SINA CORP
Form 10-Q
November 09, 2004

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

FORM 10-Q

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

For the quarterly period ended September 30, 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	**52-2236363**
(State or other jurisdiction of incorporation or organization)	**(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 x No o

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

The number of shares outstanding of the registrant s ordinary shares as of October 30, 2004 was 50,477,694.

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PART I UNAUDITED FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SINA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2004	December 31, 2003
	(unaudited)	(audited)
	(in U.S. dollars, in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$115,247	$158,148
Short-term investments	128,316	69,016
Accounts receivable, net of allowances for doubtful accounts of $1,670,000 and $1,577,000, respectively	42,879	17,606
Deferred tax assets	907	907
Prepaid expenses and other current assets	10,625	4,579
Total current assets	297,974	250,256
Investment in Sun Media Group	3,948	6,793
Property and equipment, net of accumulated depreciation of $17,789,000 and $13,719,000, respectively	14,539	8,646
Long-term investments	4,511	2,085
Intangible assets, net of accumulated amortization of $8,638,000 and $6,187,000 , respectively	14,259	569
Goodwill	33,085	18,091
Other assets	2,936	3,457
Total assets	$371,252	$289,897
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,704	$ 1,147
Accrued liabilities	34,644	27,442
Income taxes payable	3,566	1,801
Total current liabilities	40,914	30,390
Convertible Debt	100,000	100,000

Other long-term liabilities	2,315	
Total liabilities	143,229	130,390
Commitments and contingencies (Note 14)		
Shareholders equity:		
Ordinary Shares: $0.133 par value; 150,000,000 shares authorized; 50,412,000 and 48,627,000 shares issued and outstanding	6,708	6,471
Additional paid-in capital	255,326	236,222
Ordinary shares subject to subsequent issuance: 63,828 and 177,000 shares	2,400	1,349
Accumulated deficit	(34,491)	(83,054)
Accumulated other comprehensive loss:		
Unrealized loss on investment in marketable securities	(1,931)	(1,510)
Cumulative translation adjustments	11	29
Total shareholders equity	228,023	159,507
Total liabilities and shareholders equity	$371,252	$289,897

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

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CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in U.S. dollars)
(unaudited, in thousands, except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2004	**2003**	**2004**	**2003**
Net revenues:				
Advertising	$18,516	$11,441	$ 47,146	$28,234
Non-advertising	33,989	20,473	95,942	47,781
	52,505	31,914	143,088	76,015
Cost of revenues:				
Advertising	7,144	3,772	16,437	9,863
Non-advertising	9,711	5,790	27,241	13,912
	16,855	9,562	43,678	23,775
Gross profit	35,650	22,352	99,410	52,240
Operating expenses:				
Sales and marketing	10,646	5,616	26,816	15,169
Product development	3,034	1,761	7,151	4,727
General and administrative	4,065	2,980	11,220	8,464
Amortization of intangible assets	1,041	415	2,451	1,334
Write-off of intangible assets				903
Total operating expenses	18,786	10,772	47,638	30,597
Income from operations	16,864	11,580	51,772	21,643
Interest income	1,296	845	3,596	1,901
Amortization of convertible debt issuance cost	(172)	(170)	(514)	(170)
Net loss on investments	(1,675)		(1,616)	
Loss on equity investments	(1,082)	(175)	(2,171)	(797)

Income before income taxes	15,231	12,080	51,067	22,577
Provision for income taxes	(728)	(423)	(2,504)	(423)
Net income	$14,503	$11,657	$ 48,563	$22,154
Basic net income per share	$ 0.29	$ 0.24	$ 0.98	$ 0.47
Diluted net income per share	$ 0.27	$ 0.21	$ 0.86	$ 0.42

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)

	Ordinary Shares		Additional Paid-in Capital	Ordinary Shares Subject to Subsequent Issuance	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity	Comprehensive Income
	Shares	Amount						
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	1,413	188	9,269				9,457	
Business acquisition	372	49	9,835	1,051			10,935	
Comprehensive income:								
Net income					48,563		48,563	$ 48,563
Unrealized loss on investments in marketable securities						(421)	(421)	(421)
Currency translation adjustments						(18)	(18)	(18)
Comprehensive income								$ 48,124
Balances at September 30, 2004	50,412	$6,708	$255,326	$ 2,400	$(34,491)	$ (1,920)	$228,023	

	Ordinary Shares		Additional Paid-in Capital	Ordinary Shares Subject to Subsequent Issuance	Notes Receivable from Shareholders	Deferred Stock Compensation	Accumulated Deficit
	Shares	Amount					
	45,946	$6,114	$223,358	$	$(1,050)	$ (554)	$(114,477)

Balances at December 31, 2002							
Issuance of Ordinary Shares pursuant to stock plans	1,397	186	4,223				
Repayments of notes receivable from shareholders					1,050		
Amortization of deferred stock-based compensation						547	
Business acquisition	944	126	7,087	1,349			
Comprehensive income:							
Net income							22,154
Unrealized loss on investments in marketable securities							
Currency translation adjustments							
Comprehensive income							
Balances at September 30, 2003	48,287	$6,426	$234,668	$1,349	$	$ (7)	$ (92,323)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Accumulated Other Comprehensive Loss	Total Shareholders Equity	Comprehensive Income
Balances at December 31, 2002	$ 3,996	$117,387	
Issuance of Ordinary Shares pursuant to stock plans		4,409	
Repayments of notes receivable from shareholders		1,050	
Amortization of deferred stock-based compensation		547	
Business acquisition		8,562	
Comprehensive income:			
Net income		22,154	$ 22,154
Unrealized loss on investments in marketable securities	(9,881)	(9,881)	(9,881)
Currency translation adjustments	43	43	43

Comprehensive income			$ 12,316
Balances at September 30, 2003	$ (5,842)	$144,271	

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

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SINA CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited, in U.S. dollars, in thousands)

	Nine months ended September 30,	
	2004	**2003**
Cash flows from operating activities:		
Net income	$ 48,563	$ 22,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on equity investments	2,171	797
Loss on disposal of fixed assets	24	5
Net loss on investments	1,616	
Depreciation	4,128	3,715
Stock-based compensation		547
Amortization of convertible debt issuance cost	514	170
Amortization of intangible assets	2,451	1,334
Write-off of intangible assets		903
Changes in assets and liabilities (net of effect of acquisition):		
Accounts receivable, net	(21,346)	(7,817)
Prepaid expenses and other current assets	(2,715)	(2,413)
Other assets	24	60
Accounts payable	1,324	(1,012)
Income taxes payable	555	423
Accrued liabilities	7,144	7,578
Net cash provided by operating activities	44,453	26,444
Cash flows from investing activities:		
Acquisition of property and equipment	(9,678)	(4,271)
Cash paid for business acquisition, net of cash acquired	(27,233)	(9,235)
Investments in joint ventures	(1,435)	(2,818)
Deposit for business acquisition	(241)	
Purchase of short-term investments	(58,865)	(6,348)
Proceeds from sale of investment in Sun Media Group	295	
Proceeds from sale of long-term investment	347	
Net cash used in investing activities	(96,810)	(22,672)
Cash flows from financing activities:		

Proceeds from issuance of convertible debt, net		97,282
Proceeds from issuance of ordinary shares, net	9,456	4,409
Repayments of notes receivable from shareholders		1,050
Net cash provided by financing activities	9,456	102,741
Net increase (decrease) in cash and cash equivalents	(42,901)	106,513
Cash and cash equivalents at the beginning of the period	158,148	53,262
Cash and cash equivalents at the end of the period	$115,247	$159,775
Supplemental disclosure of investing activities:		
Cash paid for business acquisition	$ (28,760)	$ (11,591)
Cash acquired	1,527	2,356
Cash paid for business acquisition, net	$ (27,233)	$ (9,235)

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

	Nine months ended September 30,	
	2004	**2003**
Supplemental disclosure of noncash significant activities:		
Ordinary shares issued for business acquisition	$ 9,884	$ 7,213
Ordinary shares subject to subsequent issuance for business acquisition	$ 2,400	$ 1,349
Deferred advertising services exchanged for equity interest in joint venture	$ 3,430	$

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 web sites targeting Greater China and overseas Chinese, SINA provides services through five major business lines including SINA.com (online news and content), SINA Mobile (mobile value-added services), SINA Online (community-based services and games), SINA.net (search and enterprise services) and SINA E-Commerce (online shopping and travel). Together these provide an array of services including region-focused online portals, mobile value-added services, search and directory, interest-based and community-building channels, free and premium email, online games, virtual ISP, classified listings, fee-based services, e-commerce 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 and nine months ended September 30, 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 September 2004, the EITF Issue No. 04-08, The Effect of Contingently Convertible Debt on Diluted Earnings per Share. (EITF 04-08) was issued stating that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. This Issue is effective for reporting periods ending after December 15, 2004. As a result of adopting EITF 04-08, the Company will need to include the dilution effect of its outstanding contingent convertible debt in its diluted earnings per share calculations regardless of whether the market price trigger has been met going forward. In addition, this change will be applied retroactively to all prior periods. The retroactive application of EITF 04-08 will result in a reduction of $0.02 to the diluted earnings per share for the quarter ended September 30, 2004 and will have no impact to the diluted earnings per share for all other prior periods.

