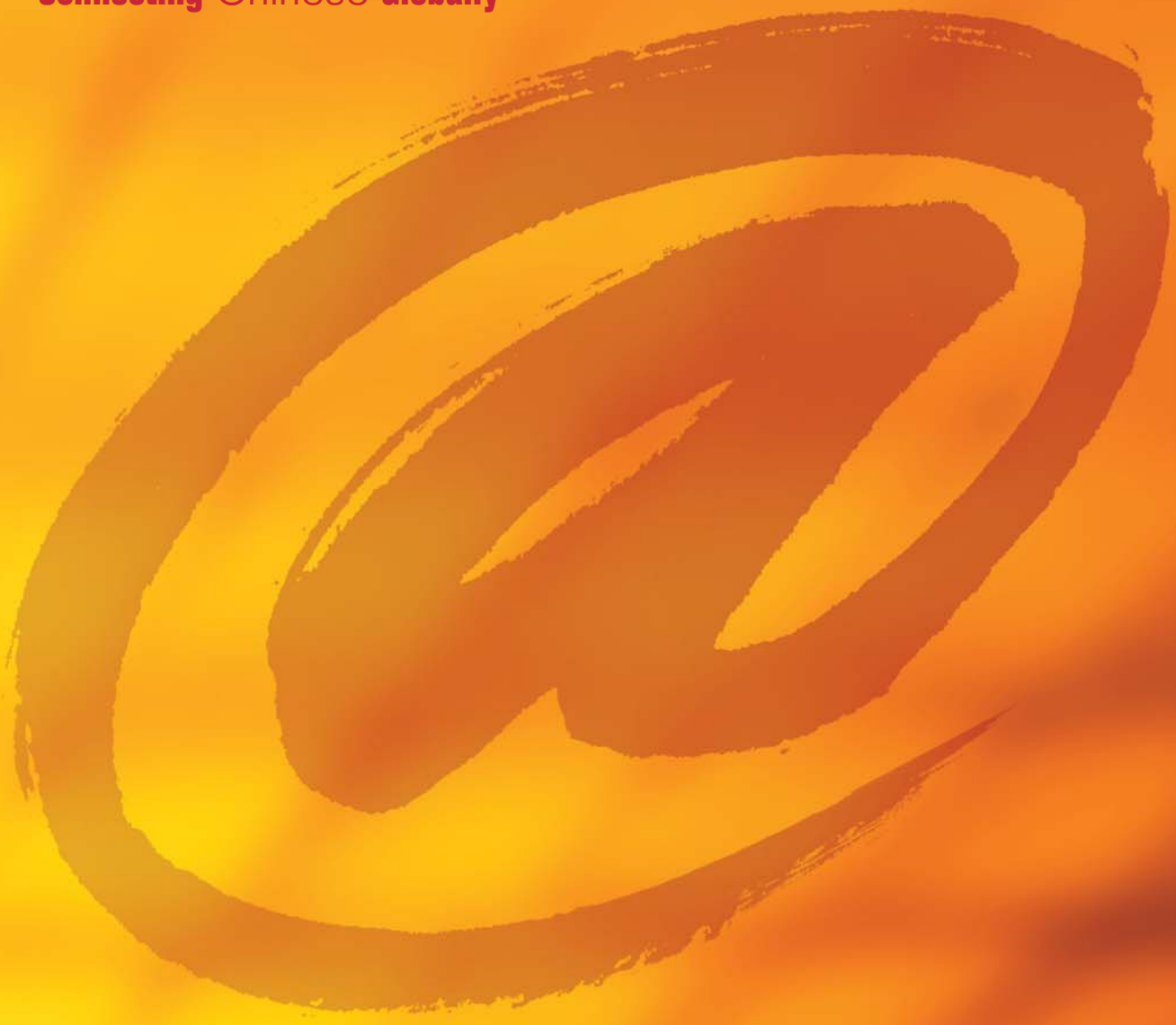
sina 新浪

SINA CORPORATION ANNUAL REPORT 2003

Connecting Chinese **Globally**



Contents

Company **Profile**

SINA Corporation (NASDAQ: SINA) is a leading online media company and value-added information service (VAS) provider for China and for Chinese communities worldwide.

With a branded network of localized websites 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 business segments 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.

With **94.8 million registered users** worldwide and over 10 million active users for a variety of fee-based services, SINA is the most recognized Internet brand name in China and among Chinese communities globally. In 2003, SINA was ranked number one by the Chinese Academy of Social Sciences as the most preferred website in China. SINA was also recognized by South China Weekend as the **"Chinese Language Medium of the Year".**



Milestones

SINA has achieved a number of "firsts" and continues to grow, with a selection of acquisitions and partnerships creating new business and generating new revenue streams in a developing market.

2004

Jan 2004
JV with Yahoo! for online auctions

2003

Jan 2003
Acquired MeMeStar to expand mobile business

Jul 2003
First and the largest double-zero convertible bond offering from a China-based tech company

Dec 2003
Agreed to acquire Fortune Trip to expand into online travel

2002

Nov 2002
JV with NCsoft for online games

Dec 2002
Name change from Sina.com to SINA Corporation

2001

Jul 2001
First ICP licensed to offer BBS services

2000

Apr 2000
IPO on NASDAQ

Dec 2000
First Chinese website allowed to publish news online

1998

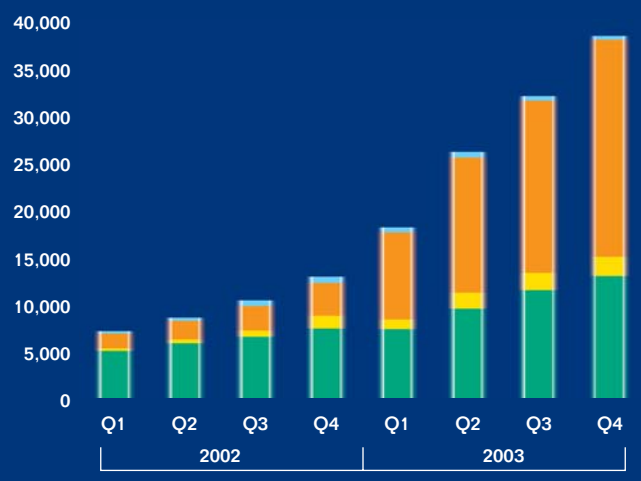
Dec 1998
Merged with US-based SINANET.com to form Sina.com

Dec 1993
Predecessor company Stone Rich Sight founded in Beijing

Financial **Highlights**

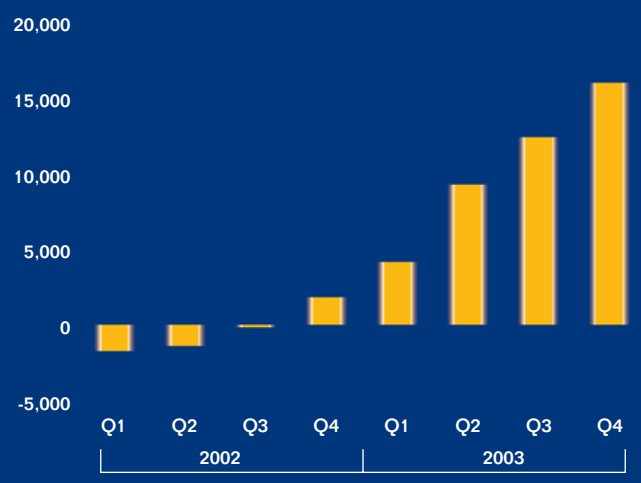
Total Revenues (US$000)

- Non-advertising revenue
- Advertising
- % of non-advertising revenue



Total Revenues by Product Lines (US$000)

- Others
- SINA Mobile
- SINA.net
- SINA.com



Pro-Forma Net Income (US$000)

Note: Pro-forma net income or loss excludes non-cash charges relating to amortization of intangible assets, stock based compensation and convertible bond issuance cost and write-off of intangible assets and impairment charge on Sun Media investment, as well as certain severance payments.

Highlights

2003

January

- SINA and Microsoft announce joint short messaging service for MS Office XP in China
- SINA acquires leading independent mobile value-added service provider MeMeStar in China

March

- SINA works with Danone, the world's leading consumer food company, to establish health food channel in China

May

- SINA announces the appointment of Wang Yan as its new CEO and a director of the board

July

- SINA completes $100 million zero coupon convertible subordinated notes offering

September

- SINA ranked the "Most Preferred Website" by Chinese Academy of Social Science
- Miss World Competition selects SINA as its official website for coverage

2003-04

October

- **SINA provides comprehensive coverage of China's first manned space launch**

- **SINA establishes official website for F1 B.A.R. in China**

November

- **SINA changes corporate slogan to "You Are The One"**
- **SINA launches Y-Zone, a community-based teen channel**

December

- **SINA recognized by South China Weekend as "Chinese Language Medium of the Year"**
- **SINA sponsors "2003 Top Ten" news competition in China**

- **SINA acquires online travel company, Fortune Trip, in China**

2004

January

YAHOO! and SINA announce online auctions joint venture

February

- **SINA partners with Plenus to launch casual games**
- **SINA expands wireless VAS through acquisition of Crillion**
- **SINA Legal Department wins In-house Legal Team of the Year at the 2004 China Law Awards**

CEO's Letter

Dear Shareholders

2003 has been another record-breaking year for SINA. I am proud to report not only that we achieved the expectations set at the end of 2002, but also that our results exceeded both our financial and operational expectations.

Our success validates the viability of our vision and demonstrates our ability to execute in an increasingly competitive environment. I am pleased to highlight some of the many achievements we made in the past 12 months, and to outline the initiatives that we have planned for 2004.

Improving profitability and operating efficiency

We grew our net revenues by 194%, compared to 2002, closing out the year with $114.3 million in net revenue and surpassing the $100 million milestone. Our advertising business grew 67% year-over-year to reach $41.2 million, while our non-advertising businesses grew 415% year-over-year to reach $73.1 million. Additionally, during 2003 we saw a significant improvement in our operating margins, due to our highly scalable business lines. We believe that on a combined revenue basis, we are now well ahead of our competitors and are poised to break away from the pack.

Strong financial resources

In July of last year, we were the first Chinese technology company to complete a $100 million double-zero convertible bond offering. It was a bold move inspired by favorable conditions in the US bond market. The proceeds of the offering added $97.5 million to our cash balance and infused our capital reserve for future development and expansion.

Broadening consumer reach and deepening customer relationships

SINA's strength is embodied in its brand. As of December 2003, we recorded a total of 95 million globally registered users – 29 million more users than

one year ago. In the past year, SINA was ranked as the "The Most Preferred Website" in China by the Academy of Social Science, and was also recognized with the prestigious "Chinese Language Medium of the Year" award by South China Weekend. This type of third-party recognition reinforces SINA's position as the leading consumer and media brand in China.

Expanding business lines

During the course of the past three years, SINA has successfully transformed itself from a pure play portal relying on online advertising into a company with multiple and sustainable revenue streams. In order to better manage our growing products and services, we realigned SINA into five business lines: SINA.com (online media and entertainment services); SINA Mobile (mobile VAS); SINA Online (consumer fee-based online VAS); SINA.net (enterprise and government VAS); and SINA E-Commerce (online shopping and travel). With the growth of our wireless and e-commerce businesses, we felt it prudent to establish independent units dedicated to the R&D and marketing of these new business endeavors.

Growth in existing product offerings

Strong growth in the Internet user base, together with a strong economy in China last year, helped to turn the Internet into a mainstream advertising medium. As the leading portal in China, we took a lion's share of the total online advertising spending in 2003. In the last quarter alone, our online advertising revenue grew 75% year-on-year.

In our wireless business, there was growth across the board in most categories – dating, mobile games, news, pictures and downloads. In December 2003, we had 10.5 million monthly subscriptions for our mobile value-added services, compared with nine million monthly subscriptions at the end of the third quarter.

Diversifying into new revenue streams

In 2003, SINA.com inaugurated Young Zone, a new community-based channel aimed at teens to twenty-somethings. While this channel is still a work-in-progress, we intend to gradually build it into a community portal aggregating information and services for young people.

We conducted significant updates of our two long-standing products, instant messaging and online dating, re-launching them in the fourth quarter. So far we are seeing encouraging results.

To expand our wireless business, we rolled out a brand new voice service called Interactive Voice Response (IVR). Licensed from China Mobile, this will become one of our major offerings in the latter part of 2004.

2003 has been a year of great achievement and milestones for SINA. Though we are proud of our past accomplishments, we are even more excited about SINA's prospects. As the world's largest consumer

SINA has **successfully transformed itself** from a pure portal relying on online advertising into a **company with multiple** and **sustainable revenue streams**

market, China had 79.5 million Internet users as of December 2003 and the number is projected to grow at a CAGR of 30%, according to iResearch, a China-based independent research firm. Further development of 2.5G and 3G technologies has produced a new generation of sophisticated mobile phones, which has enabled the growth of mobile value-added services such as WAP, IVR, CRBT and KJAVA/BREW. Being at the forefront of these technological developments, SINA is well positioned to capitalize on the large market opportunities presented. These efforts will be bolstered by our vast user base, combined with our well-established product line and well-known brand.

Success also lies in execution. We are aware of the challenges ahead of us and the competition surrounding us. Looking ahead, 2004 will be a critical year for SINA to consolidate its market leadership position. We have laid out clear steps for how we are going to achieve that goal.

Continuing strategic investments in e-commerce to lay a foundation for 2004 and beyond

The e-commerce market in China presents an untapped opportunity for SINA. Our acquisition of Fortune Trip represents just one step in our steadfast commitment to monetize China's e-commerce opportunities.

The Chinese **e-commerce market** presents an **untapped opportunity** for **SINA**

Another e-commerce initiative for 2004 will be online auctions. Online auctions have proven to be a successful service in Japan, Korea and Taiwan. We believe online auctions are a natural extension to our existing SinaMall service, which currently serves as an online transaction platform for consumers and businesses. Our joint venture with Yahoo! will help to develop this business.

Continuing our online game efforts through launch of *Lineage II* and casual games

Due to SARS and the subsequent closing of Internet cafes, the results from our launch of *Lineage I* were less than we expected. In 2004, we will launch *Lineage II*, already one of the most successful MMORPG games in Korea and Taiwan, along with a series of casual games licensed from Plenus Inc. With *Lineage II* and Plenus's casual games, we believe that SINA will be positioned to claim a meaningful share of the online games market in China.

Maintaining leadership in online advertising through investment in search

In China, the paid search market has been slower to develop given the early stages of the e-commerce market. Nevertheless, SINA is ideally positioned to become a leader in search in China, given our leading portal user traffic and established online advertiser base.

Consolidating our leading position in mobile value-added services through targeted acquisitions

Mobile value-added services will remain an area of strong focus for us in 2004. Our business development team stays abreast of the shifting market dynamics and continuously assesses SINA's competitive advantage within the mobile VAS sector. We will continue to examine acquisition and partnership opportunities and will pursue those opportunities that are fiscally beneficial and that will further strengthen our product offerings.

In summary

Building on our recent accomplishments, our strategy for success is straightforward. We will maintain our leading position in online media with a focus on developing paid search services. We will continue our efforts in online games through the launch of *Lineage II* and casual games. We will continue to focus on our mobile value-added service business to consolidate our leading position in the market. And we will make strategic investments in e-commerce to lay the foundation for 2004 and beyond.

SINA has come a long way from the industry-wide downturn two years ago to achieving full year 2003 profitability with revenues over $100 million. 2003 has been a year of significant milestones and accomplishments. We are entering 2004 with confidence and vigilance. We will continue to emphasize our competitive advantages in online advertising and mobile value-added services while developing other potential areas of growth, such as online games and e-commerce. We will also continue to streamline our business to eliminate redundancy and inefficiency where they may exist. 2003 was a great year in SINA's operating history. However, with meticulous planning and bold execution, we believe that 2004 will yield even more impressive results.

