Crillion listed on Part I of Exhibit A of the Stock Purchase Agreement and the individuals listed on Part II of Exhibit A of the Stock Purchase Agreement (Filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
2.2	Amendment Agreement dated March 23, 2004, among SINA, Crillion, the shareholders of Crillion listed on Part I of Exhibit A of the Stock Purchase Agreement and the individuals listed on Part II of Exhibit A of the Stock Purchase Agreement (Filed as Exhibit 2.2 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
2.3	Equity Transfer Agreement dated February 24, 2004, among the individuals listed on Schedule A attached to the Equity Transfer Agreement, Shenzhen Wang Xing Technology Co., Ltd., a limited liability company organized and existing under the laws of the People's Republic of China, and the individuals listed on Schedule B attached to the Equity Transfer Agreement (Filed as Exhibit 2.3 to the Company's Report on Form 8-K filed on April 7, 2004, and incorporated herein by reference).
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*	Filed herewith.