In September 2004, the EITF delayed the effective date for the recognition and measurement guidance previously discussed under EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01) as included in paragraphs 10-20 of the proposed statement. The proposed statement will clarify the meaning of other-than-temporary impairment and its application to investments in debt and equity securities, in particular investments within the scope of FASB Statement No. 115, Accounting for Certain Investments

in Debt and Equity Securities, and investments accounted for under the cost method. The Company is currently evaluating the effect of this proposed statement on its financial position and results of operations. If the proposed EITF 03-01 becomes effective and is adopted, the Company may have to record additional impairment charges for certain of its investments in marketable debt securities.

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. The Company

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conducts substantially all its Internet content provision, advertising and mobile value-added services in the PRC via its VIEs in order to comply with the PRC laws and regulations. As of September 30, 2004, the Company has nine VIEs and the aggregate accumulated losses of these VIEs were approximately $9.6 million and have been reflected in the consolidated financial statements.

4. Short-term investments

The Company s short-term 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 purposes and accordingly, classifies them as short-term investments. The aggregate fair value of marketable debt securities was $128.3 million as of September 30, 2004 and was $69.0 million as of December 31, 2003. During the three and nine months ended September 30, 2004, respectively, the Company recorded $1.7 million of unrealized gain and $0.4 million of unrealized loss, respectively, on its marketable debt securities as a component of comprehensive income. During the three and nine months ended September 30, 2003, respectively, the Company recorded $1.1 million and $1.4 million of unrealized loss on its marketable debt securities as a component of comprehensive income.

5. Acquisitions

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 periods. The initial consideration of $1,836,414 is comprised of two elements: (a) $1,812,251 in cash; 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 earnings 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)
Purchase price	$1,836

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 and nine months ended September 30, 2004 was $93,000 and $248,000,

respectively. 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 subject to periodic impairment assessment. 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. As of September 30, 2004, there was no impairment for the intangible assets and goodwill. Immediately after the closing of the acquisition, the operating results of Bravado were consolidated with those of the Company starting February 1, 2004.

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.

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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; (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 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)
Purchase price	$18,959

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 and nine months ended September 30, 2004 was $0.6 million and $1.3 million, respectively. 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 subject to periodic impairment assessment. 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. During the nine months ended September 30, 2004, no factors were presented indicating an impairment may have occurred. 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 were consolidated with those of the Company starting March 25, 2004.

Davidhill. On July 1, 2004, the Company entered into an agreement to acquire Davidhill Capital Inc., a British Virgin Islands limited liability corporation (Davidhill), and its UC instant messaging technology platform. The closing of the acquisition occurred on October 19, 2004, but the operating results of Davidhill have been consolidated with those of SINA starting July 1, 2004 when the Company took over the effective control of Davidhill. Launched in 2002, the UC instant messaging service allows users to communicate in real-time over the Internet and mobile phone networks, via text messages, images and voice. UC also provides community services such as chat rooms, online games, alumni clubs, online karaoke and other entertainment services. The primary purpose of the acquisition was to leverage UC instant messaging technology platform to SINA s long-term web and wireless strategy.

Davidhill owns the UC instant messaging technology platform and certain fixed assets (the asset group) via its wholly-owned subsidiary in the PRC. Davidhill and its subsidiary have not commenced generating any revenue from

the UC instant messaging services. The Company acquired the asset group through a purchase of all of the outstanding shares of Davidhill. As a result of such acquisition, Davidhill became a wholly-owned subsidiary of SINA. The Company considered EITF 98-3 Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business and concluded that the asset group constitutes a business. The Company therefore applies FAS141 Business Combinations to the acquisition of Davidhill.

The aggregate purchase price is comprised of an initial consideration and a contingent consideration on achieving specified performances in future periods. The initial consideration of $15,250,000 is comprised of three elements: (a) $12,600,000 in cash; (b) 63,828 newly issued SINA ordinary shares, valued at $2,400,000 in accordance with the average of per share closing prices of SINA ordinary shares on the Nasdaq National Market during the thirty (30) calendar days immediately preceding July 1, 2004, delivered at the closing of the acquisition; and (b) approximately $250,000 in legal and professional fees related to the acquisition. The contingent consideration of the Davidhill acquisition are based on certain simultaneous online user targets being reached by Davidhill in the 15 months after the agreement date. The contingent consideration is subject to a cap of $21.0 million and will be 84% in cash and 16% in SINA ordinary shares.

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The initial purchase price of $15,250,000 was allocated as follows (in thousands):

Fixed assets	$ 197
Intangible assets	10,780
Goodwill	4,273
Purchase price	$15,250

Amortizable intangible assets acquired, including technology and non-competition arrangements with certain Davidhill executives, have estimated useful lives ranging from twenty-seven months to ten years. The amortization expense for the three months ended September 30, 2004 was $0.3 million. Goodwill of $4.3 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 subject to periodic impairment assessment. 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. During the three months ended September 30, 2004 after the acquisition, no factors were presented indicating an impairment may have occurred. The purchase price allocation for the Davidhill acquisition is based on an appraisal performed by an independent appraisal firm in the United States.

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

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net revenues	$52,505	$35,693	$148,150	$82,422
Net income	$14,503	$12,276	$ 50,035	$21,456
Basic earnings per share	$ 0.29	$ 0.26	$ 1.01	$ 0.45
Diluted earnings per share	$ 0.27	$ 0.22	$ 0.89	$ 0.40

Since Davidhill had not commenced generating any revenue from its UC instant messaging services and had not incurred any significant operating costs and expenses, the inclusion of its operating results only had minimal impact to the above pro forma information.

6. Intangible assets

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

	Carrying	Estimated

	value	useful lives
	(In thousands)	(Months)
Bravado:		
Non-competition arrangements	$ 121	36
Hotel reservation contracts.	774	28
	$ 895	
Crillion:		
Non-competition arrangements	$ 1,891	36
Customer list	$ 2,494	16
Content provision contracts.	81	20
	$ 4,466	
Davidhill:		
Non-competition arrangements	$ 480	27
Technology	10,300	120
	$ 10,780	

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7. Investment in Sun Media Group

The 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. 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. At September 30, 2004, the fair market value of this investment was $4.0 million as compared to its carrying value of $6.6 million. The Company considered the decline in the value of this investment to be other than temporary and recognized $2.6 million as impairment of investment during the three months ended September 30, 2004. The fair market value of this investment was $3.7 million on October 29, 2004. The Company will continue to monitor the investment and if the fair value declines further, the Company may have to recognize additional impairment charges in future periods. The Company recorded $0.7 million and $8.5 million of unrealized loss on this investment, respectively, as a component of comprehensive income for the three and nine months ended September 30, 2003.

8. Income taxes

The Company is registered in the Cayman Islands and has operations in four tax jurisdictions including the PRC, the United States of America, Hong Kong and Taiwan. The operations in Taiwan represent 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 September 30, 2004. The Company generated substantially all its net income from its PRC operations for the three and nine months ended September 30, 2004 and the Company has recorded income tax provisions for the three and nine months ended September 30, 2004.

The components of income before income taxes are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(In thousands, except percentages)			
Loss subject to non PRC operations	$ (4,062)	$ (1,210)	$ (6,480)	$ (5,901)
Income subject to the PRC operations	19,293	13,290	57,547	28,478
Income before taxes	$15,231	$ 12,080	$ 51,067	$22,577
Income tax expenses subject to non PRC operations				
Effective tax rate for non PRC operations				
Income tax expenses subject to the PRC operations	728	423	2,504	423

Effective tax rate for the PRC operations	3.8%	3.2%	4.4%	1.5%

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 a preferential tax rate of 15%. In addition, some of the Company s subsidiaries are Foreign Investment Enterprises 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 and nine months ended September 30, 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 approximately 3.8% and 4.4%, respectively, for both the three and nine months ended September 30, 2004 as compared to the same periods in 2003 was primarily due to the increase in net income generated from certain of the Company s taxable entities.