2003 has been a year of **milestones** and **accomplishments** – with meticulous planning and **bold execution**, 2004 will yield even more **impressive results**

We extend our gratitude to all those who contributed to our success during this past year – to our shareholders for their confidence and support; to our Board of Directors for their guidance; to our employees for their hard work and commitment; and to our users for their continued patronage.

Wang Yan
Chief Executive Officer

Shanghai, March 15, 2004

Through
SINA

Review of **Operations**

SINA has further strengthened its position across all of its business lines, with all divisions contributing to a profitable year. Building on its strong brand and commercial successes, the Company has continued its transformation from a leading Internet portal into a truly diversified online media company and value-added information services provider with multiple revenue streams.

SINA Corporation operates five major business lines. SINA.com, our online media and entertainment service, has demonstrated strong growth in online advertising revenue. SINA Mobile's focus on mobile value-added services has proved to be a successful business strategy in a growth market with tremendous upside potential. SINA Online, our fee-based provider of premium value-added services for consumers, continues to expand both its product portfolio and its user base. SINA.net provides businesses and government bodies with Internet and e-marketing solutions, and has demonstrated modest success with good potential for growth. SINA E-Commerce has begun developing online auction and travel as part of our strategy to monetize e-commerce opportunities in China.

新浪网 sina.com　新浪无线 sina mobile　新浪热线 sina online

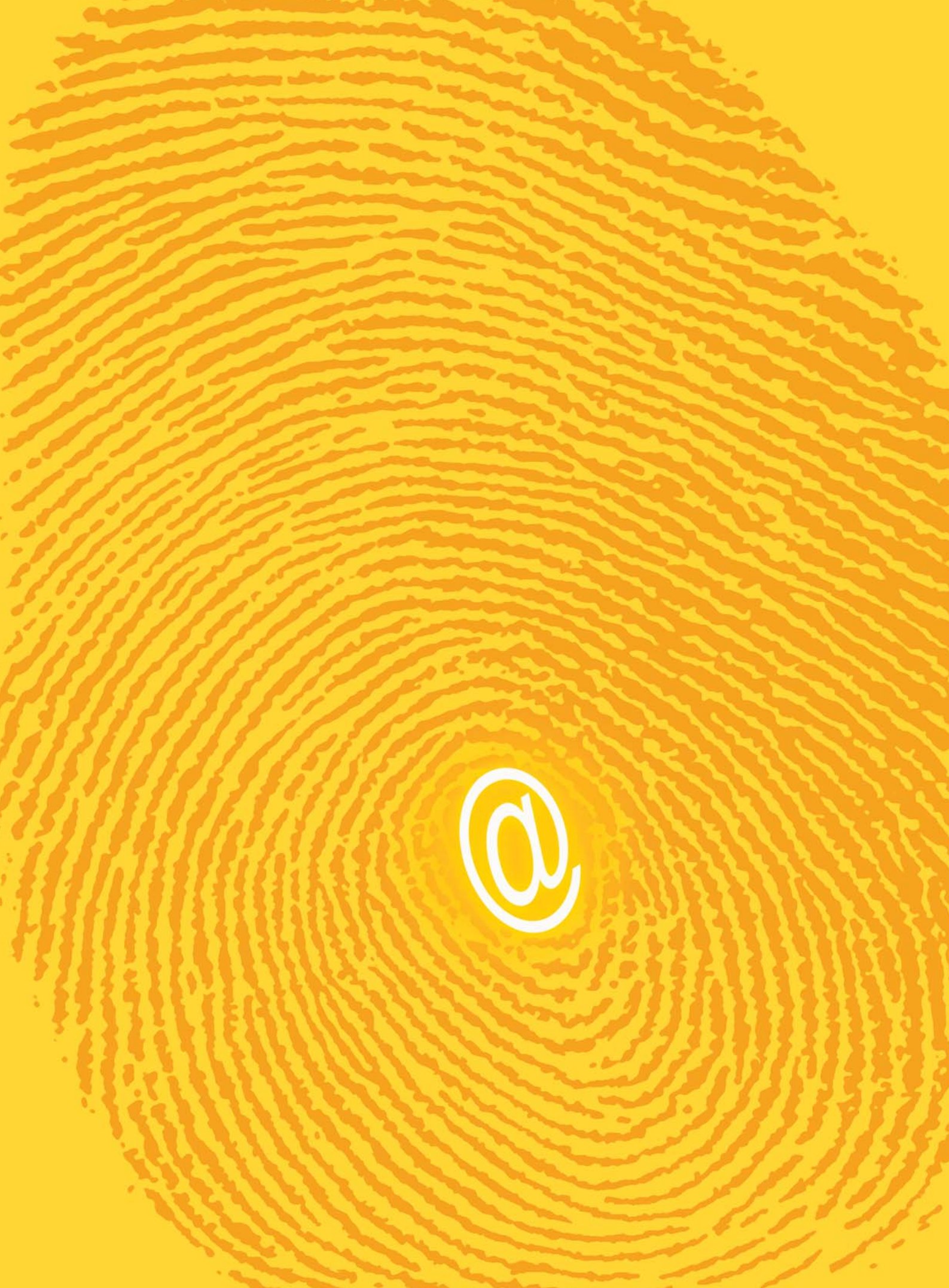
新浪企业服务 sina.net　新浪电子商务 sina e-commerce

SINA.com has seen double-digit growth in online advertising revenue derived from its comprehensive and popular content delivered through an attractive and diversified group of consumer channels.

Content is still **King!**

As the leading Internet brand name in China and among Chinese communities globally, SINA.com offers a full range of intelligent and timely Chinese-language content, multi-functional and easy-to-use web space, and cutting-edge ways to enable free and easy communications worldwide. By cooperating with some 600 content providers, SINA operates over 30 channels on its localized websites across China. SINA.com's timely and all-round coverage includes breaking news, sports and games, entertainment and fashion, and financial and IT information.

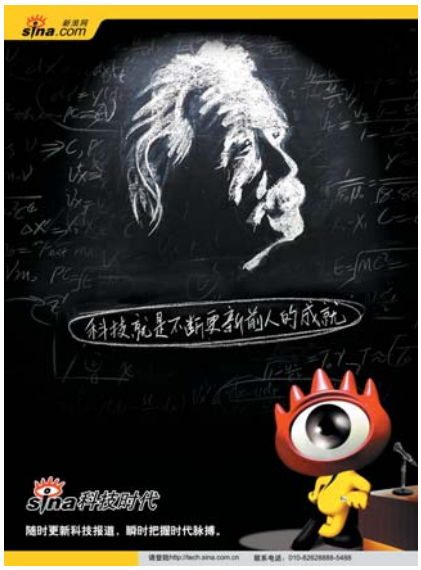
Bold Leadership



We employ a multi-pronged sales strategy that targets both short-term revenue opportunities, such as banner advertising campaigns, and longer-term, higher-value contracts, such as integrated marketing and communications packages. Our primary target client base for advertisers and sponsors consists of global corporations doing business in Greater China as well as domestic companies in each of the regions in which we operate, to which we sell from both our corporate and regional headquarters. A partial list of our advertising clients includes: 999 Group, China Mobile, China Telecom, Shanghai Volkswagen, Hewlett Packard, BenQ, Microsoft, Dell, IBM, Johnson and Johnson, Lenovo, L'Oreal, Motorola, Nokia, Nike, China Merchants Bank, Samsung and TCL.

Strong growth in the Internet user base, together with a **strong economy in China** last year, helped to turn the **Internet** into a mainstream **advertising medium**

SINA Golf is an essential information portal for all avid golfers



SINA Tech provides the hottest IT news and offers the latest in technology product information

SINA.com

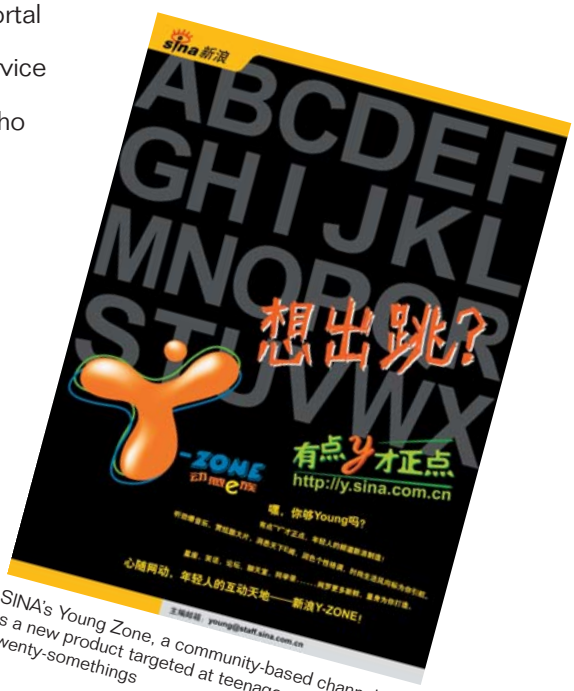
94.8m users

Our **impressive growth** in online **advertising** is driven by **strong demand** from advertisers in **diverse industries**

During this past quarter, our online advertising revenue, which included all brand advertising such as banner ads and pop-up ads, but excluded paid search listing, grew 75% year-on-year. This impressive growth is driven by strong demand from advertisers across diverse industries such as automotive, real estate, electronics, computers and branded consumer products. In 2003, a strong economy in China drove up advertising spending in all sectors and the strong growth in the Internet user base, which, according to China Internet Network Information Center (CNNIC), reached 79.5 million by December 2003, turned the Internet into a mainstream advertising medium. As the leading portal in China, we took a lion's share of the total online advertising spending in 2003.

We also rolled out Young Zone, a community-based channel targeted at teenagers to twenty-somethings, which will become a community portal aggregating information and services for young people. The new service will help us expand our audience base to include the young adults who represent over 50% of Chinese Netizens, according to the China Internet Network Information Center's January 2004 report.

By 2007, China will surpass the US to become the country with the largest number of Internet users



SINA's Young Zone, a community-based channel, is a new product targeted at teenagers to twenty-somethings


MTB
MTB

SINA Mobile, once part of SINA Online, is now an independent business unit, dedicated to the research and development, implementation and marketing of SINA's mobile content services.

Combining Content with **Access**

SINA Mobile is a leading player in a market with tremendous growth potential.

Last year, the Chinese mobile phone market saw continued strong growth. As of December 31, 2003, China had approximately 261.7 million mobile connections, making China the world's largest mobile phone market. This was up 27% from 206.6 million in the previous year. According to Gartner, by 2007 the number is expected to grow 59% and reach 415.2 million mobile connections. SINA's mobile value-added service business has a well-developed offline sales network and a broad portfolio of product offerings to capitalize on such growth.

Dynamic **Growth**

During the 12 months of 2003, there was growth across the board in the most active categories, including dating, mobile games, news, pictures and downloads. In December 2003, we had 10.5 million monthly subscriptions for our mobile value-added services, compared with nine million at the end of the third quarter – yielding quarterly growth of 17%.

On the new product launch front, we rolled out a brand new voice service called IVR (Interactive Voice Response) that enables users to call in to hear pre-recorded messages or to enter a voice chat room on a per-minute usage charge basis.

New products in the **SINA Mobile** pipeline will be compatible with the **next generation** of **smart phones**

SINA Multimedia provides downloads for ring tones, logos, pictures and screensavers

SINA Mobile Dating is one of the most popular friend-finding services amongst young adults in China

SINAmobile

IVR WAP

We received permits from China Mobile to offer this service in the fourth quarter of 2003 and will be continuously adding new features to make it one of our important service offerings in 2004.

Other products in the portfolio include Multimedia Messaging Services (MMS), Coloring Ring Back Tone (CRBT), Wireless Application Protocol (WAP) and the KJAVA/BREW platform. These are all designed to be compatible with the next generation of smart phones.

SINA is poised to take full advantage of the **exponential growth** in China's **mobile communications** market

In 2003, China had 261.7 million mobile connections

SMS, MMS, WAP and IVR have grown dramatically as a result of the rapid adoption of mobile phones

China now has the greatest number of mobile phone users in the world

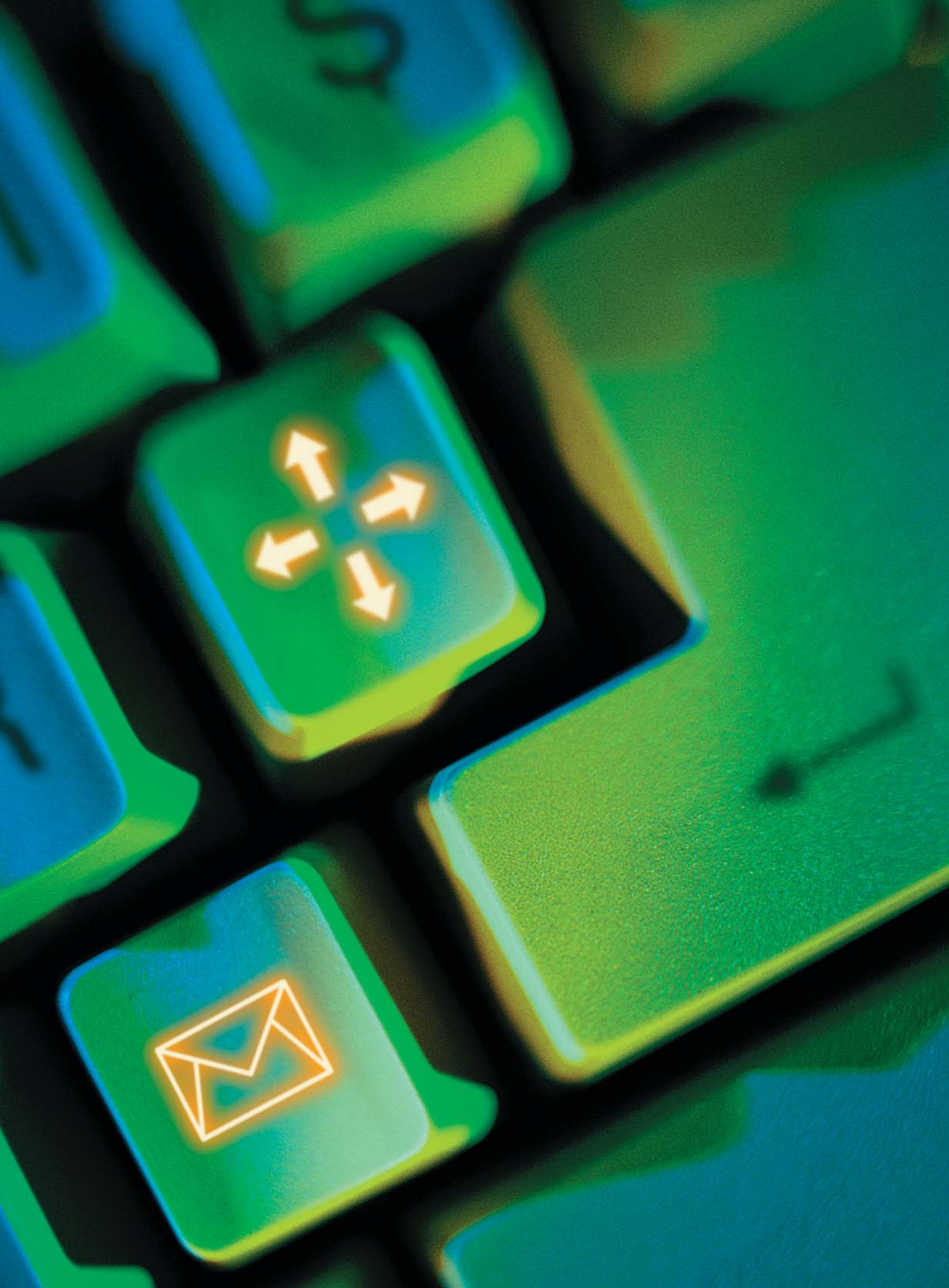
SINA Online provides fee-based premium services to a growing community of online users eager to communicate and interact one-on-one or in small groups.