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9. 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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Numerator:				
Net income	$14,503	$ 11,657	$ 48,563	$22,154
Amortization of convertible debt issuance cost		170	342	170
Net income used in computing diluted earnings per share	$14,503	$11,827	$ 48,905	$22,324
Denominator:				
Weighted average ordinary shares outstanding	50,387	48,102	50,043	47,201
Weighted average ordinary shares to be issued for business acquisition		177		370
Shares used in computing basic earnings per share	50,387	48,279	50,043	47,571
Weighted average ordinary share equivalents:				
Stock options	3,498	5,466	4,074	4,783
Unvested restricted shares				28
Convertible debt		3,877	2,585	1,293
	3,498	9,343	6,659	6,104
Shares used in computing diluted earnings per share	53,885	57,622	56,702	53,675

Basic earnings per share	$ 0.29	$ 0.24	$ 0.98	$ 0.47
Diluted earnings per share	$ 0.27	$ 0.21	$ 0.86	$ 0.42

10. 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 an 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

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Black-Scholes model considering the expected volatility of SINA s 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 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 September 30		Nine months ended September 30	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Net income:				
As reported	$14,503	$11,657	$48,563	$22,154
Added: Stock-based employee compensation expenses included in reported net income		93		547
Deduct: Employee stock purchase plan related compensation expenses determined under fair value based method	(56)	(33)	(122)	(86)
Deduct: Stock-based employee compensation expenses determined under fair value based method	(2,142)	(3,525)	(7,471)	(5,536)
Pro forma	$12,305	$ 8,192	$40,970	$17,079
Diluted earnings per share:				
As reported	$ 0.27	$ 0.21	$ 0.86	$ 0.42
Pro forma	$ 0.23	$ 0.15	$ 0.73	$ 0.32

11. 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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(In thousands, except percentages)			
Revenues:				
Advertising	$ 18,516	$ 11,441	$ 47,146	$ 28,234
Mobile value-added services	31,290	18,144	88,207	41,518
Other	2,699	2,329	7,735	6,263
	$ 52,505	$ 31,914	$ 143,088	$ 76,015
Cost of revenues:				
Advertising	$ 7,144	$ 3,772	$ 16,437	$ 9,863
Mobile value-added services	9,389	5,584	26,463	13,156
Other	322	206	778	756
	$ 16,855	$ 9,562	$ 43,678	$ 23,775

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	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(In thousands, except percentages)			
Gross profit margins:				
Advertising	61%	67%	65%	65%
Mobile value-added services	70%	69%	70%	68%
Other	88%	91%	90%	88%
Overall	68%	70%	69%	69%

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

	U.S.	The PRC	Hong Kong	Taiwan	Total
	(In thousands)				
Three months ended and as of September 30, 2004:					
Revenue	$ 577	$ 51,310	$ 397	$ 221	$ 52,505
Long-lived assets	48	13,879	119	493	14,539
Three months ended and as of September 30, 2003:					
Revenues	$ 589	$ 30,528	$ 388	$ 409	$ 31,914
Long-lived assets	104	7,112	182	1,014	8,412
Nine months ended and as of September 30, 2004:					
Revenues	$1,707	$139,274	$ 1,333	$ 774	$143,088
Long-lived assets	48	13,879	119	493	14,539
Nine months ended and as of September 30, 2003:					
Revenues	$1,794	$ 71,556	$ 1,432	$1,233	$ 76,015
Long-lived assets	104	7,112	182	1,014	8,412

12. 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 September 30, 2004, approximately 97% of the accounts receivable, 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 and nine months ended September 30, 2004 and 2003. Also, no

individual advertising customer accounted for more than 10% of accounts receivables as of September 30, 2004 and December 31, 2003. For its mobile value-added services operations in the PRC, the Company contracts with 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 60% and 62% of the Company s net revenues for the three and nine months ended September 30, 2004, respectively, and 57% and 55% of the Company s net revenues for the three and nine months ended September 30, 2003, respectively. Mobile value-added services fees charged to users via China Mobile accounts for 52% and 54% of the Company s net revenues for the three and nine months ended September 30, 2004, respectively. Mobile value-added services fees charged to users via China Unicom accounts for 8% and 8% of the Company s net revenues for the three and nine months ended September 30, 2004, 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 has not had any significant direct write off of bad debts.

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

	% of total accounts receivable, net	
Customer	As of September 30, 2004	As of December 31, 2003
China Mobile and its subsidiaries	52%	45%
China Unicom and its subsidiaries	7%	5%

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 net income was derived from China and was $19.3 million and $57.6 million for the three and nine months ended September 30, 2004, respectively. The operations in China are carried out by the subsidiaries and VIEs. The Company depends on dividend payments from its subsidiaries in China for its revenues after these subsidiaries receive payments from VIEs in China under various services and other arrangements. In addition, under Chinese law, its subsidiaries are only allowed to pay dividends to the Company out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, these 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 appropriation to mandated reserve funds are assessed annually. As of December 31, 2003, the Company had appropriated totaling $4.3 million to these non-distributable reserve funds.

Besides, the majority of the Company s revenues derived and expenses incurred were in Chinese renminbi. In addition, approximately $100.4 million of the Company s cash and short-term investment balance at September 30, 2004 was denominated 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. Moreover, the Chinese government imposes controls on the convertibility of renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency.

13. Convertible debt

As of September 30, 2004, the Company has issued $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 a 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 fiscal quarter ended June 30, 2004, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes were therefore convertible into SINA ordinary shares according to the threshold (i) during the quarter ended September 30, 2004. As of September 30, 2004, the Company did not receive any request for conversion of the Notes to SINA ordinary shares. For the fiscal quarter ended September 30, 2004, the sale price of SINA ordinary shares did not exceed the threshold set forth in item (i) above for the required period of time; therefore, the Notes are not convertible into SINA ordinary shares pursuant to the threshold set forth in item (i) above during the quarter ending December 31, 2004.

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

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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.

14. Commitments and contingencies

The following table sets forth the contractual commitments and obligations of the Company excluding those items have been reflected in the balance sheet as of September 30, 2004:

	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.	$	$	$	$	$
Operating lease obligations	6,714	2,544	4,075	95	
Purchase obligations	7,456	5,656	1,800		
Other long-term liabilities					
Total contractual obligations	$14,170	$8,200	$5,875	$ 95	$

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.

Besides the above contractual obligations, the Company is also obligated to pay contingent consideration on its acquisitions of Bravado, Crillion and Davidhill in addition to the initial consideration with respect to each. The contingent consideration of the 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 earnings targets for 2004. The contingent consideration of the Crillion acquisition is based on Crillion s financial performances in 2004 and 2005. The contingent consideration would roughly be 1.5 to 2.0 times 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 contingent consideration in the Davidhill acquisition is based on certain simultaneous online user targets being reached by Davidhill in the 15 months after the agreement date. The contingent consideration is subject to a cap of $21.0 million and will be 84% in cash and 16% 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 September 30, 2004.

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 web sites targeting Greater China and overseas Chinese, we provide services through five major business lines including SINA.com (online news and content), SINA

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Mobile (mobile value-added services), SINA Online (community-based services and games), SINA.net (search and enterprise services) and SINA E-Commerce (online shopping and travel). Together these provide an array of services including region-focused online portals, mobile value-added services, search and directory, interest-based and community-building channels, free and premium email, online games, virtual ISP, classified listings, fee-based services, e-commerce and enterprise e-solutions.

Our focus of business is our operation in the PRC where we derived approximately 98% and 97% of our net revenues for the three and nine months ended September 30, 2004, respectively.

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 35% and 60%, respectively, of our net revenues for the three months ended September 30, 2004, and 33% and 62%, respectively, of our net revenues for the nine months ended September 30, 2004. We expect they will continue to be the major sources of our revenues in the near future.

Acquisitions and investments

In January 2004, we formed a joint venture with Yahoo! to provide online auctions in the PRC. In February 2004, we acquired Bravado Investments Limited (Bravado) to enter the PRC online travel market. In March 2004, we acquired Crillion Corporation (Crillion) to enhance our mobile value-added services as well as increase our market share in the PRC mobile value-added services market. In October 2004, we completed the acquisition of Davidhill Capital Inc. (Davidhill) and its instant messaging technology platform. The instant messaging technology platform allows users to communicate in real-time over the Internet and mobile phone networks, via text messages, images and voice. The instant messaging technology platform also provides community services such as chat rooms, online games, alumni clubs, online karaoke and other entertainment services.

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 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 and nine months ended September 30, 2004 compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2003.

We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue recognition policies

Advertising revenues are derived principally from online advertising arrangements, sponsorship arrangements, or a combination of them. Online advertising arrangements allow advertisers to place advertisements on particular areas of our web sites, in particular formats and over particular periods of time. Advertising revenues from online advertising arrangements are recognized ratably over the displayed period of the contract when the collectibility is reasonably assured. Multiple element advertising arrangements are broken down to single element arrangement based on relative fair value for revenue recognition purpose. Sponsorship arrangements allow advertisers to sponsor a particular area on our web sites in exchange for a fixed payment over the contract period. Advertising revenues are recognized ratably over the period of sponsorship. Advertising revenues derived from the design, coordination and integration of online advertising and sponsorship arrangements to be placed on our web sites are recognized ratably over the term of such programs.

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Non-advertising revenues are mainly derived from mobile value-added services, fee-based services, e-commerce and enterprise services.

Mobile value-added services revenues are derived principally from providing mobile phone users with SMS, MMS, WAP services and IVR services. These services include news and other content subscriptions, mobile dating service, picture and logo download, ring tones, ring back tones, mobile games, chat rooms and access to music files. Revenues from mobile value-added services are charged on monthly or on per usage basis. Such revenues are recognized in the period in which the service is performed, provided that no significant company obligations remain, collection of the receivables is reasonably assured and the amounts can be accurately estimated.

We contract with third party mobile operators for billing and transmission services related to the mobile value-added services transmitted to our users. We considered EITF 99-19 in determining whether we should recognize such revenues at gross or net of revenue sharing by mobile operators for billing and transmission services. If we are primary obligor to the user with respect to the mobile value-added services, we record the revenue on a gross basis. We record the gross amount we bill to our users for our mobile value-added services as revenues and the fees charged or retained by the third party mobile operators as cost of revenues. If we are not primary obligor to the user with respect to the mobile value-added services, we record the revenue on a net basis. We record the net amount after fees charged or retained by the third party mobile operators as revenues. Revenues recorded on a net basis were not significant to our mobile value-added services revenues historically.

Our estimate 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. When we started to offer mobile value-added services in China, we relied almost entirely on billing statements from mobile operators to record revenues as the historical information was not adequate to make the estimates. Due to the time lag of receiving the billing statements from the third party mobile operators, we had adopted a one-month lag reporting policy for mobile value-added service revenues. Such policy has been applied on a consistent basis even though we are now more relying on estimates to record the revenues from mobile value-added services with more accurate historical information. However, this one-month lag reporting policy does not apply to acquired entities including Memestar and Crillion. For the three and nine months ended September 30, 2004, we recorded $31.3 million and $88.2 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 $31.0 million and $89.7 million, respectively. For the three and nine months ended September 30, 2003, we recorded $18.1 million and $41.5 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 $18.8 million and $44.3 million, respectively.

China Mobile and its subsidiaries have recently started transitioning mobile value-added service providers to a new billing platform. Certain of their provincial subsidiaries have required us to switch to this new billing platform recently. They will require us to switch to the new billing platform in other provinces 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 more controls by the mobile operators in the operation, a higher failure rate for fee collection from our users or make it more difficult for us to recruit new users and hence may reduce our revenues from mobile value-added services significantly. We have been monitoring the extent of the impact of the new billing platforms to our business and our confirmation rates used. We have been also evaluating the current mobile value-added services revenue recognition policy. If there were no consistent confirmation rates trend or there are continuous significant true up adjustments to our estimates under the new billing platforms, our current policy of estimating mobile value-added services revenues

may not be appropriate. We may have to record the mobile value-added services revenues when we receive the billing statements from third party mobile operators. Due to the time lag of receiving the billing statements, our mobile value-added services revenues may fluctuate with the collection of billing statements. As of September 30, 2004, we had moved 5 provinces onto China Mobile s new billing platform and we had mixed results from these five provinces. Due to the limited history, we are not yet able to isolate the effect of the new platform on the failure rates yet. We plan to move another 8 provinces onto the new China Mobile billing platform in the quarter ending December 31, 2004.

We purchase certain content from third party content providers for our mobile value-added services. Most of these arrangements state that the fees payable to the third party content providers are calculated based on certain percentages of the revenue earned by their content after deducting the fees paid to third party mobile operators. Our mobile value-added service revenue is inclusive of such

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fees since we act as the principal in these arrangements by having the ability to determine the fees charged to end users and being the primary obligor to the end users with respect to providing such services.

Fee-based services allow our users to subscribe for services on our web sites including online games, virtual ISP and paid email services. Revenues from these services are recognized in the period in which the service is performed, provided that no significant company obligations remain, collection of the receivables is reasonably assured and the amounts can be accurately estimated.

E-commerce revenues are derived principally from slotting fees charged to merchants for selective positioning and promoting their goods or services within our online mall, SinaMall, and from commissions calculated as a percentage of the online sales transaction value of the merchants. Slotting fee revenue is recognized ratably over the period the products are shown on our web site while the commission revenue is recognized on a net basis after both successful on-line verification of customers credit cards and shipment of products. Product returns have not been significant and are assumed by vendors.

Enterprise services mainly include paid search and directory listings, corporate emails, classified listings and enterprise e-solutions. Revenues are recognized in the period in which the service is performed, provided that no significant company obligations remain, collection of the receivables is reasonably assured and the amounts can be accurately estimated.

In accordance with generally accepted accounting principles in the United States of America, the recognition of these revenues is partly based on our assessment of the probability of collection of the resulting accounts receivable balance. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection of accounts receivable had been made at the time the transactions were recorded in revenue.

Allowances for doubtful accounts

We use the rolling average bad debt rate for the previous twelve months to estimate the provisions for accounts receivable. We also provide specific provisions for bad debts when facts and circumstances indicate that the receivable is unlikely to be collected. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Available for sale securities investment

Investments classified as available for sale securities are reported at fair value with unrealized gains (losses), if any, recorded as accumulated other comprehensive income in shareholders equity. Realized gains or losses are charged to income during the period in which the gain or loss is realized. If we determine a decline in fair value is other-than-temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down will be accounted for a realized loss. The new cost basis will not be changed for subsequent recoveries in fair value. Determination of whether declines in value are other-than temporary requires significant judgment. Subsequent increase in the fair value of available for sale securities will be included in comprehensive income in shareholders equity while subsequent decrease in fair value, if not an other-than-temporary impairment, will also be included in comprehensive income in shareholders equity.

The investment in marketable equity securities of Sun Media Group is classified as available for sale securities. We recognized an other-than-temporary impairment charge of $2.6 million for the investment in Sun Media Group during the three months ended September 30, 2004 based on our assessment of the duration and amount of the decline.

The investment in marketable debt securities is classified as available for sale securities. We invest in these securities with the intent to make such funds readily available for operating purposes and accordingly, classify them as short-term investments. The aggregate fair value of marketable debt securities was $128.3 million as of September 30, 2004 and was $69.0 million as of December 31, 2003. During the three and nine months ended September 30, 2004, respectively, we recorded $1.7 million of unrealized gain and $0.4 million of unrealized loss, respectively, on our marketable debt securities as a component of comprehensive income. During the three and nine months ended September 30, 2003, respectively, we recorded $1.1 million and $1.4 million of unrealized loss on our marketable debt securities as a component of comprehensive income.

Impairment of intangible assets and goodwill

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. During the nine months ended September 30, 2003, we recorded an impairment charge in the amount

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of $0.9 million to write off the remaining value of the intangible assets relating to the acquisition of Shanghai Techur Technology Developing Co., Limited. At September 30, 2004 we had net intangible assets of $14.3 million and goodwill of $33.1 million, relating to the Memestar, Bravado, Crillion and Davidhill acquisition. There was no impairment as to the carrying value of these assets as of September 30, 2004.

We use estimates and judgments in our impairment tests and if different estimates or judgments had been utilized, the timing or the amount of the impairment charges could be different.

Purchase price allocation

We account for our acquisitions using purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets and liabilities we acquired based on their fair values. We make estimates and judgments in determining the fair value of the acquired assets and liabilities. We base our determination on independent appraisal reports as well as our experience with similar assets and liabilities in the similar industries. If we were to use different judgments or assumptions, the amounts assigned to the individual acquired assets or liabilities could be materially different.

Recent accounting pronouncements

In September 2004, the EITF Issue No. 04-08, The Effect of Contingently Convertible Debt on Diluted Earnings per Share. (EITF 04-08) was issued stating that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. This Issue is effective for reporting periods ending after December 15, 2004. As a result of adopting EITF 04-08, we will need to include the dilution effect of our outstanding contingent convertible debt in our diluted earnings per share calculations regardless of whether the market price trigger has been met going forward. In addition, this change will be applied retroactively to all prior periods. The retroactive application of EITF 04-08 will result in a reduction of $0.02 to the diluted earnings per share for the quarter ended September 30, 2004 and will have no impact to the diluted earnings per share for all other prior periods.