Building New **Communities**

SINA Online offers a variety of community-building services designed to encourage users to become active and loyal registered members, or SINA Netizens. Our integrated SinaMail, Sina Instant Messenger, SinaChat, SinaForum and SinaDating products and services enable SINA Netizens to communicate with each other or with groups of other Netizens in the SINA community. SINA Online also includes our online game product offerings.

SinaMail remains one of the largest free email services in China. To complement this service, we launched SINA668, a free instant messaging service powered by our proprietary technology and featuring over one hundred display pictures and many other innovative tools.

Strategic Moves



Premium Email, our paid email service launched in August 2000, had accumulated over 1.3 million users as of December 2003. It provides value-added features such as anti-virus software, junk mail filter and unlimited attachment size for a small monthly fee.

SINA668, a free instant messaging service, features over one hundred display pictures and many other innovative tools

For members seeking friends and personal relationships, our SinaDating service provides them with a community within a community. Special features include the Drift Bottles, Feature Match, Astrological Match Making, Love Express, Community Court and Member Album.

SINA Online also harbors our traditional SinaChat and SinaForum services. Members with similar interests can meet online and share their thoughts and opinions on a variety of topics. We have also integrated the SinaForum with our news service. Users can comment on the particular news they are reading with one click on the link to the related forum topic in SinaForum.

SINA's paid email service has accumulated over 1.3 million registered users as of December 2003

Both **SINA688** and the **online dating service** have shown **positive** preliminary **results**

SINAonline

lineage II

The Play's the Thing

The SINA Games channel has become one of the most popular game platforms in China and has provided us with an entry into the growing online games market. Through our strategic alliances with local online game publishers, we are working to become a leading partner for online game operators. Our alliances typically include arrangements for SINA to design contents, host servers and develop websites providing services such as software downloads, player reviews and forums.

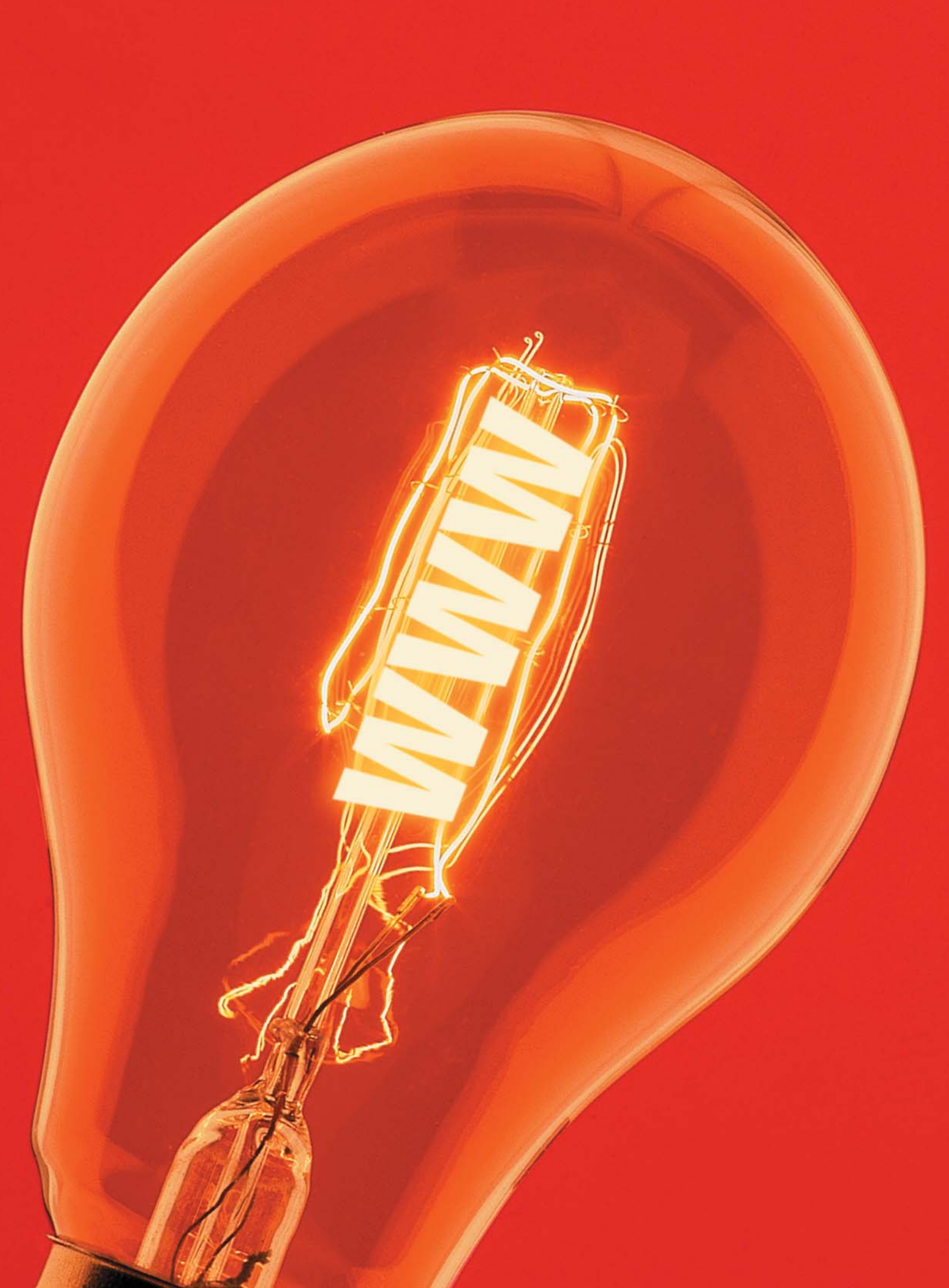
In January 2003, we formed a joint venture with NCsoft, the leading online game provider in Korea, to launch *Lineage* in China. In 2004, we plan to launch *Lineage II*, which is already one of the most successful MMORPG games in Korea and Taiwan. The launch of *Lineage II* is highly anticipated, as the interface of the game will be the first of its kind in China.

In February 2004, we entered into a licensing agreement with Plenus Inc. to introduce the NetMarble game portal service together with a portfolio of casual games, to our registered user base. NetMarble is one of the most successful game portals in Korea.

SINA joined hands with NCsoft to launch the *Lineage* game series in 2003

Through **strategic alliances** with local online game publishers, **SINA Games** will become a **leading partner** for online game operators


The highly anticipated game *Lineage II* is scheduled for launch in the latter part of 2004



SINA.net serves a growing number of SMEs and governmental agencies with e-business and e-marketing solutions tailored to meet their needs.

e-solutions for Today's **e-business Community**

By leveraging SINA's leadership position in Internet media and technology, SINA.net serves as an enterprise solutions platform to assist small to medium-sized businesses and government agencies to more effectively engage, communicate and transact with their target audiences via the Internet.

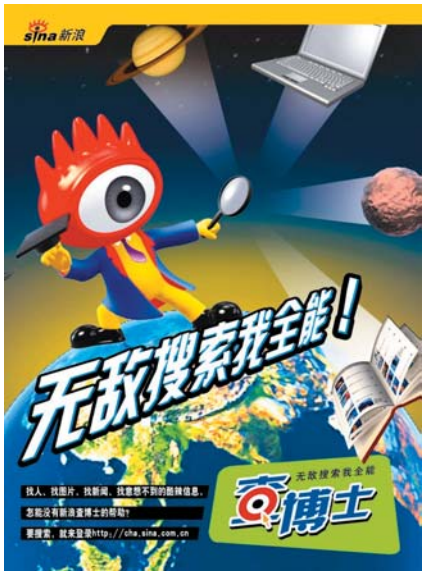
SINA.net provides businesses and government bodies with e-marketing and e-government solutions including search and listings services, corporate email, proprietary software products, web hosting and city portals.

Innovative **Ideas**

Our listing properties include a search engine, a directory and classified listings. Our search engine and directory provide an intuitive and user-friendly online guide to web navigation and a gateway to the vertical offerings on the SINA network. Users can either browse the directory listings by subject matter or use SINA Search, a rapid keyword search function that scans the content of the entire directory. In addition to any relevant listings from our directory, we provide users with web-wide search results from search engines provided by our

Enterprises and **government agencies** can more **effectively engage**, **communicate** and **transact** with their target audiences **via the Internet**

SINA provides search and listing services for government agencies and small to medium-sized businesses in China



SINA Search Doctor is gaining swift popularity with 100,000 categories under 18 directories

SINA.net

Rich Win

partners. For browser-driven inquiries, our directory results include Sponsored Sites, a SINA created fee-based program that allows commercial sites to receive enhanced placement in the directory. For keyword-search-driven inquiries, our search results also include SINA Sponsor matches, site listings with enhanced placement in search results that are bought by businesses or organizations.

We continue to utilize our in-house directory search technology in combination with outsource technologies such as Google. As the Internet market and e-commerce continues to mature in China, monetization of search will gradually increase. SINA is committed to increasing its investments in both the technology and marketing for search services.

SINA.net provides **businesses** and government bodies with **e-marketing** and e-government **solutions**

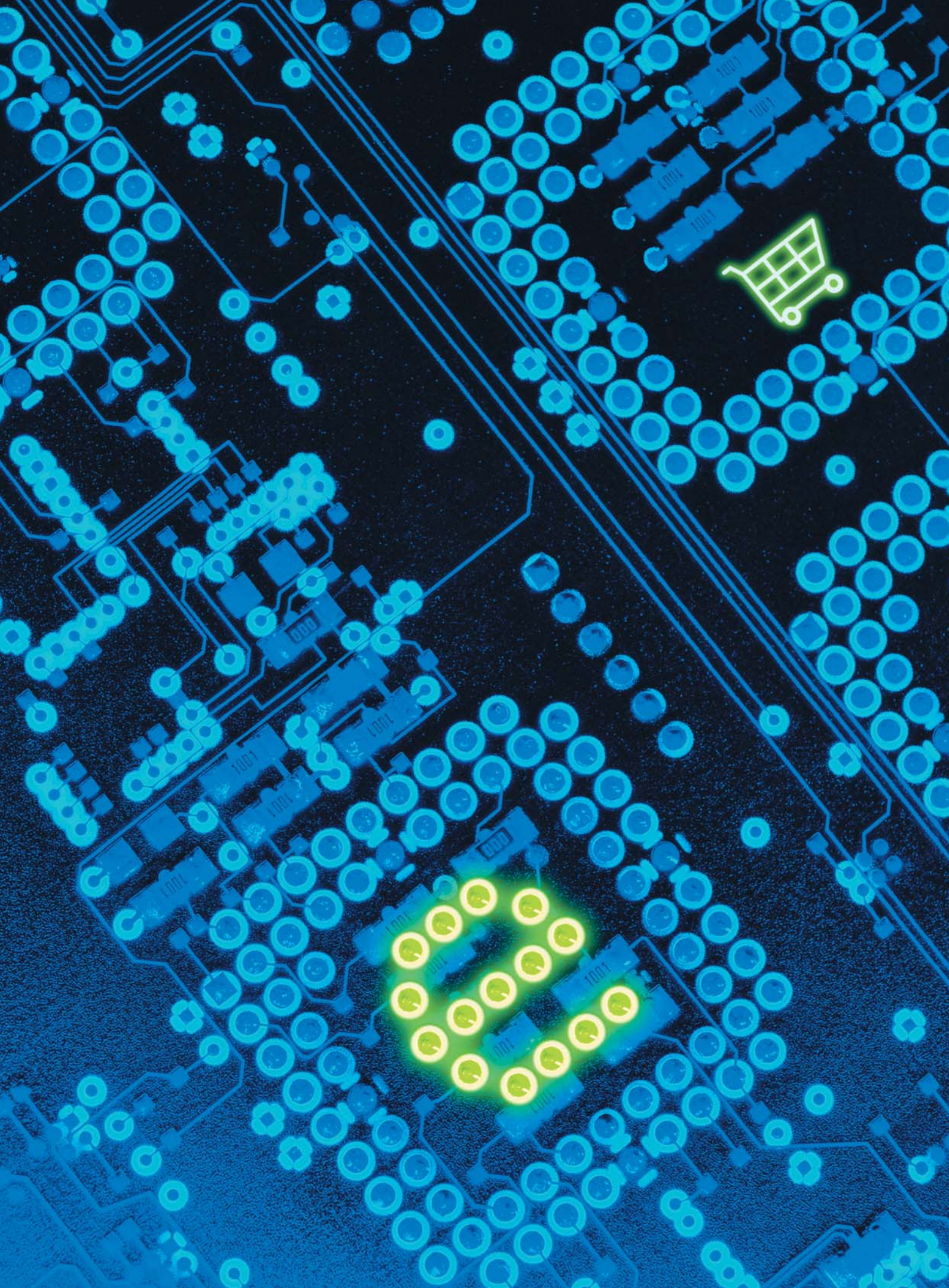
SINA's portfolio of solutions includes search and listings services, web hosting, corporate email and proprietary software products

SINA E-Commerce will capitalize on the interactive capabilities of today's secure broadband Internet.

New Business Opportunity

2003 was a watershed year for e-commerce in China. The onset of SARS in early 2003 caused many people to try online shopping in order to avoid crowded public areas. Leading the way for e-commerce growth in China will be virtual products such as hotel and airline bookings and digital entertainment such as game and music downloads that bypass the issue of logistics.

Responsive Marketing



Our e-commerce services are divided into two areas: SinaMall, our online shopping website which links quality vendors with our large user base, and travel and hotel booking services.

We currently offer SinaMall on our websites in China and North America. Our technology platform enables both multinational and local merchants to transact business online. We work with merchants to design customized marketing campaigns that involve both advertising and sales of their products over our network.

In December 2003, we entered into a definitive agreement with a China company providing online and offline hotel booking services under the brand name Fortune Trip.

Total **e-commerce revenues** in China **doubled** from 2002 to 2003, and are **expected** to **double again** in 2004

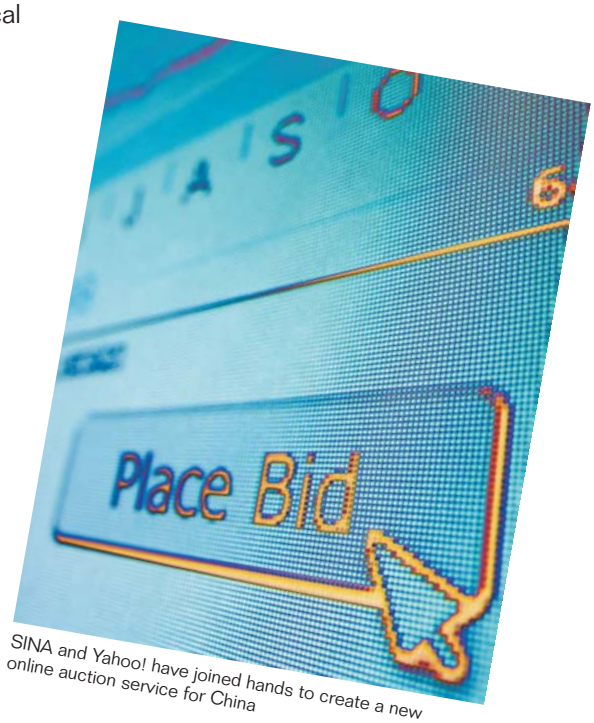
Virtual products and services will overcome the issue of logistics

SINAe-commerce

Sina Mall

Fortune Trip has over 1,000 hotels in its nationwide network. As China's economy grows, the volume of business and leisure travel is steadily increasing. We believe that Fortune Trip's market position and focus on customer service, combined with SINA's leading online brand name and large user base, will allow us to capture a meaningful portion of the hotel booking services market.