In September 2004, the EITF delayed the effective date for the recognition and measurement guidance previously discussed under EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01) as included in paragraphs 10-20 of the proposed statement. The proposed statement will clarify the meaning of other-than-temporary impairment and its application to investments in debt and equity securities, in particular investments within the scope of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and investments accounted for under the cost method. We are currently evaluating the effect of this proposed statement on our financial position and results of operations. If the proposed EITF 03-01 becomes effective and is adopted, we may have to record additional impairment charges for certain of our investments in marketable debt securities.

Results of operations

Three and nine months ended September 30, 2004 and 2003

Net revenues

	Three months ended September 30,	
	2004	**2003**

	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues	Growth
	(unaudited, in thousands, except percentages)				
Net Revenues					
Advertising	$18,516	35%	$11,441	36%	62%
Non-advertising					
Mobile value-added services	31,290	60%	18,144	57%	72%
Other	2,699	5%	2,329	7%	16%
Non-advertising	33,989	65%	20,473	64%	66%
Total net revenues	$52,505	100%	$31,914	100%	65%

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Non-advertising

Mobile value-added services

	Nine months ended September 30,				
	2004		2003		
	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues	Growth
	(unaudited, in thousands, except percentages)				
Net Revenues					
Advertising	$ 47,146	33%	$28,234	37%	67%
Non-advertising					
Mobile value-added services	88,207	62%	41,518	55%	112%
Other	7,735	5%	6,263	8%	24%
Non-advertising	95,942	67%	47,781	63%	101%
Total net revenues	$143,088	100%	$76,015	100%	88%

The growth of our net revenues for the three and nine months ended September 30, 2004 was mainly driven by the increase in advertising and mobile value-added services 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 and the acquisition of companies in this market.

Advertising. Our advertising revenues were $18.5 million and $47.2 million for the three and nine months ended September 30, 2004, respectively, representing growth of 62% and 67% as compared to the same periods in 2003. The increase in our advertising revenues was primarily due to the growth of on line advertising spending in the PRC market as more advertisers began to accept the Internet as a medium for advertisement. For the three and nine months ended September 30, 2004, advertising revenues from the PRC accounted for 95% and 94% of our total advertising revenues, respectively, compared to 92% and 89% of our total advertising revenues for the same periods in 2003. The number of advertising customers in the PRC was approximately 382 and 661 for the three and nine months ended September 30, 2004, respectively, as compared to 315 and 491 for the same periods in 2003. Average revenues per advertising customer in the PRC were $46,000 and $67,000 for the three and nine months ended September 30, 2004, respectively, as compared to $33,000 and $51,000 for the same periods in 2003.

Non-advertising. Our non-advertising revenues were $34.0 million and $95.9 million for the three and nine months ended September 30, 2004, respectively, representing growth of 66% and 101% 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 represent 92% of our total non-advertising revenues for both the three and nine months ended September 30, 2004, respectively, as compared to 89% and 87%, respectively, of our total non-advertising revenues for the same periods in 2003.

The growth our mobile value-added services revenues for the three and nine months ended September 30, 2004 was attributable to the acquisition of Crillion and introduction of new products. Our product offerings for mobile value-added services 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, contributing $24.3 million and $74.5 million revenue for the three and nine months ended September 30, 2004, respectively. SMS revenue accounted for 78% and 84% of our mobile value-added services revenues for the three and nine months ended September 30, 2004, respectively, as compared to nearly 98% of our mobile value-added services revenues for the same periods in 2003. The growth of SMS revenue in absolute amount was primarily attributable to the acquisition of Crillion in March 2004. Due to the changes in regulatory environment and mobile operators policies, there was a decline in our SMS business excluding the results of Crillion during the three months ended June 30, 2004 and a further decline in our SMS business despite the growth of Crillion during the three months ended September 30, 2004. SMS revenues decreased from $26.0 million for three months ended June 30, 2004 to $24.3 million for three months ended September 30, 2004.

New product offerings like WAP, MMS and IVR services, etc. in aggregate contributed approximately $7.0 million and $13.8 million of our mobile value-added services revenues for the three and nine months ended September 30, 2004, respectively. They represent 22% and 16% of our mobile value-added services revenues for the three and nine months ended September 30, 2004, respectively. They constituted a minimal portion of our mobile value-added services revenues for the same periods in 2003. During the three months ended September 30, 2004, our IVR service was temporarily suspended by China Mobile due to the violation of certain operating procedures. Excluding the effect of the IVR service, revenues from other new mobile value-added service revenues for the three months ended September 30, 2004 grew by 77.6% from the three months ended June 30, 2004. In conjunction with this

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suspension, China Mobile also suspended our application for new products under existing wireless platforms for three months and our applications for news products under new wireless platforms for six months starting from August 15, 2004. On October 15, 2004, our IVR service was resumed by China Mobile. However, we do not expect that we will generate significant revenues from IVR service in near future as we have to start from the beginning.

For the month of September 2004, we had approximately 15.3 million unique paid users for our mobile value-added services. This compared to 11.7 million unique paid users for the month of June 2004 and 12.5 million unique paid users, including the users from the acquisition of Crillion on a pro forma basis, assuming acquisition had occurred on March 1, 2004, for the month of March 2004.

Our other non-advertising revenues include fee-based services such as paid search and directory listings, virtual ISP, paid email services, online hotel booking commission income as well as e-commerce and other enterprise services. Online hotel booking commission income was a new income stream after our acquisition of Bravado in February 2004. For the three and nine months ended September 30, 2004, the slight increase in our other non-advertising revenues was mainly attributed to the online hotel booking commission income and our paid search services and directory listings which in aggregate accounted for 66% and 65%, respectively, of our other non-advertising revenues. Our revenues for paid search services and directory listings accounted for 47% and 36%, respectively, of our other non-advertising revenues for the same periods in 2003.

Cost of revenues

	Three months ended September 30,		
	2004	**2003**	**Growth**
	(unaudited, in U.S. dollars, in thousands, except percentages)		
Cost of revenues:			
Advertising	$ 7,144	$ 3,772	89%
Non-advertising			
Mobile value-added services	9,389	5,584	68%
Other	322	206	56%
Non-advertising	9,711	5,790	68%
Total cost of revenues	$ 16,855	$ 9,562	76%

	Nine months ended September 30,		
	2004	**2003**	**Growth**
	(unaudited, in U.S. dollars, in thousands, except percentages)		

Cost of revenues:			
Advertising	$ 16,437	$ 9,863	67%
Non-advertising			
Mobile value-added services	26,463	13,156	101%
Other	778	756	3%
Non-advertising	27,241	13,912	96%
Total cost of revenues	$ 43,678	$ 23,775	84%

Advertising. Our cost of advertising revenues was $7.1 million and $16.4 million for the three and nine months ended September 30, 2004, respectively, as compared to $3.8 million and $9.9 million for the three and nine months ended September 30, 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 and nine months ended September 30, 2003 to the three and nine months ended September 30, 2004 was due to the increase in web production costs driven by an increase in web production personnel and content fees, an increase in Internet connection costs associated with the additional bandwidth as well as an increase in business taxes associated with higher advertising revenues. The content fee for the three months ended September 30, 2004 included a $1.1 million paid to an exclusive Olympic content partner and $0.1 million for some other one-time content purchases relating to Olympic coverage.

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Non-advertising. Our cost of non-advertising revenues was $9.7 million and $27.2 million for the three and nine months ended September 30, 2004, respectively, as compared to $5.8 million and $13.9 million for the three and nine months ended September 30, 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 and nine months ended September 30, 2003 to the three and nine months ended September 30, 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 and nine months ended September 30, 2004, non-advertising costs included $8.7 million and $24.4 million of fees retained by or paid to mobile operators and third party content providers, respectively, as compared to $4.9 million and $11.4 million for the same periods in 2003.

Gross profit margins

	Three months ended September 30,		Nine months ended September 30,	
	2004	**2003**	**2004**	**2003**
	(unaudited, percentages)			
Gross profit margins:				
Advertising	61%	67%	65%	65%
Non-advertising				
Mobile value-added services	70%	69%	70%	68%
Other	88%	91%	90%	88%
Non-advertising	71%	72%	72%	71%
Overall	68%	70%	69%	69%

Our overall gross profit margin decreased from 70% for the three months ended September 30, 2003 to 68% for the three months ended September 30, 2004. This was mainly attributed to the decrease in our gross profit margin for advertising revenues.

Advertising. Our gross profit margins for advertising revenues decreased from 67% for the three months ended September 30, 2003 to 61% for the three months ended September 30, 2004. This was largely due to a $1.1 million revenue share paid to an exclusive Olympic content partner and $0.1 million for some other one-time content purchases relating to Olympic coverage. Excluding these one-time content purchases, gross profit margin for advertising revenues would have been 67% and 68%, respectively, for the three and nine months ended September 30, 2004. For the nine months ended September 30, 2004, gross profit margin for advertising revenues excluding Olympic content cost improved as advertising revenues increased at a faster rate than the increase in the costs associated with our web site production.