In January 2004, we signed a joint venture agreement with Yahoo! to provide online auctions in China. Combining Yahoo!'s technical know-how and SINA's global brand, we believe this venture represents a win-win situation for both partners to capitalize on the potential of China's e-commerce market.



SINA and Yahoo! have joined hands to create a new online auction service for China

Fortune Trip has national coverage with over 1,000 hotels in its hotel network

SINA and **Yahoo!** have formed a **win-win partnership** to capitalize on the **potential** of **China's e-commerce** market

Selected Financial **Data**

The selected consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis", the consolidated financial statements and notes thereto and the other information contained in this report. In November 2002, we changed our fiscal year-end from June 30 to December 31. The consolidated statement of operations presents the twelve-month

(In thousands, except per share amounts)	Years Ended December 31	
	2003	2002 (unaudited)
Consolidated Statement of Operations Data:		
Net revenues:		
Advertising	$ 41,173	$ 24,703
Non-advertising	73,112	14,191
	114,285	38,894
Cost of revenues:		
Advertising	14,001	11,267
Non-advertising	20,405	4,140
Stock-based compensation	31	102
	34,437	15,509
Gross profit	79,848	23,385
Operating expenses:		
Sales and marketing	21,741	12,419
Product development	6,340	5,916
General and administrative	11,551	8,896
Stock-based compensation	523	1,692
Amortization of intangible assets	1,749	1,777
Write-off of intangible assets	903	–
	42,807	30,700
Income (loss) from operations	37,041	(7,315)
Interest income	2,757	2,819
Other expenses	(162)	–
Amortization of convertible debt issuance cost	(341)	–
Impairment of investments in Sun Media Group	(6,063)	–
Loss on equity investment	(914)	(453)
Income (loss) before income taxes	32,318	(4,949)
Provision for income taxes	(895)	–
Income (loss) before minority interest	31,423	–
Minority interest	–	–
Net income (loss)	31,423	(4,949)
Accretion on Mandatorily Redeemable Convertible Preference Shares	–	–
Net income (loss) attributable to ordinary shareholders	$ 31,423	$ (4,949)
Basic net income (loss) per share	$ 0.66	$ (0.11)
Shares used in computing basic net income (loss) per share	47,840	45,629
Diluted net income (loss) per share	$ 0.58	$ (0.11)
Shares used in computing diluted net income (loss) per share	54,794	45,629

(In thousands)	As of December 31	
	2003	2002
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 158,148	$ 53,262
Working capital	219,866	91,814
Total assets	289,897	130,479
Convertible debts	100,000	–
Mandatorily redeemable convertible preference shares and warrants	–	–
Total shareholders' equity	159,507	117,387

results for the year ended December 31, 2003 and the six-month results for the six months ended December 31, 2002, as well as the twelve-month results for the years ended June 30, 2002, 2001, 2000 and 1999. The unaudited consolidated statement of operations of the twelve-month results for the year ended December 31, 2002 is also presented.

Six Months Ended December 31	Years Ended June 30			
2002	2002	2001	2000	1999
$ 13,869	$ 21,105	$ 23,393	$ 11,013	$ 561
9,347	7,403	3,290	3,157	2,266
23,216	28,508	26,683	14,170	2,827
5,824	11,537	13,771	8,950	1,156
2,676	1,938	1,169	1,965	1,317
42	133	414	605	32
8,542	13,608	15,354	11,520	2,505
14,674	14,900	11,329	2,650	322
6,457	12,468	21,694	17,476	1,405
2,755	6,666	9,648	7,358	1,512
4,480	8,237	8,918	6,951	2,085
699	2,208	7,097	18,460	3,360
90	5,063	6,765	6,807	1,745
–	–	–	–	–
14,481	34,642	54,122	57,052	10,107
193	(19,742)	(42,793)	(54,402)	(9,785)
1,034	4,212	7,336	3,801	442
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
(311)	(562)	(894)	(501)	–
916	(16,092)	(36,251)	(51,102)	(9,343)
–	–	–	–	–
916	–	–	(51,102)	(9,343)
–	–	–	119	47
916	(16,092)	(36,351)	(50,983)	(9,296)
–	–	–	(84)	(98)
$ 916	$ (16,092)	$ (36,351)	$ (51,067)	$ (9,394)
$ 0.02	$ (0.36)	$ (0.91)	$ (3.44)	$ (1.72)
45,725	44,315	40,110	14,836	5,466
$ 0.02	$ (0.36)	$ (0.91)	$ (3.44)	$ (1.72)
48,030	44,315	40,110	14,836	5,466

As of June 30			
2002	2001	2000	1999
$ 31,095	$ 52,505	$ 99,149	$ 20,571
89,914	102,246	125,867	24,057
121,355	133,122	156,038	47,582
–	–	–	–
–	–	–	37,415
111,690	119,967	146,817	7,703

Management's Discussion and Analysis

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 such words as "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 in this document under the caption "Business-Risk Factors" set forth herein. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

OVERVIEW

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

The focus of our business is our operation in China where we derived approximately 95% of our net revenues for the year ended December 2003. Our net revenues from China have increased to $108.5 million for the year ended December 2003 as compared to the same period in 2002.

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 China 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 36% and 56%, respectively, of our net revenues for the year ended December 31, 2003. We expect they will continue to be the major sources of our revenues in the future periods. With the recent development in our travel and hotel booking services, we expect to have a new stream of revenues. However, such revenues are not expected to constitute a significant portion of our future revenue in the near future in view of the relatively undeveloped and competitive hotel booking market in China.

Our revenues

We derive our revenues from advertising and non-advertising sources.

Advertising revenues

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 websites, in particular formats and over particular periods of time. Sponsorship arrangements allow advertisers to sponsor a particular area on our websites in exchange for a fixed payment over the contract period. We sell online advertisements through our advertising agencies or through our direct sales force. For the years ended December 31, 2003 and 2002, advertising revenues accounted for 36% and 64% of our total net revenues, respectively.

Non-advertising revenues

Non-advertising revenues are derived primarily from mobile value-added services, fee based services, e-commerce, enterprise services and sale of software products. For the years ended December 31, 2003 and 2002, non-advertising revenues accounted for 64% and 36% of our total net revenues, respectively.

Mobile value-added services. Mobile value-added service 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. Such services are charged on a monthly subscription or on a per message basis.

We began offering our mobile value-added services in China in late 2001. We expanded our market share in China by acquiring MeMeStar Limited in January 2003. With the growth of the market in China and the acquisition, our revenues from mobile value-added services grew from $9.1 million for the year ended December 31, 2002 to $64.4 million for the year ended December 31, 2003. For the year ended December 31, 2003 and 2002, revenues from mobile value-added services accounted for 56% and 23% of our total revenue, respectively.

We have established cooperation arrangements with third party mobile operators China Mobile Communication Corporation ("China Mobile") and China Unicom Co., Ltd. ("China Unicom") and their subsidiaries. As of January 31, 2004, we had entered into cooperation and revenue sharing contracts with 29 provincial subsidiaries of China Mobile and 11 provincial subsidiaries of China Unicom for various mobile value-added services. The term of these contracts is generally for one year with a few exceptions in which the term is for six months or for two years. The contract is typically renewed on an annual basis.

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 year ended December 31, 2003, on average we received 78% 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 year ended December 31, 2003, on average we received 73% of the amount we charged to our users from the China Unicom platform after China Unicom deducted the fees for collection and transmission.

Our product offerings for the mobile value-added service include SMS, MMS, WAP and IVR. SMS is our primary mobile value-added service, accounting for a majority of our mobile value-added service revenues for 2003 and 2002. We launched our WAP services in December 2002, MMS in April 2003 and IVR services in December 2003. We expect that revenues from these new products will account for a higher percentage of our mobile related revenues for 2004.

Fee-based service revenues. Fee-based service revenues mainly include services fees received from offering information subscriptions on our websites, online games, virtual ISP and paid email services.

E-commerce revenues. E-commerce revenues include transaction and slotting fees paid by merchants for selective positioning and promoting their goods or services within our online mall, SinaMall. Our transaction-based e-commerce revenues have been minimal.

Enterprise service revenues. Enterprise service revenues mainly include paid search and directory listings, corporate emails, classified listings, e-learning and enterprise e-solutions. The majority of enterprise service revenues are generated from paid search and directory listing and for the fourth quarter ended December 31, 2003, revenues from paid search and directory listing amounted to $1.4 million and represented 5.6% of our total non-advertising revenues for the quarter.

Software revenues. We sell certain software products developed by us to distributors, resellers or original equipment manufacturers. We are in the process of phasing out this business. For the year ended December 31, 2003, our revenues from software sales amounted to $0.1 million.

Acquisitions and investments

In March 1999, we acquired Sinanet.com, a leading Chinese-language Internet content company with offices in California and Taiwan and two distinct websites targeting Chinese users in North America and Taiwan. The fair value of the total consideration paid in the acquisition, including assumed liabilities of approximately $4.3 million and acquisition costs of $0.1 million, was $21.7 million. The $4.3 million in liabilities that we assumed included $3.5 million of notes payable which were subsequently converted into our preference shares. We accounted for the acquisition as a purchase. We recorded goodwill and other intangible assets of approximately $20.3 million as a result of this transaction, which were amortized over a three-year period. This amount was fully amortized by March 31, 2002.

In September 2001, we completed the acquisition of an approximately 27.6% equity interest in Sun Media Group ("Sun Media"), a Hong Kong Stock Exchange listed company, from Ms. Lan Yang, the chairperson and a major shareholder of Sun Media for a consideration of $7.9 million in cash and approximately 4.6 million of our newly issued ordinary shares and transaction costs of $0.7 million for a total purchase price

of $13.7 million. We originally accounted for our investment in Sun Media using the equity method of accounting. We ceased to maintain significant influence over Sun Media's operations after our equity interest fell below 20% and our board representation was decreased in the quarter ended December 31, 2002. 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 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). Such investment is classified as available for sale and reported at fair market value with unrealized gains (losses), if any, recorded as 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 therefore recognized $6.1 million as impairment of investment during the three months ended December 31, 2003.

In November 2002, we completed the acquisition of 100% equity interest in Shanghai Techur Technology Developing Co., Ltd. ("Techur") for $1.9 million in cash. The excess of the purchase price over the fair value of net tangible assets was approximately $1.1 million, representing intangible assets relating to customer relationships, which was amortized over a period of three years. Because the revenue and the gross margin of Techur did not grow as expected, we reassessed the carrying value of the intangible assets at June 30, 2003 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.

In January 2003, we formed a joint venture named Shanghai NC-SINA Information Technology Co. Ltd. ("Shanghai NC-SINA") in China with NCsoft, a Korean online game company. We invested $2.6 million in cash for 51% of the equity interest in the joint venture. We accounted for the investment in the joint venture using the equity method of accounting as NCsoft has certain participating rights as defined in EITF 96-16. Shanghai NC-SINA is responsible for operating online games developed by NCsoft in China. During the year ended December 31, 2003, we recorded $1.0 million of equity loss from this investment. As of December 31, 2003, the carrying value of this investment was $1.6 million.

In January 2003, we completed the acquisition of MeMeStar Limited, a British Virgin Islands limited liability corporation, through a purchase of all of the outstanding shares of MeMeStar. As a result of such acquisition, MeMeStar became a wholly-owned subsidiary of SINA. MeMeStar, through its various subsidiaries and exclusive contractual arrangements with two local entities in the PRC, is engaged in the business of providing mobile value-added services in the PRC. The primary purposes of the acquisition were to enhance our mobile value-added services as well as increase our market share in the PRC mobile value-added services market. The aggregate purchase price of $24,255,113 is comprised of five elements: (a) $10,277,675 in cash paid at the closing of the acquisition; (b) 560,369 newly issued SINA ordinary shares, valued at $4,281,219 at the time of closing, delivered at the closing of the acquisition; (c) $5,250,000 in cash to be paid in four equal installments after the closing date of the acquisition. The last payment would be forfeited if the non-compete clauses of certain members of MeMeStar's management are violated; (d) 560,369 newly issued SINA ordinary shares, valued at $4,281,219 at the time of closing, to be delivered on the first anniversary of the closing date of the acquisition, 383,733 of which were issued in August 2003, prior to the first anniversary of the closing, as a result of an amendment to the share purchase agreement, and (e) approximately $165,000 in legal and professional fees related to the acquisition. As a result of the acquisition, we recorded intangible assets relating to customer lists and non-competition clauses in the amount of $2.2 million, which were amortized over periods ranging from fourteen to eighteen months. The amortization expense for the year ended December 31, 2003 amounted to $1.7 million. In addition, we recorded goodwill in the amount of $18.1 million representing the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. We performed an impairment test relating to goodwill arising from the MeMeStar acquisition and concluded there was no impairment as to the carrying value of the goodwill as of December 31, 2003. The purchase price allocation for the MeMeStar acquisition is based on an appraisal performed by an independent appraisal firm in the United States. Immediately after the signing of the definitive agreement, we obtained effective control over MeMeStar; accordingly, the operating results of MeMeStar have been consolidated with our operating results starting January 6, 2003.

In December 2003, we entered the China online travel market by entering into a definitive agreement with a China online travel company which provides both online and offline hotel booking services under the brand Fortune Trip. Users can access the site with a direct link from SINA's home page or by simply typing the URL of http://www.fortunetrip.com.

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

In February 2004, we entered into a definitive agreement to acquire all outstanding shares of Crillion Corporation ("Crillion"), a BVI company engaged in mobile value-added services through its subsidiary and a variable interest entity in China. The initial purchase price consists of $9.9 million in cash and approximately 196,000 of our ordinary shares valued at $40.90 per share. Additional payments will be made on an earn-out basis at approximately 1.5 to 2 times of Crillion's 2004 and 2005 earnings if its pretax income for 2004 and 2005 exceeds $6.7 million and $13.3 million, respectively. The total consideration is subject to a cap of $125 million and will be paid 60% in cash and 40% in our ordinary shares valued at $40.90 per share. The acquisition will be subject to customary closing conditions.

Financing

We had incurred net losses through September 30, 2002. We had accumulated a deficit of approximately $83.1 million as of December 31, 2003. We have funded our operations and capital expenditures primarily using the net proceeds raised through the sale of preference shares and the sale of our ordinary shares in the initial public offering. At times when we have been profitable, we have also financed our operations using our net income from operation. We also issued zero coupon convertible subordinated notes in July 2003. We will continue our investment in the development and enhancement of our products, contents and services, as well as investment in sales and marketing. If we are unable to generate sufficient net income from our operation in the future, we may have to finance our operation from the current fund available.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer programs and incentives, bad debts, investments, intangible assets, income taxes, financing operations, restructuring, pensions and other post-retirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect 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 websites, 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. In some of our advertising contracts, we guarantee a minimum number of impressions or pages to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized on the basis of the number of impressions delivered or ratably over the period in which the advertising is displayed, whichever amount is lower, when the collectibility is reasonably assured. To the extent that minimum guaranteed impression deliveries are not met, we defer recognition of the corresponding revenues until the guaranteed impressions deliveries are achieved. For the year ended December 31, 2003, advertising revenues from contracts that require guaranteed minimum impressions were minimal. Sponsorship arrangements allow advertisers to sponsor a particular area on our websites 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 websites are recognized ratably over the term of such programs.

Revenues from barter transactions are recognized during the period in which the advertisements are displayed in our properties. Barter transactions are recorded at the lower of the fair value of the goods or services received or the fair value of the advertisement given, provided the fair value of the transaction is reliably measurable. Revenues from barter transactions were minimal for all periods presented.

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

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 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. 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. We believe that based on our arrangement with the third party mobile operators as stipulated in our agreements with them, the gross approach is appropriate as we are the primary obligor to the user with the respect to the mobile value-added services.

Our estimation of revenue is based on our internal records of billings and transmissions for the month, adjusted by prior periods' confirmation rates with the third party mobile operators, and further adjusted by prior periods' discrepancies between our estimated revenue and actual revenue confirmed by the third party mobile operators. Historically, there were no significant true up adjustments to our estimates. To the extent that such revenues cannot be accurately estimated, we rely on the billing statements from the third party mobile operators to record revenues. Due to the time lag of receiving the billing statements from the third party mobile operators, for revenues recorded based on the billing statements from the third party mobile operators, we have adopted a one month lag reporting policy. Such policy has been applied on a consistent basis. For the year ended December 31, 2003 and 2002, we recorded $64.4 million and $9.1 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 $68.3 million and $9.7 million, respectively. There was no significant mobile value-added services revenue before the year ended December 31, 2002.

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 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 websites 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 website 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.

Revenues from the sale of software products are recognized primarily on the delivery of software products to end users, resellers, distributors, retail merchants and original equipment manufacturers ("OEM"). We deliver our software products in packaged form or under software licenses. Revenues from sales of software products in the packaged form are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. Software license agreements are non-refundable and allow the OEM partners to reproduce our software products for a specified period of time for a fixed fee or a specified number of copies for a predetermined unit price. Revenues from software license agreements are recognized upon delivery of a master copy when the fixed-fee agreements become effective or based upon activity reports provided by the OEM partners under the per-copy arrangements. Provision is made for expected sales returns and allowances when revenue is recognized. Payments received in advance of revenue recognition are recorded as deferred revenue. We recognize revenues in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9. These Statements generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. Our software product agreements do not involve multiple elements.

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.

Consolidation of Variable Interest Entities

We have 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.

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

Under various contractual agreements, employee shareholders of the VIEs are required to transfer their ownership in these entities to our subsidiaries in China when permitted by PRC laws and regulations or to our designees at any time for the amount of loans outstanding; all voting rights of the VIEs are assigned to us and we have the right to appoint all directors and senior management personnel of the VIEs. We have also entered into exclusive technical service agreements with the VIEs under which we provide technical and other services to the VIEs in exchange for substantially all net income of the VIEs. In addition, employee shareholders of the VIEs have pledged their shares in the VIEs as collateral for the non-payment of loans or for the fees for technical and other services due to us. As of December 31, 2003, the amount of interest-free loans to the employee shareholders of VIEs amounted to $4.1 million.

The following is a summary of our VIEs:

- Beijing SINA Internet Information Service Co., Ltd. ("the ICP Company"), a China company controlled through business agreement. The ICP Company is responsible for operating www.sina.com.cn in connection with its Internet content company license and selling the related advertising space to the Ad Company or to advertisers directly. It is also responsible for providing mobile value-added services in China via third party mobile operators to the users. It is 3% owned by Yan Wang, our Chief Executive Officer and director, and 97% owned by six other of our non-executive PRC employees. The registered capital of the ICP Company is $1.2 million.

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

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

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

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

We began to consolidate the Ad Company in April 2000 and the ICP Company in October 2001 (see Item 8, Note 7-Related party transactions). The GDICP Company was established in 2002 but had not had activities until 2003 and the operation results for the GDICP Company were consolidated for the entire year ended December 31, 2003. Xunlong and StarVI were acquired in the MeMeStar acquisition (see Item 8, Note 2-Acquisition of MeMeStar) in January 2003 and the operation results for these two companies were consolidated in our consolidated statement of operations for the entire year ended December 31, 2003.

As of December 31, 2003, the aggregate accumulated losses of these VIEs were approximately $4.9 million and have been included in the consolidated financial statements. Further, as of December 31, 2003, we did not have any assets that served as collateral for the obligations of any of our VIEs. The creditors of our VIEs have no recourse to our general credit.

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 $6.1 million for the investment in Sun Media Group during the quarter ended December 31, 2003 based on our assessment of (i) Sun Media financial position and operating prospects and (ii) 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 or acquisition purposes and accordingly, classify them as short-term investments. The aggregate fair value of marketable debt securities was $69.0 million as of December 31, 2003 and was $43.4 million as of December 31, 2002. During the year ended December 31, 2003, we recorded $1.7 million of unrealized losses on our marketable debt securities as a component of comprehensive income. During the six months ended December 31, 2002, we recorded $0.2 million of unrealized gains 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 year ended December 31, 2003, we recorded an impairment charge in the amount of $0.9 million to write off the remaining value of the intangible assets relating to the acquisition of Techur. At December 31, 2003, we had net intangible assets of $0.6 million and goodwill of $18.1 million, both of which relate to the MeMeStar acquisition. We performed an impairment test based on future discounted cash flow of related business segments and concluded that there was no impairment as to the carrying value of these assets at December 31, 2003.

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.

Stock based compensation

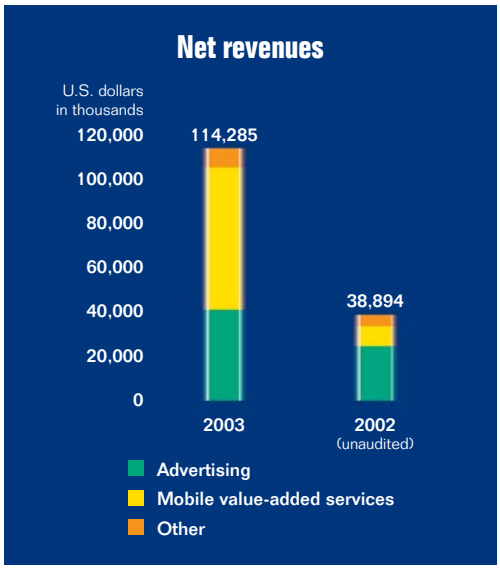
Deferred stock compensation represents the difference between the exercise price of options granted and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was $0.6 million and $1.8 million for the years ended December 31, 2003 and 2002, respectively. As of December 31, 2003, deferred stock compensation had been fully amortized.

Deferred tax assets

We record a valuation allowance for deferred tax assets, if any, based on our estimates of our future taxable income as well as our tax planning strategies and it is more likely than not that a portion or all of our deferred tax assets will not be realized. If we are able to utilize more of our deferred tax assets than the net amount previously recorded when unanticipated events occur, an adjustment to deferred tax assets would increase our net income when those events occur.

RESULTS OF OPERATIONS

Years ended December 31, 2003 and 2002



Net revenues

Our net revenues were $114.3 million for the year ended December 31, 2003, representing growth of 194% as compared to the same period in 2002. Our advertising revenues for the year ended December 31, 2003 grew by 67% as compared to the same period in 2002 and accounted for 36% of our net revenues for the year ended December 31, 2003. Our non-advertising revenues for the year ended December 31, 2003 grew by 415% as compared to the same period in 2002 and accounted for 64% of our net revenues for the year ended December 31, 2003. For the year ended December 31, 2002, advertising and non-advertising revenues accounted for 64% and 36%, respectively, of our net revenues. The significant 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 China mobile value-added services market and our acquisition of MeMeStar in January 2003.

Advertising. Our advertising revenues were $41.2 million for the year ended December 31, 2003, representing growth of 67% as compared to the same period in 2002. The increase in our advertising revenues was primarily due to the growth in the number of advertisers as well as per advertiser spending in the China market as more advertisers began to accept the Internet as a medium for advertisement. For the year ended December 31, 2003, advertising revenues from China accounted for 90% of our total advertising revenues, compared to 79% of our total advertising revenues for the same period in 2002. The number of advertising customers in China was

approximately 582 for the year ended December 31, 2003 as compared to 503 for the same period in 2002. Average revenues per advertising customer in China were $63,000 for the year ended December 31, 2003 as compared to $39,000 for the same period in 2002.

Non-advertising. Our non-advertising revenues were $73.1 million for the year ended December 31, 2003, representing growth of 415% as compared to the same period in 2002. The increases in non-advertising revenues were primarily driven by the growth in revenues from mobile value-added services in China.

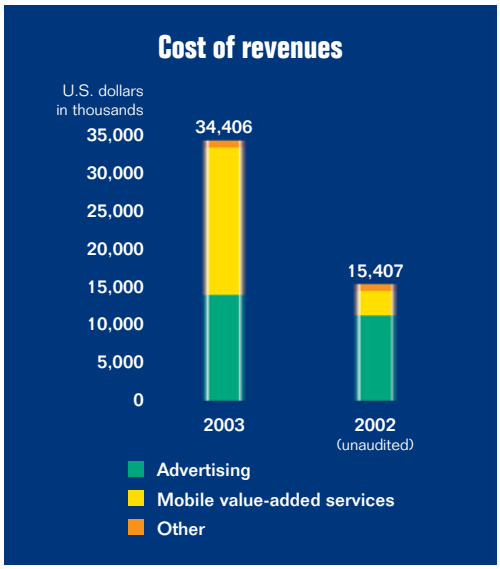
Our mobile value-added services revenues for the year ended December 31, 2003 were $64.4 million, representing growth of 609% as compared to the same period in 2002. This was partially due to the growth in the China mobile value-added services market and partially due to revenues obtained as a result of the MeMeStar acquisition. Total mobile value-added service revenues generated by MeMeStar for the year ended December 31, 2003 were approximately $30.6 million. For the year ended December 31, 2003, mobile value-added services revenue accounted for 88% of our total non-advertising revenues, compared to 64% of our total non-advertising revenues for the same period in 2002.

Our other non-advertising revenues include fee-based services such as virtual ISP, online games and paid email services as well as e-commerce, paid search and directory listings and other enterprise services. For the year ended December 31, 2003, the increase in our other non-advertising revenues was primarily due to the increase in our paid search services and directory listings. For the year ended December 31, 2003, revenues from paid search and directory listings amounted to $3.7 million, as compared to $0.5 million for the same period in 2002. For the year ended December 31, 2003, such other non-advertising revenues accounted for 12% of our total non-advertising revenues, compared to 36% of our total non-advertising revenues for the year ended December 31, 2002.

Cost of revenues

Our cost of revenues was $34.4 million for the year ended December 31, 2003, representing an increase of 123% as compared to the same period in 2002. The increase in cost of revenues primarily resulted from the increase in the cost of our mobile value-added services associated with higher revenue of such services.

Advertising. Our cost of advertising revenues was $14.0 million



and $11.3 million for the years ended December 31, 2003 and 2002, respectively. Our cost of advertising revenues consists mainly of costs associated with the production of our websites, which includes fees paid to third parties for Internet connection, content and services, personnel related costs and equipment depreciation expenses associated with our website production. Cost of advertising revenues also includes the business taxes relating to advertising sales in China. The year-to-year increase in cost of advertising from the year ended December 31, 2002 to the year ended December 31, 2003 was due to an increase in web production cost driven by an increase in web production personnel and content fees as well as an increase in business taxes associated with higher advertising revenues.

Non-advertising. Our cost of non-advertising revenues was $20.4 million and $4.1 million for the years ended December 31, 2003 and 2002, 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 and costs for providing our enterprise services. Cost of non-advertising revenues also includes the business taxes levied on non-advertising sales in China. The year-to-year increase in cost of non-advertising revenues from the year ended December 31, 2002 to the year ended December 31, 2003 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 China. For the year ended December 31, 2003, non-advertising costs included $17.9 million of fees retained by or

paid to mobile operators and third party content providers as compared to $3.0 million for the same period in 2002.

Gross profit margins

	Years ended December 31	
	2003	2002 (unaudited)
Gross profit margins:		
Advertising	**66%**	54%
Non-advertising		
Mobile value-added services	**70%**	64%
Other	**89%**	83%
Non-advertising	**72%**	71%
Overall	**70%**	60%

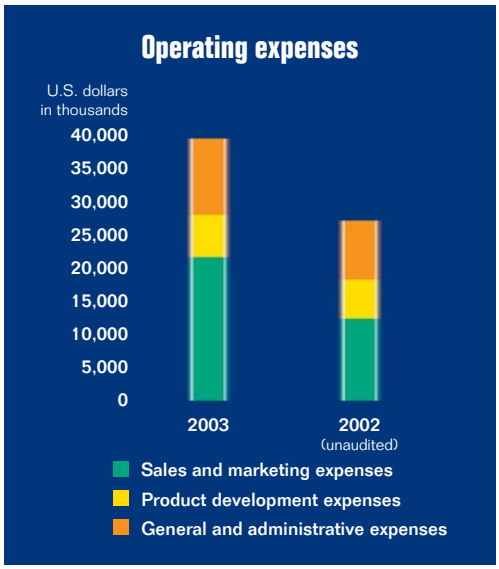
Our overall gross profit margin increased from 60% for the year ended December 31, 2002 to 70% for the year ended December 31, 2003. Both our advertising and non-advertising activities contributed to the improvement in gross profit margins.

Advertising. Our gross profit margins for advertising revenues increased from 54% for the year ended December 31, 2002 to 66% for the year ended December 31, 2003. The increase in gross profit margins was primarily due to the increase in advertising revenues without significant increase in the costs associated with our website production.

Non-advertising. Our gross profit margins for non-advertising revenues increased from 71% for the year ended December 31, 2002 to 72% for the year ended December 31, 2003 driven by an improvement in gross profit margin for mobile value-added service revenue. Our gross profit margins for mobile value-added services revenue increased from 64% for the year ended December 31, 2002 to 70% for the year ended December 31, 2003. The improvement was primarily due to the increase in revenues from monthly subscription services of our self-developed products, which have higher gross margins. To a lesser extent, the improvement was due to a decrease in business tax rate levied on mobile value-added service revenues from 5% to 3% in China.

Sales and marketing expenses

Our sales and marketing expenses were $21.7 million or 19% of total net revenues for the year ended December 31, 2003, compared to $12.4 million or 32% of total net revenues for



the same period in 2002. 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 was due to an increase in sales commission expenses for advertising sales and increased promotion expenditures for mobile value-added services. The year-to-year decrease in sales and marketing expenses as a percentage of total net revenues from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily due to the rapid growth of revenues. We believe that the 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 $6.3 million or 6% of total net revenues for the year ended December 31, 2003, compared to $5.9 million or 15% of total net revenues in the same period in 2002. Product development expenses consist primarily of personnel related expenses incurred for enhancement to and maintenance of our websites as well as costs related to the development of our mobile services related and web-based products. The year-to-year decrease in product development expenses as a percentage of total net revenues from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily due to an increase of labor productivity as well as the rapid growth of revenues. We expect that our product development expenses will continue to increase in absolute dollar amount in the near future.