Non-advertising. Our gross profit margins for non-advertising revenues for the three and nine months ended September 30, 2004 did not vary much as compared to those for the three and nine months ended September 30, 2003

as the majority of the costs associated with non-advertising revenues are variable costs. This slight increase of our gross profit margins for mobile value-added services revenue was primarily due to a decrease in business tax rate levied on mobile value-added service revenues from 5% to 3% in China.

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Operating expenses

	Three months ended September 30,			
	2004		2003	
	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues
	(unaudited, in thousands, except percentages)			
Sales and marketing expenses	$10,646	20%	$ 5,616	18%
Product development expenses	$ 3,034	6%	$ 1,761	6%
General and administrative expenses	$ 4,065	8%	$ 2,980	9%

	Nine months ended September 30,			
	2004		2003	
	U.S. Dollars	% of net revenues	U.S. Dollars	% of net revenues
	(unaudited, in thousands, except percentages)			
Sales and marketing expenses	$26,816	19%	$15,169	20%
Product development expenses	$ 7,151	5%	$ 4,727	6%
General and administrative expenses	$11,220	8%	$ 8,464	11%

Sales and marketing expenses

Our sales and marketing expenses were $10.7 million and $26.8 million or 20% and 19% of total net revenues for the three and nine months ended September 30, 2004, respectively, compared to $5.6 million and $15.2 million or 18% and 20% of total net revenues for the same periods 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 and nine months ended September 30, 2003 to the three and nine months ended September 30, 2004 was due to an increase in sales compensation expenses associated with higher sales headcounts, an increase in promotion expenditures for mobile value-added services and approximately $1 million of marketing expenses relating to the Olympics during the three months ended September 30, 2004.

Excluding marketing expenses relating to the Olympics, sales and marketing expenses would have been 18% of total net revenues for both the three and nine months ended September 30, 2004. The period-to-period decrease in sales and marketing expenses as a percentage of total net revenues from the nine months ended September 30, 2003 to the nine months ended September 30, 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 $3.0 million and $7.2 million or 6% and 5% of total net revenues for the three and nine months ended September 30, 2004, respectively, compared to $1.8 million and $4.7 million or 6% and 6% of total net revenues for the same periods 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 associated with new product development such as email, search, instant messaging and casual games. The period-to-period increase in product development expenses in the absolute dollar amount from the three and nine months ended September 30, 2003 to the three and nine months ended September 30, 2004 was primarily due to increase in headcounts and the investment in new products, especially the instant messaging services after the acquisition of Davidhill and the launch of casual game portal igame during the three months ended September 30, 2004. 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 $4.1 million and $11.2 million or 8% and 8% of total net revenues for the three and nine months ended September 30, 2004, respectively, compared to $3.0 million and $8.5 million or 9% and 11% of total net revenues for the same periods 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

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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 and nine months ended September 30, 2003 to the three and nine months ended September 30, 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 and nine months ended September 30, 2004, such expenses amounted to $1.2 million and $3.8 million, respectively, as compared to $0.7 million and $1.3 million for the same periods of 2003. The period-to-period decrease as a percentage of total net revenues from the three and nine months ended September 30, 2003 to the three and nine months ended September 30, 2004 was primarily due to the 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.

Amortization of intangible assets

Amortization of intangible assets of $1.0 million for the three months ended September 30, 2004 related to our acquisition of Bravado, Crillion and Davidhill. Amortization of intangible assets of $2.5 million for the nine months ended September 30, 2004 related to our acquisition of Memestar Limited (Memestar which was acquired in 2002 and is engaged in the provision of mobile value-added services in the PRC), Bravado, Crillion and Davidhill. Amortization of intangible assets of $0.4 million for the three months ended September 30, 2003 related to our acquisition of Memestar. Amortization of intangible assets of $1.3 million for the nine months ended September 30, 2003 related to our acquisition of Memestar and Shanghai Techur Technology Developing Co., Ltd. (Techur).

As of September 30, 2004, the net carrying amount of our intangible assets mainly includes technology, 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 five years is as follows: three months ending December 31, 2004: $1.0 million; years ending December 31, 2005, 2006, 2007 and 2008: $3.4 million, $2.0 million, $1.2 million and $1.0 million, respectively.

Write-off of intangibles

As a result of the acquisition of Techur in November 2002, we recorded intangible assets relating to customer relationships of approximately $1.1 million, which were being amortized over a period of three years. Because the revenue and the gross margin of Techur did not grow as expected, our management reassessed the carrying value of the intangible assets and concluded that there would not be significant future income generated from these customer relationships. The carrying value of the intangible assets of $0.9 million was therefore written off during the three months ended June 30, 2003 due to the permanent impairment of value.

Interest income

Interest income was $1.3 million and $3.6 million for the three and nine months ended September 30, 2004, respectively, as compared to $0.8 million and $1.9 million for the same periods in 2003. The increase in interest income resulted from a higher balance of cash and cash equivalents and short-term investments generated from our operation during the periods and the issuance of convertible notes in July 2003. 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 and $0.5 million for the three and nine months ended September 30, 2004.

Loss on equity investments

Long-term investments are mainly comprised of the equity investment in a joint venture Shanghai NC-SINA Information Technology Co. Ltd. (Shanghai NC-SINA) in China with NC Soft, a Korean online game company, and the investment in a joint venture China Online Auction Limited (COAL) in China with Yahoo!. The following summarizes the gain (loss) on our equity investments for the periods presented:

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	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(In thousands)			
Shanghai NC-SINA	$ (407)	$(194)	$ (860)	$(847)
COAL	(675)		(1,283)	
Others		19	(28)	50
Total	$(1,082)	$(175)	$(2,171)	$(797)

Net loss on investments

The fair market value of our investment in Sun Media Group at September 30, 2004 was $4.0 million as compared to its $6.6 million carrying value. We considered the decline in the value of this investment to be other than temporary and recognized $2.6 million as impairment of investment during the three months ended September 30, 2004. The loss of $2.6 million was offset by the gain of $1.0 million on the sale of a minority interest investment.

Provision for income taxes

We are incorporated in the 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 and nine months ended September 30, 2004.

We generated substantially all of our net income from our PRC operations for the three and nine months ended September 30, 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 a preferential tax rate of 15%. In addition, some of our subsidiaries are Foreign Investment Enterprises 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 overall 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. There is no assurance that such tax treatments will be approved. Over the longer term, if the Chinese government phases out preferential tax treatment for foreign investment enterprises or for new technology enterprises, 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 and nine months ended September 30,

2004 and we had recorded income tax provisions in the amount of $0.7 million and $2.5 million for the three and nine months ended September 30, 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 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.

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Liquidity and Capital Resources

We have funded our 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 fiscal quarter ended June 30, 2004, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes were therefore convertible into SINA ordinary shares according to the threshold (i) above during the quarter ended September 30, 2004. For the fiscal quarter ended September 30, 2004, the sale price of SINA ordinary shares did not exceed the threshold set forth in item (i) above for the required period of time; therefore, the Notes are not convertible into SINA ordinary shares pursuant to the threshold set forth in item (i) above during the quarter ending December 31, 2004. As of September 30, 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.

As of September 30, 2004, we had $243.6 million in cash and cash equivalents and short-term investments to meet the future requirements of our operating and investing 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.

	Nine months ended September 30

	2004	2003
	(In thousands)	
Net cash provided by operating activities	$ 44,453	$ 26,444
Net cash used in investing activities	(96,810)	(22,672)
Net cash provided by financing activities	9,456	102,741
Net increase (decrease) in cash and cash equivalents	(42,901)	106,513
Cash and cash equivalents at beginning of period	158,148	53,262
Cash and cash equivalents at end of period	$ 115,247	$ 159,775

Operating activities

Net cash provided by operating activities for the nine months ended September 30, 2004 was $44.5 million, including cash received from sales of approximately $121.7 million. Net cash provided by operating activities was primarily attributable to our net

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income of $48.6 million, adjusted by non-cash related expenses of $10.9 million and a net decrease in working capital items of $15.0 million. Of the working capital changes, the increase in accrued liabilities of $7.1 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 accounts receivable of $21.4 million (net of acquisition) mainly resulted from an increase in our net revenues. To a lesser extent, the increase in accounts receivable was due to slower collection of receivables related to mobile value-added services as certain provincial mobile operators delayed payments to all wireless service providers pending upon account reconciliations during the three months ended September 30, 2004. We however had received a majority of these delayed payments in October and November, 2004.