General and administrative expenses

Our general and administrative expenses were $11.6 million

or 10% of total net revenues for the year ended December 31, 2003, compared to $8.9 million, or 23% of total net revenues for the same period in 2002. General and administrative expenses consist primarily of compensation for personnel, fees for professional services, and provisions for doubtful accounts. Our general and administrative expenses also include expenses relating to the transfer of the economic benefits generated from our VIEs in China to our subsidiaries. The year-to-year increase in the absolute dollar amount from the year ended December 31, 2002 to the year ended December 31, 2003 was mainly due to the severance benefit of $0.6 million recorded in the month of May 2003, an increase in professional service fees relating to our merger and acquisition activities, the acquisition of MeMeStar and an increase in expenses paid for transferring economic benefits generated from our VIEs in China to our subsidiaries.

Stock-based compensation expenses

Deferred stock compensation represents the difference between the exercise price of options granted and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was $0.6 million and $1.8 million for the years ended December 31, 2003 and 2002, respectively. As of December 31, 2003, deferred stock compensation had been fully amortized.

Amortization and write-off of intangible assets

Amortization of intangible assets of $1.8 million for the year ended December 31, 2003 related to our acquisition of MeMeStar and Techur. Amortization of intangible assets of $1.8 million for the year ended December 31, 2002 related to our acquisition of Sinanet.com and Techur.

As a result of the acquisition of MeMeStar in January 2003, we recorded intangible assets of approximately $2.2 million, which were being amortized over fourteen to eighteen months. The amortization expense was approximately $1.7 million for the year ended December 31, 2003.

As a result of the acquisition of Techur in November 2002, we recorded intangible assets of approximately $1.1 million, which were being amortized over a period of three years. The amortization expense was approximately $0.1 million and $0.1 million for the years ended December 31, 2003 and 2002, respectively. The amortization of the intangible assets ceased in the three months ended June 30, 2003 when the carrying value of the intangible assets of $0.9 million was written off due to the permanent impairment of value.

As a result of the acquisition of Sinanet.com in March 1999, we recorded goodwill and other intangible assets of approximately $20.3 million, which were amortized over three years. The amortization expense was $1.7 million for the year ended December 31, 2002. The goodwill and other intangible assets were fully amortized by March 31, 2002.

Interest income

Interest income was $2.8 million for both years ended December 31, 2003 and 2002. The interest income did not increase as a result of higher balance of cash and cash equivalent and short-term investments during the year. This was primarily due to lower applicable interest rates during the period. See "Quantitative and Qualitative Disclosures about Market Risk" on page 54 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 are being amortized over four years. The amortization expense was $0.3 million for the year ended December 31, 2003.

Impairment of investment in Sun Media Group

In September 2001, we acquired an approximately 27.6% equity interest in Sun Media and accounted for the investment using the equity method of accounting. We ceased to maintain significant influence over Sun Media's operations after our equity interest fell below 20% to 17.4% and our board representation was decreased in the quarter ended December 31, 2002. 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.

We had recorded $0.9 million of equity loss from this investment through September 30, 2002. The fair market value of Sun Media dropped below our carrying value starting May 2003. As of December 31, 2003, the fair market value of this investment was $6.8 million while the carrying value of this investment was $12.9 million. We considered the decline in the value of this investment to be other than temporary and therefore recognized $6.1 million as impairment of investment during the three months ended December 31, 2003. We will continue to monitor the developments of Sun Media closely. If

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

Loss on equity investments

Our loss on equity investment of $0.9 million for the year ended December 31, 2003 was mainly related to our investment in the Shanghai NC-SINA joint venture, while our loss on equity investment of $0.5 million for the year ended December 31, 2002 was mainly related to our investment in Sun Media.

Provision for income taxes

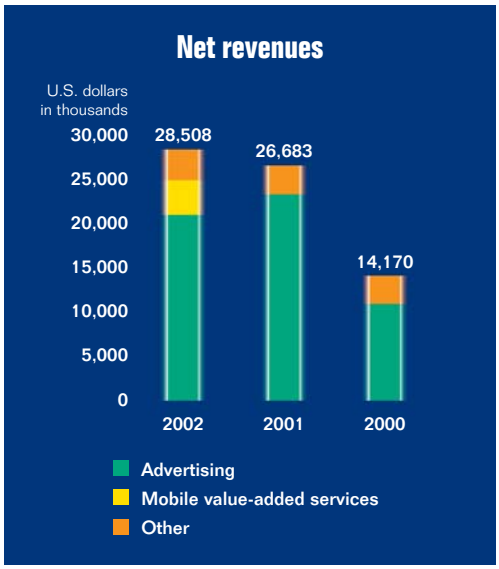
We are incorporated in Cayman Islands where no income taxes are imposed. We have operations in four tax jurisdictions including China, the United States of America, Hong Kong and Taiwan. For the United States of America, Hong Kong and Taiwan, we have incurred net accumulated operating losses for income 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. As of December 31, 2003, we had deferred tax assets in the amount of $20.0 million for these three locations primarily relating to net operating loss carryforwards and we have provided a full valuation allowance against these deferred tax assets.

We generated substantially all our net income from our China operations for the year ended December 31, 2003. Our China operations are conducted through various subsidiaries and VIEs. Pursuant to the PRC Income Tax Laws, our subsidiaries and VIEs are generally subject to Enterprise Income Taxes ("EIT") at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. However, some of our subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to preferential tax rate of 15%. In addition, some of our subsidiaries are Foreign Investment Enterprise and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing 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 China, our effective income tax rates will be approximately 5%, 10% and 15% for the years ending 2004, 2005 and 2006, respectively. We are in the process of applying for new preferential tax treatments for certain of our subsidiaries and VIEs in China and our projected effective tax rates will be reduced further if these applications are approved. Over the longer term, if the Chinese government phases out preferential tax treatment for foreign investment enterprise or for new technology enterprise, our effective tax rates can be increased to as high as 33%.

Due to our operating and tax structures in China, we have entered into technical and other service agreements between our subsidiaries and our VIEs in China 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 China. Some of these agreements were reviewed by the tax authorities in China 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 China, it is possible that tax authorities in China might challenge the transfer prices that we used for the related party transactions among our entities in China in the future.

We have recorded a current income tax provision in the amount of $1.8 million, net of an income tax benefit of $0.9 million relating to the recognition of net deferred tax assets, for the year ended December 31, 2003 relating to our China operations.

Years ended June 30, 2002, 2001 and 2000



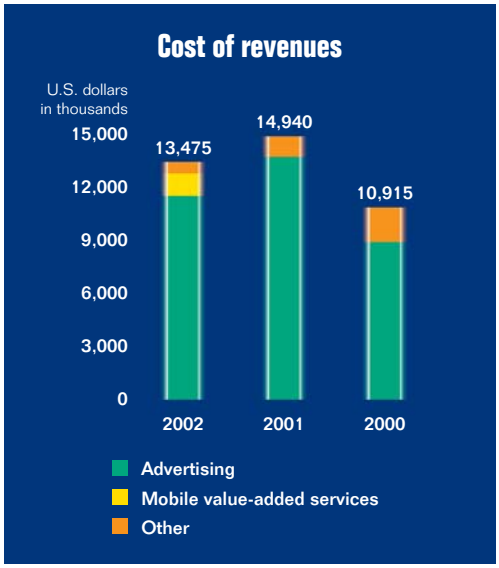
Net revenues

Our net revenues were $28.5 million and $26.7 million for the years ended June 30, 2002 and 2001, respectively,

representing growth of 7% and 88% as compared to the same periods in 2001 and 2000, respectively. The growth of our net revenues for the year ended June 30, 2002 as compared to the same period in 2001 was mainly attributable to the introduction of our mobile value-added services. Revenue from our mobile value-added services for the year ended June 30, 2002 was $3.9 million. This was offset by the decrease in advertising revenue of $2.3 million. The growth of our net revenues for the year ended June 30, 2001 as compared to the same period in 2000 was mainly attributable to the increase in advertising revenues. For the year ended June 30, 2002, advertising revenues dropped by 10% to $21.1 million and accounted for 74% of our net revenues, while non-advertising revenues grew by 125% to $7.4 million and accounted for 26% of our net revenues. For the year ended June 30, 2001, advertising revenues grew by 112% to $23.4 million and accounted for 88% of our net revenues, while non-advertising revenues grew by 4% to $3.3 million and accounted for 12% of our net revenues. For the year ended June 30, 2001, advertising and non-advertising revenues accounted for 78% and 22%, respectively, of our net revenues. The change in the composition of our net revenue for the year ended June 30, 2002 was primarily driven by the introduction of mobile value-added services in late 2001.

Advertising. Our advertising revenues were $21.1 million for the year ended June 30, 2002, as compared to $23.4 million and $11.0 million for the years ended June 30, 2001 and 2000, respectively. During the year ended June 30, 2002, the decrease from the same period in 2001 was mainly due to the reduced spending in the online advertising market in the U.S., Taiwan and Hong Kong. During the year ended June 30, 2001, the increase from the same period in 2000 was mainly due to the increase in the number of advertisers. For the years ended June 30, 2002, 2001 and 2000, advertising revenues accounted for 74%, 88% and 78% of our net revenues, respectively.

Non-Advertising. Our non-advertising revenues were $7.4 million, $3.3 million and $3.2 million for the years ended June 30, 2002, 2001 and 2000, respectively. For the year ended June 30, 2002, non-advertising revenues consisted of $3.9 million of revenues from mobile value-added services, $1.1 million of revenues from our other fee-based services including subscription service and paid email service, $1.5 million of e-commerce sales and $0.9 million from the sale of software products. For the year ended June 30, 2001, non-advertising revenues consisted mainly of $2.3 million from the sale of software products and $1.0 million of e-commerce sales. For the year ended June 30, 2000, non-advertising revenues consisted mainly of sales of software products. For the years ended June 30, 2002, 2001 and 2000, non-advertising revenues accounted for 26%, 12% and 22% of our net revenues, respectively.



Cost of revenues

Our cost of revenues were $13.5 million and $14.9 million for the years ended June 30, 2002 and 2001, respectively, representing a decrease of 10% and an increase of 37% as compared to the same periods in 2001 and 2000, respectively.

Advertising. Our cost of advertising revenues were $11.5 million, 13.8 million and $9.0 million for the years ended June 30, 2002, 2001 and 2000, respectively. Our cost of advertising revenues consists of costs associated with the production of our websites, which includes fees paid to third parties for Internet connection, content and services, and personnel-related costs and equipment depreciation expense associated with our website production. The year-to-year decrease in cost of revenues from the year ended June 30, 2001 to the year ended June 30, 2002 was primarily due to lower Internet connection costs as a result of a decrease in bandwidth cost in China and lower personnel related costs as a result of improved productivity and reduced headcount. The year-to-year increase in cost of revenues from the year ended June 30, 2000 to the year ended June 30, 2001 was due to higher Internet connection costs, such as bandwidth expansion and server co-location cost to support increased Internet traffic on our websites, and the increase in content and service provider fees to expand our website content and to support the increased advertisement impressions.

Non-advertising. Our cost of non-advertising revenues was $1.9 million $1.2 million and $2.0 million for the years ended June 30, 2002, 2001 and 2000, 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, fees or royalties paid to third party content providers for services and content associated with our mobile value-added services and cost of our software products. The year-to-year increase in cost of non-advertising revenues from the year ended June 30, 2001 to the year ended June 30, 2002 was mainly due to the increase in fees to mobile phone operators in China for our mobile value-added services. The year-to-year decrease in cost of revenues from the year ended June 30, 2000 to the year ended June 30, 2001 was primarily due to the fact that a higher percentage of our software revenues were derived from licensing arrangements which involved minimal costs during 2001.

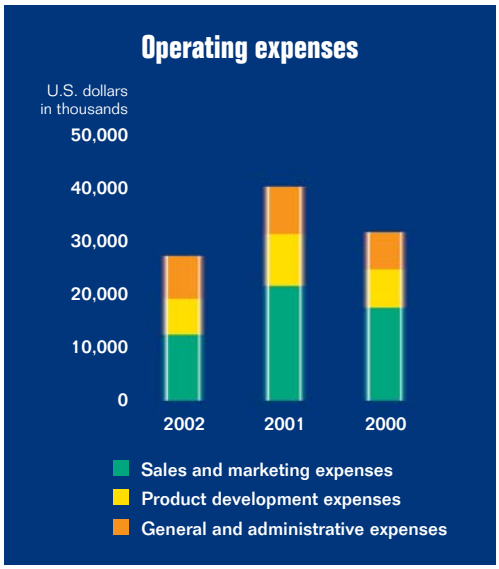
Gross profit margins

	Years ended June 30		
	2002	2001	2000
Gross profit margins			
Advertising	45%	41%	19%
Non-advertising			
Mobile value-added services	68%	–	–
Other	81%	65%	38%
Non-advertising	74%	65%	38%
Overall	53%	44%	23%

Our overall gross profit margins increased from 23% for the year ended June 30, 2000 to 44% for the year ended June 30, 2001 and 53% for the year ended June 30, 2002. Both our advertising and non-advertising activities contributed to the improvements in gross profit margins.

Advertising. Our gross profit margins of advertising revenues increased from 19% for the year ended June 30, 2000 to 41% for the year ended June 30, 2001 and 45% for the year ended June 30, 2002. The increase in gross profit margin of advertising revenues from the year ended June 30, 2001 to the year ended June 30, 2002 was attributable to the decrease in costs associated with our websites production. The increase in gross profit margin of advertising revenues from the year ended June 30, 2000 to the year ended June 30, 2001 was attributable to the significant increase in advertising revenues.

Non-advertising. Our gross profit margins of non-advertising revenues increased from 38% for the year ended June 30, 2000 to 65% for the year ended June 30, 2001 and 74% for the year ended June 30, 2002. The increase in gross profit margins of non-advertising revenues from the year ended June 30, 2001 to the year ended June 30, 2002 was attributable to the increase in revenues from mobile value-added services, other fee-based services and our e-commerce. The increases in gross profit margins of non-advertising revenues from the year ended June 30, 2000 to the year ended June 30, 2001 were attributable to the revenue from software licensing arrangements which involved minimal costs.



Sales and marketing expenses

Our sales and marketing expenses were $12.5 million, or 44% of total net revenues for the year ended June 30, 2002, as compared to $21.7 million and $17.5 million, or 81% and 123% of total net revenues, for years ended June 30, 2001 and 2000, respectively. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion expenditures and travel expenses. The year-to-year decrease in absolute dollar amount from the year ended June 30, 2001 to the year ended June 30, 2002 was primary due to the curtailment in spending for market promotion of our websites and cost savings from workforce reductions. The year-to-year increase in absolute dollar amount from the year ended June 30, 2000 to the year ended June 30, 2001 was primarily attributable to an increase in advertising expenses associated with our brand-building strategy, and increase in compensation expense associated with the growth in our direct sales force and marketing personnel, and an increase in sales commissions associated with the increased revenues.

Product development expenses

Our product development expenses were $6.7 million, or 23% of total net revenues for the year ended June 30, 2002, as compared to $9.6 million and $7.4 million, or 36% and 52% of total net revenues, for the years ended June 30, 2001 and 2000, respectively. Product development expenses consist primarily of personnel related expenses incurred for enhancement to and maintenance of our websites as well as engineering costs related to the development of our software products and web-based products. The year-to-year decrease in absolute dollar amount from the year ended June 30, 2001 to the year ended June 30, 2002 was primarily attributable to our strategy of focusing new research and development efforts in China, which has lower labor costs, and reducing our engineering workforce in other locations. The year-to-year increase in absolute dollar amount from the year ended June 30, 2000 to the year ended June 30, 2001 was attributable to increased staffing and associated support for engineers for developing and enhancing our online network.