Net cash provided by operating activities for the nine months ended September 30, 2003 was $26.4 million, including cash receipts from sales of approximately $68.6 million. Net cash provided by operating activities was primarily attributable to our net income of $22.2 million, adjusted by non-cash related expenses of $7.5 million and a net decrease in working capital items of $3.3 million. Of the working capital changes, the increase in accounts receivable of $7.8 million primarily resulted from the increase in our net revenues, especially our mobile value-added services during the nine months ended September 30, 2003.

Investing activities

Net cash used in investing activities for the nine months ended September 30, 2004 was $96.8 million. This was primarily due to the purchase of equipment of $9.7 million, business acquisitions (net of cash acquired) of $27.2 million, investment in joint ventures of $1.4 million and purchase of short-term investments of $58.9 million. Cash used in business acquisitions (net of cash acquired) includes the last two installments of our acquisition of Memestar of $2.6 million, acquisition of Bravado of $0.9 million, acquisition of Crillion of $8.5 million, acquisition of Davidhill of $15.0 million and direct costs associated with the acquisitions of $0.2 million.

Net cash used in investing activities for the nine months ended September 30, 2003 was $22.7 million. This was primarily due to the purchase of equipment of $4.3 million, business acquisition of Memestar (net of cash acquired) of $9.2 million, investment in joint ventures of $2.8 million and purchase of short-term investments of $6.4 million.

Financing activities

Net cash provided by financing activities for the nine months ended September 30, 2004 was $9.5 million, representing the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan. Net cash provided by financing activities for the nine months ended September 30, 2003 was $102.7 million, representing the net proceeds from the issuance of zero coupon convertible subordinated notes of $97.3 million, the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan totaling $4.4 million and proceeds from the repayment of shareholders notes of $1.0 million.

Contractual Obligations

The following table sets forth our contractual obligations excluding those items have been reflected in the balance sheet as of September 30, 2004:-

	Payments due by period	
	Less than	**One to**

	Total	one year	three years	Three to five years	More than five years
			(In thousands)		
Contractual obligations:					
Long-term debt obligations.	$	$	$	$	$
Operating lease obligations	6,714	2,544	4,075	95	
Purchase obligations	7,456	5,656	1,800		
Other long-term liabilities					
Total contractual obligations	$14,170	$8,200	$5,875	$ 95	$

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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.

Besides the above contractual obligations, we are also obligated to pay contingent consideration on our acquisitions of Bravado, Crillion and Davidhill in addition to the initial consideration with respect to each. The contingent consideration of the 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 earnings targets for 2004. The contingent consideration of the Crillion acquisition is based on Crillion s financial performances in 2004 and 2005. The contingent considerations would roughly be 1.5 to 2.0 times 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 contingent consideration in the Davidhill acquisition is based on certain simultaneous online user targets being reached by Davidhill in the 15 months after the agreement date. The contingent consideration is subject to a cap of $21.0 million and will be 84% in cash and 16% 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 September 30, 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;

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 $14.5 million and $48.6 million for the three and nine months ended September 30, 2004. However, as of September 30, 2004, we had an accumulated deficit of approximately $34.5 million. We have only recently

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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 both the three and nine months ended September 30, 2004, advertising revenue constituted 35% and 33%, respectively, of our total net revenue and our advertising revenue grew from approximately $11.4 million and $28.2 million for the three and nine months ended September 30, 2003, respectively, to approximately $18.5 million and $47.2 million for the three and nine months ended September 30, 2004, respectively. 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 the 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 92% of our total non-advertising revenues for both the three and nine months ended September 30, 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 product offerings for mobile value-added services mainly include SMS, MMS, WAP and IVR. 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 October 30, 2004, we offered our mobile value-added services pursuant to relationships with 28 provincial and local subsidiaries of China Mobile and 12 provincial subsidiaries of China Unicom.

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 and nine months ended September 30, 2004, on average we received 79% and 79%,

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respectively, of the amount we charged to our users from the 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 and nine months ended September 30, 2004, on average we received 73% and 73%, respectively, of the amount we charged to our users from the 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 an 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.

In addition to mobile operators, the Chinese Ministry of Information Industry (MII), the governing body of China s mobile industry from time to time issues policies that regulate the business practices relating to mobile value-added services. During the quarter ended June 30, 2004, MII issued a notice to mobile operators including China Mobile and China Unicom. The notice required among other things that mobile operator and mobile value-added service providers highlight the details of service charges and the method of cancellation for mobile value-added services in their promotions; to seek confirmation from customers for services charged on a monthly subscription basis, and to separate mobile value-added service charges in detail in the customer fee statement. China Mobile and China Unicom started to enforce these new policies on June 1, 2004. As part of the enforcement, China Mobile and China Unicom required mobile value-added service providers to seek double confirmations from customers for most of the mobile value-added services charged on a monthly subscription basis and to provide easier cancellation for existing monthly subscription services. Although it is difficult to quantify the exact impact of these new policies, in general they have made the recruitment of new users more difficult and increased the churn rate of existing services.

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 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 fees 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. Certain of their provincial subsidiaries have required us to switch to this new billing platform recently. They will require us to switch to the new billing platform in other provinces 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 more controls by the mobile operators in the operation, a 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. We have been monitoring the extent of the impact of the new billing platforms to our business and our confirmation rates used. We have been also evaluating the current mobile value-added services revenue recognition policy. If there were no consistent confirmation rates trend or there are continuous significant true up adjustments to our estimates under the new billing platforms, our current policy of estimating mobile value-added services revenues may not be appropriate. We may have to record the mobile value-added services revenues when we have received the billing statements from third party mobile operators. Due to the time lag of receiving the billing statements, our mobile value-added services revenues may fluctuate with the

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collection of billing statements. As of September 30, 2004, we had moved 5 provinces onto China Mobile s new billing platform and we had mixed results from these five provinces. Due to the limited history, we are not yet able to isolate the effect of the new platform on the failure rates yet, but in general our assessment is that the new billing platforms increase failure rates. We plan to move another 8 provinces onto the new China Mobile billing platform in the quarter ending December 31, 2004.

During the quarter ended September 30, 2004, several of China Mobile s provincial operators including Guangdong, Jiangsu and Shandong provinces had imposed fee cap for monthly subscription based and usage based mobile value-added service. The impact for the change was insignificant for the quarter ended September 30, 2004 but could become significant in the future as more provinces impose such caps. We are monitoring the change and related impact closely.

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 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.

At the end of July 2004, China Mobile informed us that our IVR service with China Mobile had been temporarily suspended due to the violation of certain operating policies of China Mobile relating to IVR service. In conjunction with this suspension, China Mobile also suspended our application for new products under existing wireless platforms for three months and our applications for news products under new wireless platforms for six months starting from August 15, 2004. On October 15, 2004, our IVR service was resumed by China Mobile. However, we do not expect that we will generate significant revenues from IVR service in near future as we have to start from the beginning.

We are also subject to potential liability and penalty for delivering inappropriate content through our mobile value-added services. One of the violations cited in the notice for temporary termination of our IVR service at the end of July was that we had provided inappropriate content to our mobile subscribers through our IVR service. The definition and interpretation of inappropriate content in many cases is vague and subjective. We are not sure whether mobile operators including China Mobile and China Unicom or Chinese government will find our other mobile content inappropriate and therefore prevent us from operating the mobile value-added services relating to such content in the future. If they prevent us from offering such services, our profit from mobile value-added service will suffer.

During 2004, Chinese Ministry of Information Industry (MII) required all mobile value-added service providers in China to re-apply a content provider license for providing cross-province mobile value-added services. Provincial mobile operators can terminate the service of a service provider if such license is not obtained. The effective date for the new license requirement varies among provinces but in general service providers have to be in compliance some time in 2004. We operate our mobile value-added services mainly through three variable interest entities controlled by us. We obtained new content provider license for one of the three entities from MII and have not obtained the new license for the other two entities. Although all these three entities meet the requirements for obtaining the new license, MII is of the view that we only need one license to cover all three entities since all of them are controlled by us. So far we have not encountered significant problem with the provincial mobile operators in the provinces where the new license requirement has been implemented and all these three entities are allowed to continue their services in these provinces. We cannot be sure that MII s position with respect to our new license requirement will be consistent or provincial mobile operators will accept such position in all cases. We are in the process working with MII to find a better solution to meet the new license requirement for the two entities for which the new license has not been obtained.

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

Our mobile value-added service offerings include SMS, MMS, IVR and WAP. In the three and nine months ended September 30, 2004, we saw a significant increase in revenues from MMS, IVR and WAP services. These services accounted for approximately 22% of our total mobile value-added service revenues for the three months ended September 30, 2004, as compared to 16%, 7% and 2% in the three months ended June 30, 2004, March 31, 2004 and December 31, 2003, respectively. We rely on the growth of these services as a significant part of our revenues growth in mobile value-added service in the future periods. However, the current market size is relatively small and adoption rates are still relatively low for these services compared 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.