General and administrative expenses

Our general and administrative expenses were $8.2 million, or 29% of total net revenues for the year ended June 30, 2002, as compared to $8.9 million and $7.0 million, or 33% and 49% of total net revenues in the years ended June 30, 2001 and 2000, respectively. General and administrative expenses consist primarily of compensation for personnel, fees for professional services, and provisions for doubtful accounts. The year-to-year decrease in absolute dollar amount from the year ended June 30, 2001 to the year ended June 30, 2002 was a result of our cost reduction measures. The year-to-year increase in absolute dollar amount from the year ended June 30, 2000 to the year ended June 30, 2001 was mainly due to the increase in general business activities as a result of business expansion and building our administrative infrastructure.

Stock-based compensation expenses

In connection with the grant of certain stock options, we recorded net deferred stock compensation totaling $33.4 million through June 30, 2002, which is being amortized over the four-year vesting period of the options. Of the total deferred stock compensation, approximately $2.3 million, $7.5 million and $19.1 million was amortized in the years ended June 30, 2002, 2001 and 2000, respectively.

Amortization of intangible assets

As a result of the acquisition of Sinanet.com in March 1999, we recorded goodwill and other intangible assets of approximately $20.3 million, which were amortized over the three-year period ended June 30, 2002. The amortization expense for the years ended June 30, 2002, 2001 and 2000 was $5.1 million, $6.8 million and $6.8 million, respectively.

Interest income

Interest income was $4.2 million for the year ended June 30, 2002, as compared to $7.3 million and $3.8 million for the years ended June 30, 2001 and 2000, respectively. During the year ended June 30, 2002, the decrease from 2001 was primarily due to the lower average cash and short-term investment balances and lower applicable interest rates during the year. During the year ended 30, 2001, the increase from 2000 was primarily due to higher cash and short-term investment balances as a result of the proceeds from our sale of Series C preference shares in October and November 1999, and the initial public offering in April 2000. See "Quantitative and Qualitative Disclosures about Market Risk" on page 54 for a description of our investment policy.

Loss on equity investments

In September 2001, we acquired an approximately 27.6% equity interest in Sun Media and accounted for the investment using the equity method of accounting. Our investment in Sun Media was diluted to 21.8% as of June 30, 2002 as a result of Sun Media's issuance of new shares. During the year ended June 30, 2002, we recorded a loss of $0.6 million on our investment in Sun Media, representing our share of Sun Media's reported loss and amortization of intangible assets, partially offset by a gain related to the issuance of new shares by Sun Media to other investors at a price higher than our investment cost.

In December 1999, we paid $1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd.. We accounted for our investment in the joint venture using the equity method of accounting. We recorded a $0.5 million loss from our investment in the joint venture in the year ended June 30, 2000 and the remaining investment of $0.9 million was fully written off during the year ended June 30, 2001 upon the cessation of operations of this joint venture company.

LIQUIDITY AND CAPITAL RESOURCES

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

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

One of the conditions for conversion of the Notes to SINA ordinary shares is that the sale price (defined as closing per share sales price) of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is more than 115% of the conversion price per ordinary share. For the two consecutive fiscal quarters ended September 30 and December 31, 2003, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes are therefore convertible into SINA ordinary shares according to the threshold (i) described above until it is not satisfied.

As of December 31, 2003, 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.

In February 2004, we entered into a definitive agreement to acquire all outstanding shares of Crillion. The initial purchase price consists of $9.9 million in cash and approximately 196,000 of our ordinary shares valued at $40.90 per share. Additional payments will be made on an earn-out basis at approximately 1.5 to 2 times of Crillion's 2004 and 2005 earnings if its pretax income for 2004 and 2005 exceeds $6.7 million and $13.3 million, respectively. The total consideration is subject to a cap of $125 million and will be paid 60% in cash and 40% in our ordinary shares valued at $40.90 per share.

We had also entered into various lease agreements for our office premises in China, the United States of America, Hong Kong and Taiwan. The obligations for the rental expenses under these operating leases were totaling $3.6 million as of December 31, 2003, or $1.4 million, $1.0 million, $0.7 million, $0.5 million and $14,000 for the years ending December 31, 2004, 2005, 2006, 2007 and 2008, respectively.

As of December 31, 2003, we had $227.2 million in cash and cash equivalents and short-term investments to meet the future requirements on our operating, investing and financing activities. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months. However, we may sell additional equities or obtain credit facilities to enhance our liquidity position and our cash reserve for future acquisition. 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.

(In U.S. dollars, in thousands)	Years ended December 31		Years Ended June 30	
	2003	2002	2002	2001
Net cash provided by (used in) operating activities	$ 47,246	$ 4,551	$ (6,360)	$ (14,166)
Net cash provided by (used in) investing activities	(46,700)	25,450	(15,402)	(34,540)
Net cash provided by financing activities	104,340	74	352	2,062
Net increase (decrease) in cash and cash equivalents	104,886	30,075	(21,410)	(46,644)
Cash and cash equivalents at beginning of period	53,262	23,187	52,505	99,149
Cash and cash equivalents at end of period	$158,148	$ 53,262	$ 31,095	$ 52,505

Operating activities

Years ended December 31, 2003 and 2002

Net cash provided by operating activities for the year ended December 31, 2003 was $47.3 million. This was primarily attributable to our net income of $31.4 million, adjusted by non-cash related expenses including impairment of investments in Sun Media Group of $6.1 million, depreciation of $5.1 million, amortization of intangible assets of $1.8 million, loss on equity investments of $0.9 million, stock-based compensation of $0.6 million, amortization of convertible debt issuance cost of $0.3 million and write-off of intangible assets of $0.9 million; an increase in accrued liabilities of $11.8 million and an increase in income taxes payable of $1.8 million. These increases to cash and cash equivalents were partially offset by an increase in account receivables of $8.8 million, an increase in prepaid expenses and other current assets of $2.2 million, an increase in deferred tax assets of $0.9 million, an increase in other assets of $0.9 million and a decrease in accounts payable of $0.8 million. The increase in accrued liabilities 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 and related expenses, deferred revenue, business taxes payable, sales rebates and future cash payments for the MeMeStar acquisition. The increase in account receivables was resulted from the significant increase in our net revenues, especially our mobile value-added services during the year ended December 31, 2003. The increase in prepaid expenses and other current assets was mainly related to prepayments for the rental of our office lease in Beijing.

Net cash provided by operating activities for the year ended December 31, 2002 was $4.6 million. This was primarily attributable to our net loss of $4.9 million, adjusted by non-cash related expenses including depreciation of $5.1 million, amortization of intangible assets of $1.8 million, loss on equity investments of $0.5 million and stock-based compensation of $1.8 million; and an increase in accrued liabilities of $3.1 million. The net increase to cash and cash equivalents were partially offset by an increase in accounts receivables of $2.2 million and an increase in prepaid expenses and other current assets of $1.0 million.

The year-to-year increase in net cash provided by operating activities of $42.7 million from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily attributable to the increase in our net income and the increase in accrued liabilities offset by the increase in accounts receivables.

Years ended June 30, 2002 and 2001

Net cash used in operating activities for the year ended June 30, 2002 was $6.4 million. This was primarily due to our loss of $16.1 million, adjusted by non-cash related expenses including depreciation of $5.2 million, amortization of intangible assets of $5.1 million, loss on equity investments of $0.6 million and stock-based compensation of $2.3 million; a decrease in accrued liabilities of $2.7 million, a decrease in accounts payable of $0.5 million, an increase in accounts receivable of $0.5 million and an increase in prepaid expenses and other current assets of $0.4 million. The decrease in accrued liabilities was primarily due to the decrease in accrual for payroll and related expenses and accrual for marketing expenses and deferred revenue.

Net cash used in operating activities for the year ended June 30, 2001 was $14.2 million. This was primarily attributable to our net loss of $36.4 million, adjusted by non-cash related expenses including depreciation of $3.6 million, amortization of intangible assets of $6.8 million, loss on equity investments of $0.9 million and stock-based compensation of $7.5 million; and an increase in accounts receivable of $0.3 million. The net decrease to cash and cash equivalents was partially offset by the increase in accrued liabilities of $3.5 million.

The year-to-year decrease in net cash used in operating activities of $7.8 million from the year ended June 30, 2001 to the year ended June 30, 2002 was primarily attributable to the decrease in our net loss for the year ended June 30, 2002, partially offset by the decrease in accrued liabilities.

Investing activities

Years ended December 31, 2003 and 2002

Net cash used in investing activities for the year ended December 31, 2003 was $46.7 million. This was primarily due to the purchase of equipment of $6.1 million, acquisition of MeMeStar (net of cash acquired) of $10.5 million, investment in joint ventures of $2.8 million and purchase of short-term investments of $27.3 million.

Net cash provided by investing activities for the year ended December 31, 2002 was $25.5 million. This was primarily due to the proceeds from the sale of our short-term investments of $29.5 million, partially offset by the purchase of equipment of $2.6 million, acquisition of Techur (net of cash acquired) of $1.1 million and investment in joint ventures of $0.2 million.

The year-to-year increase in net cash used in investing activities of $72.2 million from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily due to the increase in cash used for the purchase of equipment, business acquisitions, investments in joint ventures and purchase of short-term investments during the year ended December 31, 2003.

Years ended June 30, 2002 and 2001

Net cash used in investing activities for the year ended June 30, 2002 was $15.4 million. This was primarily attributable to the purchase of equipment of $2.0 million, acquisition of the stock of Sun Media of $8.6 million and purchase of short-term investments of $4.8 million.

Net cash used in investing activities for the year ended June 30, 2001 was $34.5 million. This was primarily attributable to the purchase of equipment of $7.7 million and purchase of short-term investments of $26.8 million.

The year-to-year decrease in net cash used in investing activities of $19.1 million from year ended June 30, 2001 to the year ended June 30, 2002 was primarily attributable to the decrease in cash used for the purchase of equipment and purchase of short-term investments, partially offset by the net cash used in the acquisition of the stock of Sun Media during the year ended June 30, 2002.

Financing activities

Years ended December 31, 2003 and 2002

Net cash provided by financing activities for the year ended December 31, 2003 was $104.3 million. This was primarily attributable to the net proceeds of $97.3 from the issuance of zero coupon convertible subordinated notes in 2003, the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan totaling $6.0 million and the proceeds from the repayment of shareholders' notes of $1.0 million.

Net cash provided by financing activities for the year ended December 31, 2002 was $74,000 representing the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan.

The year-to-year increase in net cash provided by financing activities of $104.3 million from the year ended December 31, 2002 to the year ended December 31, 2003 was primarily attributable to the net proceeds from the issuance of zero coupon convertible subordinated notes and the increase in the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan during the year ended December 31, 2003.

Years ended June 30, 2002 and 2001

Net cash provided by financing activities for the year ended June 30, 2002 was $0.4 million. This was primarily attributable to the repayment of shareholders' notes of $0.4 million.

Net cash provided by financing activities for the year ended June 30, 2001 was $2.1 million. This was primarily attributable to the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan totaling $1.5 million and the repayments of shareholders' notes of $0.6 million.

The year-to-year decrease in net cash provided by financing activities of $1.7 million from the year ended June 30, 2001 to the year ended June 30, 2002 was primarily due to the decrease in the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan during the year ended June 30, 2002.

The following table sets forth our contractual obligations as of December 31, 2003:-

(In US dollars, in thousands)	Payments due by period				
	Total	Less than one year	One to three years	Three to five years	More than five years
Contractual obligations:					
Long-term debt obligations	$ 100,000	$ –	$ –	$ 100,000	$ –
Operating lease obligations	3,594	1,405	1,726	463	–
Purchase obligations	6,481	6,078	403	–	–
Other long-term liabilities	2,175	1,118	1,057	–	–
Total contractual obligations	$ 112,250	$ 8,601	$ 3,186	$ 100,463	$ –

CONTRACTUAL OBLIGATIONS

Long-term debt obligations represent the zero coupon convertible subordinated notes issued on July 7, 2003. Please see Note 15 – "Convertible debts" in the Financial Statements for further information. Operating lease obligations include the commitments under the lease agreements for our office premises. Purchase obligations include the commitments for Internet connection fees associated with website production, content fees associated with website production and mobile value-added services, advertising serving and tracking services and marketing activities.

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 December 31, 2003.

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

We are involved in certain lawsuits in the normal course of our business operations in China, and we do not expect that the outcome of these lawsuits will have material impact on our financial positions or results of operations.

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.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by our principal external auditors for the periods presented.

(In U.S. dollars, in thousands)	Years Ended December 31		Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2002	2001
Audit fees	**$ 275**	$ 300#	$ 200	$ 200	$ 200
Audit-related fees	**20**	45	45	35	–
Other fees	**32**	28	13	19	23
	$ 327	$ 373	$ 258	$ 254	$ 223

 # The amount of $300,000 included a $200,000 audit fee for the six months ended December 31, 2003 and a $100,000 pro-rated audit fee for the periods from January 1 to June 30, 2002 during the year ended June 30, 2002.

Apart from the above, we did not pay any other fees to our principal external auditors during the periods presented.

RECENT ACCOUNTING PRONOUNCEMENTS

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

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on our consolidated financial statements.

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

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

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 December 31, 2003, we had unrealized losses of $1.5 million included in accumulated other comprehensive loss in shareholders' equity.

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

FOREIGN CURRENCY EXCHANGE RATE RISK

The majority of our revenues derived and expenses and liabilities incurred were in Chinese renminbi, Taiwan dollars and Hong Kong dollars. Thus, our revenues and operating results may be impacted by exchange rate fluctuations in the currencies of China, Taiwan and Hong Kong. See "Risk Factors — Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenue in U.S. dollar terms." We have not tried to reduce our exposure to exchange rate fluctuations by using hedging transactions. However, we may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuation during the year ended December 31, 2003 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. We will continue monitor the developments of Sun Media closely. If the fair market value continues to drop, we will need to recognize additional impairment charges in the future periods.