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

Online game, travel, online auctions and instant messaging 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 acquired Bravado Investment Limited to enter into the online travel business in the PRC, we have formed a joint venture agreement with Yahoo! to provide online auctions in the PRC, and we recently entered into an agreement to acquire Davidhill and its instant messaging platform. Some of our competitors have entered these markets ahead of us and have achieved significant market positions. Our main competitors in online game, travel, online auctions and instant messaging are Shanda, Ctrip, eBay/Eachnet and Tencent s QQ. Our competitors in these areas tend to be more specialized in these specific markets, which may give them a competitive advantage over us. 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.

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 60% and 62% of our net revenues for the three and nine months ended September 30, 2004, respectively, 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 ongoing 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.

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

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entities such as Microsoft (MSN), Yahoo!, eBay, Google and AOL, currently offer and could further develop or acquire content and services that compete with those that we offer. Companies such as these may have greater financial resources and assets, better brand recognition, more developed sales and other internal organizations, more customers and more extensive operating histories. As a result, such companies may be able to quickly provide competitive services and obtain a significant number of customers. 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, online auctions and instant messaging, 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 online game operators such as Shanda, Netease and The9. In travel, our leading competitors are Ctrip and eLong. In online auctions, our leading competitors are Eachnet, which is wholly owned by eBay, and Taobao. The main competitors for our instant messaging service are Tencent s QQ and Microsoft s MSN Messenger. 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. In addition, many of these companies are focused solely on one area of our business. As a result, such companies are able to devote all of their resources to this business area and to more quickly adapt to changing technology or market conditions. These companies may therefore have a competitive advantage against us with respect to these business areas.

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, in March 2004 we acquired Crillion, a mobile value-added services company, and in October 2004, we acquired Davidhill and its instant messaging technology platform. 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

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users at a steady rate and maintain user satisfaction; the announcement or introduction of new or enhanced services, content and 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. In addition, 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.

If we fail to timely report our management s assessment of the effectiveness of our internal control over financial reporting, we may be subject to regulatory sanctions and may experience a loss of public confidence in our internal controls.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required beginning with our fiscal year ending December 31, 2004 to include in our annual report our management s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. In addition, our independent registered public accounting firm will be required to provide an attestation report on our management s assessment of our internal control over financial reporting. Our management has not yet completed its assessment of the effectiveness of our internal controls. If our management fails to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our management s assessment, then we may be subject to regulatory sanctions and may experience a loss of public confidence in our internal controls. Furthermore, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results and cause us to fail to timely meet our regulatory reporting obligations. Any of these failures could have a negative effect on the trading price of our ordinary shares.

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

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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 effects 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 on January 1, 2002. The FI Telecom Regulations stipulate that the foreign party to a foreign-invested telecommunications enterprise can hold an 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 Chinese Ministry of Information Industry (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

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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 SINA.

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.

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 government also imposes controls on the convertibility of renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See *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.* If we or any of our subsidiaries are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to effectively finance our operations or pay dividends on our ordinary shares.

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 or we may have to stop profiting from 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.

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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 are also subject to potential liability and penalty for delivering inappropriate content through our mobile value-added services. At the end of July 2004, our IVR service was temporarily terminated by China Mobile for violating certain operating procedures. One of the violations cited in the notice for temporary termination was that we had provided inappropriate content to our mobile subscribers through our IVR service. The definition and interpretation of inappropriate content in many cases is vague and subjective. We are not sure whether mobile operators including China Mobile and China Unicom or Chinese government will find our other mobile content inappropriate and therefore prevent us from operating the mobile value-added services relating to such content in the future. If they prevent us from offering such services, our profit from mobile value-added service will suffer.

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, the 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 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 the United States, Hong Kong and Taiwan in the foreseeable future.

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We generated substantially all our net income from our China operations for the three and nine months ended September 30, 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 a preferential tax rate of 15%. In addition, some of our subsidiaries are Foreign Investment Enterprises 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. There is no assurance that such tax treatments will be approved. Over the longer term, if the Chinese government phases out preferential tax treatment for foreign investment enterprises or for new technology enterprises, 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 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 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

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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 are 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 nine months ended September 30, 2004, the closing sale prices of our ordinary shares on the Nasdaq National Market ranged from $19.78 to $48.25 and the sale price of our ordinary shares closed at $33.5 on October 30, 2004. Our stock price may fluctuate in response to a number of 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.

If we are required to record compensation expense in connection with stock option grants, our profitability may be reduced significantly.

The Financial Accounting Standards Board (FASB) has recently proposed an accounting standard that will require that the fair value of all equity-based awards granted to employees be recognized in the income statement as compensation expense, beginning in

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the third quarter of 2005. The various methods for determining the fair value of stock options are based upon, among other things, the volatility of the underlying stock. The price of our ordinary shares has historically been volatile. Therefore, the adoption of the accounting standard requiring companies to expense stock options could negatively affect our profitability and the trading price of our ordinary shares. Such adoption could also limit our ability to continue to use stock options as an incentive and retention tool, which could, in turn, hurt our ability to recruit employees and retain existing employees. FASB is expected to issue final rules on stock option expensing in late 2004. We will continue to monitor developments relating to this proposed standard.

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 and is not adequate to indemnify us against all potential liabilities.

We issued $100 million of zero coupon convertible subordinated 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. 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 fiscal quarter ended September 30, 2004, the sale price of SINA ordinary shares did not exceed the threshold set forth in item (i) above for the required period of time; therefore, the Notes are not convertible into SINA ordinary shares pursuant to the threshold set forth in item (i) above during the quarter ending December 31, 2004. 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

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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 renminbi in the future. Because a significant amount of our future revenues may be in 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.

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 and therefore you may not have legal protections for certain matters in China.

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 September 30, 2004, we had unrealized losses of $1.9 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. dollars 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 and nine months ended September 30, 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 the investment in Sun Media Group at September 30, 2004 was $4.0 million as compared to its $6.6 million carrying value. We considered the decline in the value of this investment

to be other than temporary and recognized $2.6 million as impairment of investment during the three months ended September 30, 2004. The fair market value of this investment was $3.7 million on October 29, 2004. We will continue to monitor the developments of Sun Media Group 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

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forms. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the 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. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits.

2.1	Stock Purchase Agreement dated July 1, 2004 among SINA Corporation, Davidhill Capital Inc., the shareholders of Davidhill Capital Inc. listed on Part I of Exhibit A to such agreement, and the company and individuals listed on Part II of Exhibit A to such agreement. (Filed as Exhibit 2.1 to the Company s Report on Form 8-K filed on October 22, 2004, and incorporated herein by reference).
2.2	

Amendment Agreement dated October 13, 2004 among SINA Corporation, Davidhill Capital Inc., the shareholders of Davidhill Capital Inc. listed on Part I of Exhibit A to the Stock Purchase Agreement, and the company and individuals listed on Part II of Exhibit A to the Stock Purchase Agreement. (Filed as Exhibit 2.2 to the Company s Report on Form 8-K filed on October 22, 2004, and incorporated herein by reference).

2.3 Asset Purchase Agreement dated July 1, 2004 by and between Guiyang Longmaster Information Technology Co., Ltd. and Beijing Davidhill Internet Technology Service Co., Ltd. (Filed as Exhibit 2.3 to the Company s Report on Form 8-K filed on October 22, 2004, and incorporated herein by reference).

10.1* Form Lease Agreement of Ideal International Plaza between the Registrant s subsidiaries or VIEs and Beijing Zhongwu Ideal Real Estate Development Co., Ltd. for the office located in Ideal International Plaza, 2 Zhongguancun High-Tech Square, Beijing, PRC, and the list of the lease agreements.

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.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SINA CORPORATION

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Exhibit Index

2.1	Stock Purchase Agreement dated July 1, 2004 among SINA Corporation, Davidhill Capital Inc., the shareholders of Davidhill Capital Inc. listed on Part I of Exhibit A to such agreement, and the company and individuals listed on Part II of Exhibit A to such agreement. (Filed as Exhibit 2.1 to the Company s Report on Form 8-K filed on October 22, 2004, and incorporated herein by reference).
2.2	Amendment Agreement dated October 13, 2004 among SINA Corporation, Davidhill Capital Inc., the shareholders of Davidhill Capital Inc. listed on Part I of Exhibit A to the Stock Purchase Agreement, and the company and individuals listed on Part II of Exhibit A to the Stock Purchase Agreement. (Filed as Exhibit 2.2 to the Company s Report on Form 8-K filed on October 22, 2004, and incorporated herein by reference).
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*	Filed herewith.