Report of Independent Accountants

To the Board of Directors and Shareholders
of SINA CORPORATION

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows expressed in U.S. dollars present fairly, in all material respects, the financial position of SINA CORPORATION and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for the year ended December 31, 2003, six months ended December 31, 2002 and each of the two years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS, LLP

Beijing, China

February 4, 2004, except for Note 17

as to which the date is February 24, 2004

Consolidated **Balance Sheet**

(In U.S. dollars, in thousands)	December 31 2003	December 31 2002
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 158,148**	$ 53,262
Short-term investments	**69,016**	43,474
Accounts receivable, net	**17,606**	5,847
Deferred tax assets	**907**	–
Prepaid expenses and other current assets	**4,579**	2,323
Total current assets	**250,256**	104,906
Investment in Sun Media Group	**6,793**	16,637
Property and equipment, net	**8,646**	7,599
Long-term investments	**2,085**	–
Intangible assets, net	**569**	993
Goodwill	**18,091**	–
Other assets	**3,457**	344
Total assets	**$ 289,897**	$ 130,479
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 1,147**	$ 1,345
Accrued liabilities	**27,442**	11,747
Income taxes payable	**1,801**	–
Total current liabilities	**30,390**	13,092
Convertible debt	**100,000**	–
Total liabilities	**130,390**	13,092
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Ordinary Shares: $0.133 par value; 75,000,000 shares authorized; 48,627,000 and 45,946,000 shares issued and outstanding	**6,471**	6,114
Additional paid-in capital	**236,222**	223,358
Ordinary shares subject to subsequent issuance: 177,000 shares	**1,349**	–
Notes receivable from shareholders	**–**	(1,050)
Deferred stock compensation	**–**	(554)
Accumulated deficit	**(83,054)**	(114,477)
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on investment in marketable securities	**(1,510)**	4,004
Cumulative translation adjustments	**29**	(8)
Total shareholders' equity	**159,507**	117,387
Total liabilities and shareholders' equity	**$ 289,897**	$ 130,479

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

Consolidated **Statement of Operations**

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

	Years Ended December 31		Six Months Ended December 31	Years Ended June 30	
	2003	2002 (Unaudited)	2002	2002	2001
Net revenues:					
Advertising	$ 41,173	$ 24,703	$ 13,869	$ 21,105	$ 23,393
Non-advertising	73,112	14,191	9,347	7,403	3,290
	114,285	38,894	23,216	28,508	26,683
Cost of revenues:					
Advertising	14,001	11,267	5,824	11,537	13,771
Non-advertising	20,405	4,140	2,676	1,938	1,169
Stock-based compensation	31	102	42	133	414
	34,437	15,509	8,542	13,608	15,354
Gross profit	79,848	23,385	14,674	14,900	11,329
Operating expenses:					
Sales and marketing	21,741	12,419	6,457	12,468	21,694
Product development	6,340	5,916	2,755	6,666	9,648
General and administrative	11,551	8,896	4,480	8,237	8,918
Stock-based compensation*	523	1,692	699	2,208	7,097
Amortization of intangible assets	1,749	1,777	90	5,063	6,765
Write-off of intangible assets	903	–	–	–	–
Total operating expenses	42,807	30,700	14,481	34,642	54,122
Income (loss) from operations	37,041	(7,315)	193	(19,742)	(42,793)
Interest income	2,757	2,819	1,034	4,212	7,336
Other expenses	(162)	–	–	–	–
Amortization of convertible debt issuance cost	(341)	–	–	–	–
Impairment of investments in Sun Media Group	(6,063)	–	–	–	–
Loss on equity investments	(914)	(453)	(311)	(562)	(894)
Income (loss) before income taxes	32,318	(4,949)	916	(16,092)	(36,351)
Provision for income taxes	(895)	–	–	–	–
Net income (loss)	$ 31,423	$ (4,949)	$ 916	$ (16,092)	$ (36,351)
Basic net income (loss) per share	$ 0.66	$ (0.11)	$ 0.02	$ (0.36)	$ (0.91)
Diluted net income (loss) per share	$ 0.58	$ (0.11)	$ 0.02	$ (0.36)	$ (0.91)
*Stock-based compensation was related to the associated expense categories as follows:					
Sales and marketing	$ 16	$ 51	$ 21	$ 66	$ 219
Product development	168	541	223	707	2,295
General and administrative	339	1,100	455	1,435	4,583
	$ 523	$ 1,692	$ 699	$ 2,208	$ 7,097

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

Consolidated **Statement of Shareholders' Equity**

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

	Ordinary Shares		Additional Paid-in Capital	Ordinary Shares Subject to Subsequent Issuance
	Shares	Amount		
Balances at June 30, 2000	40,764	$ 5,425	$ 221,399	$ –
Issuance of Ordinary Shares pursuant to stock plans, net of repurchases	594	79	1,459	–
Repayments of notes receivable from shareholders	–	–	–	–
Costs of initial public offering	–	–	(64)	–
Deferred stock compensation	–	–	(2,123)	–
Amortization of deferred stock-based compensation	–	–	–	–
Comprehensive loss:				
Net loss	–	–	–	–
Currency translation adjustments	–	–	–	–
Comprehensive loss				
Balances at June 30, 2001	41,358	5,504	220,671	–
Issuance of Ordinary Shares pursuant to stock plans, net of repurchases	(61)	(8)	(69)	–
Repayments of notes receivable from shareholders	–	–	–	–
Deferred stock compensation	–	–	(1,783)	–
Amortization of deferred stock-based compensation	–	–	–	–
Acquisition of long-term investment	4,593	611	4,487	–
Comprehensive loss:				
Net loss	–	–	–	–
Currency translation adjustments	–	–	–	–
Comprehensive loss				
Balances at June 30, 2002	45,890	6,107	223,306	–
Issuance of Ordinary Shares pursuant to stock plans, net of repurchases	56	7	56	–
Deferred stock compensation	–	–	(4)	–
Amortization of deferred stock-based compensation	–	–	–	–
Comprehensive income:				
Net income	–	–	–	–
Unrealized gain on investments in marketable securities	–	–	–	–
Currency translation adjustments	–	–	–	–
Comprehensive income				
Balances at December 31, 2002	45,946	6,114	223,358	–
Issuance of Ordinary Shares pursuant to stock plans, net of repurchases	1,737	231	5,777	–
Repayment of notes receivable from shareholders	–	–	–	–
Amortization of deferred stock-based compensation	–	–	–	–
Business acquisition	944	126	7,087	1,349
Comprehensive income:				
Net income	–	–	–	–
Unrealized loss on investments in marketable securities	–	–	–	–
Currency translation adjustments	–	–	–	–
Comprehensive income				
Balances at December 31, 2003	48,627	$ 6,471	$ 236,222	$ 1,349

Notes Receivable from Shareholders	Deferred Stock Compensation	Accumulated Deficit	Others	Total Shareholders' Equity	Other Comprehensive Income (Loss)
$ (2,067)	$ (15,057)	$ (62,950)	$ 67	$ 146,817	
–	–	–	–	1,538	
588	–	–	–	588	
–	–	–	–	(64)	
–	2,123	–	–	–	
–	7,511	–	–	7,511	
–	–	(36,351)	–	(36,351)	$ (36,351)
–	–	–	(72)	(72)	(72)
					$ (36,423)
(1,479)	(5,423)	(99,301)	(5)	119,967	
–	–	–	–	(77)	
429	–	–	–	429	
–	1,783	–	–	–	
–	2,341	–	–	2,341	
–	–	–	–	5,098	
–	–	(16,092)	–	(16,092)	$ (16,092)
–	–	–	24	24	24
					$ (16,068)
(1,050)	(1,299)	(115,393)	19	111,690	
–	–	–	–	63	
–	4	–	–	–	
–	741	–	–	741	
–	–	916	–	916	$ 916
–	–	–	4,004	4,004	4,004
–	–	–	(27)	(27)	(27)
					$ 4,893
(1,050)	(554)	(114,477)	3,996	117,387	
–	–	–	–	6,008	
1,050	–	–	–	1,050	
–	554	–	–	554	
–	–	–	–	8,562	
–	–	31,423	–	31,423	$ 31,423
–	–	–	(5,514)	(5,514)	(5,514)
–	–	–	37	37	37
					$ 25,946
$ –	$ –	$ (83,054)	$ (1,481)	$ 159,507	

Unaudited **Statement of Change in Shareholders' Equity**

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

	Ordinary Shares		Additional Paid-in Capital	Ordinary Shares Subject to Subsequent Issuance
	Shares	Amount		
Balances at December 31, 2001	45,877	$ 6,105	$ 223,311	$ –
Issuance of Ordinary Shares pursuant to stock plans, net of repurchases	69	9	65	–
Deferred stock compensation	–	–	(18)	
Amortization of deferred stock-based compensation	–	–	–	–
Comprehensive loss:				
Net loss	–	–	–	–
Unrealized gain on investments in marketable securities	–	–	–	–
Currency translation adjustments	–	–	–	–
Comprehensive loss				
Balances at December 31, 2002	45,946	$ 6,114	$ 223,358	$ –

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

Notes Receivable from Shareholders	Deferred Stock Compensation	Accumulated Deficit	Others	Total Shareholders' Equity	Other Comprehensive Income (Loss)
$ (1,050)	$ (2,366)	$ (109,528)	$ (25)	$ 116,447	
–	–	–	–	74	
	18	–	–	–	
–	1,794	–	–	1,794	
–	–	(4,949)	–	(4,949)	$ (4,949)
–	–	–	4,004	4,004	4,004
–	–	–	17	17	17
					$ (928)
$ (1,050)	$ (554)	$ (114,477)	$ 3,996	$ 117,387	

Consolidated **Statement of Cash Flows**

(In U.S. dollars, in thousands)	Years Ended December 31		Six Months Ended December 31	Years Ended June 30	
	2003	2002 (Unaudited)	2002	2002	2001
Cash flows from operating activities:					
Net income (loss)	$ 31,423	$ (4,949)	$ 916	$ (16,092)	$ (36,351)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Loss on equity investments	914	453	311	562	894
Loss on disposal of fixed assets	160	368	101	267	–
Impairment of investments in Sun Media Group	6,063	–	–	–	–
Depreciation	5,113	5,097	2,513	5,186	3,566
Stock-based compensation	554	1,794	741	2,341	7,511
Amortization of convertible debt issuance cost	341	–	–	–	–
Amortization of intangible assets	1,749	1,777	90	5,063	6,765
Write-off of intangible assets	903	–	–	–	–
Changes in assets and liabilities (net of effect of acquisition):					
Accounts receivable, net	(8,813)	(2,205)	(1,075)	(460)	(341)
Prepaid expenses and other current assets	(2,166)	(957)	(550)	(356)	184
Receivable from related parties	–	–	–	556	(288)
Deferred tax assets	(907)	–	–	–	–
Other assets	(918)	(6)	206	(178)	32
Accounts payable	(792)	98	212	(514)	410
Income taxes payable	1,801	–	–	–	–
Accrued liabilities	11,821	3,081	2,836	(2,735)	3,452
Net cash provided by (used in) operating activities	47,246	4,551	6,301	(6,360)	(14,166)
Cash flows from investing activities:					
Acquisition of property and equipment	(6,058)	(2,629)	(1,701)	(2,035)	(7,740)
Cash paid for business acquisition, net of cash acquired	(10,548)	(1,121)	(1,121)	–	–
Investment in joint ventures	(2,818)	(181)	(181)	–	–
Acquisition of long-term investment	–	(154)	–	(8,595)	–
Sale (purchase) of short-term investments	(27,276)	29,535	18,806	(4,772)	(26,800)
Net cash provided by (used in) investing activities	(46,700)	25,450	15,803	(15,402)	(34,540)
Cash flows from financing activities:					
Proceeds from issuance of Convertible debt, net	97,282	–	–	–	–
Proceeds from issuance of Ordinary Shares, net	6,008	74	63	30	1,474
Repurchase of ordinary shares	–	–	–	(107)	–
Repayments of notes receivable from shareholders	1,050	–	–	429	588
Net cash provided by financing activities	104,340	74	63	352	2,062
Net increase (decrease) in cash and cash equivalents	104,886	30,075	22,167	(21,410)	(46,644)
Cash and cash equivalents at beginning of year	53,262	23,187	31,095	52,505	99,149
Cash and cash equivalents at end of year	$ 158,148	$ 53,262	$ 53,262	$ 31,095	$ 52,505

Consolidated **Statement of Cash Flows** (Cont'd)

(In U.S. dollars, in thousands)	Years Ended December 31		Six Months Ended December 31	Years Ended June 30	
	2003	2002 (Unaudited)	2002	2002	2001
Supplemental disclosure of investing activities:					
Cash paid for business acquisition	$ (12,904)	$ (1,874)	$ (1,874)	–	–
Cash acquired	2,356	753	753	–	–
Cash paid for business acquisition, net	$ (10,548)	$ (1,121)	$ (1,121)	$ –	$ –
Supplemental disclosure of noncash financing activities:					
Ordinary shares issued for business acquisition	$ 7,213	$ –	$ –	$ –	$ –
Ordinary shares subject to subsequent issuance for business acquisition	$ 1,349	$ –	$ –	$ –	$ –
Ordinary shares issued for acquisition of long term investment	$ –	$ –	$ –	$ 5,098	$ –

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

Notes to **Consolidated Financial Statements**

(In U.S. dollars)

1. The Company and Summary of Significant Accounting Policies

The Company

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

Principles of consolidation and basis of presentation

The consolidated financial statements include the accounts of the Company, its subsidiaries and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but which are less than majority owned and not otherwise controlled by the Company, are accounted for under the equity method.

The Company changed its financial year end from June 30 to December 31 in 2002.

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.

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

Under various contractual agreements, employee shareholders of the VIEs are required to transfer their ownership in these entities to the Company's subsidiaries in China when permitted by PRC laws and regulations or to designees of the Company at any time for the amount of loans outstanding; all voting rights of the VIEs are assigned to the Company and the Company has the right to appoint all directors and senior management personnel of the VIEs. The Company has also entered into exclusive technical service agreements with the VIEs under which the Company provides technical and other services to the VIEs in exchange for substantially all net income of the VIEs. In addition, employee shareholders of the VIEs have pledged their shares in the VIEs as collateral for the non-payment of loans or for the fees for technical and other services due to the Company. As of December 31, 2003, the amount of interest-free loans to the employee shareholders of VIEs amounted to $4.1 million.

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

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

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

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

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

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

The Company began to consolidate the Ad Company in April 2000 and the ICP Company in October 2001 (see Note 7-Related party transactions). The GDICP Company was established in 2002 but had not had activities until 2003 and the operation results for the GDICP Company were consolidated for the entire year ended December 31, 2003. Xunlong and Star VI were acquired in MeMeStar acquisition (see Note 2-Acquisition of MeMeStar) in January 2003 and the operation results for these two companies were consolidated by the Company for the entire year ended December 31, 2003.

As of December 31, 2003, the aggregate accumulated losses of the above VIEs were approximately $4.9 million and have been reflected in the consolidated financial statements. Further, as of December 31, 2003, the Company did not have any assets that are collateral for the above VIEs' obligations. The creditors of the above VIEs have no recourse to the general credit of the Company.

Use of estimates

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.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. At December 31, 2003 and 2002, cash equivalents were comprised primarily of investments in commercial paper and money market accounts stated at cost plus accrued interest, which approximated fair value.

Allowances for doubtful accounts

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

Deferred tax assets

The Company records a valuation allowance for deferred tax assets if any, based on its estimates of its future taxable income as well as its tax planning strategies, it is more likely than not that a portion or all of its deferred tax assets will not be realized. If the Company is able to utilize more of its deferred tax assets than the net amount previously recorded when unanticipated events occur, an adjustment to deferred tax assets would increase the Company net income when those events occur.

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 the Company determines 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. The Company recognized an other-than-temporary impairment charge of $6.1 million for the investment in Sun Media Group during the quarter ended December 31, 2003 based on its assessment of (i) Sun Media financial position and operating prospects and (ii) the duration and amount of the decline.

The investment in marketable debt securities is classified as available for sale securities. The Company invests in these securities with the intent to make such funds readily available for operating or acquisition purposes and accordingly, classifies them as short-term investments. The aggregate fair value of marketable debt securities was $69.0 million as of December 31, 2003 and was $43.4 million as of December 31, 2002. During the year ended December 31, 2003, the Company recorded $1.7 million of unrealized losses on its marketable debt securities as a component of comprehensive income. During the six months ended December 31, 2002, the Company recorded $0.2 million of unrealized gains on its marketable debt securities as a component of comprehensive income.

Property and equipment

Property and equipment, including leasehold improvements, are stated at historical cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining lease term. Depreciation expenses were $5.1 million, $2.5 million, $5.2 million and $3.6 million for the year ended December 31, 2003, six months ended December 31, 2002 and the two years ended June 30, 2002 and 2001, respectively.

The expenditures for repair and maintenance are expensed as incurred. The gain or loss on disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized in the consolidated statement of operations.

Long-term investments

Long-term investments comprise investments in joint ventures which were accounted for using equity method of accounting. As of December 31, 2003, the carrying value of long-term investments comprises investment in Shanghai NC-SINA of $1.6 million (see Notes 3 – Investment in Shanghai NC-SINA) and investments in other joint ventures of $0.5 million.

Intangible assets, net

Intangible assets, which primarily include purchased technology, trademark, work force, customer list, user base and non-compete agreements arising from the acquisitions of subsidiaries and variable interest entities were initially recognized and measured at fair value upon acquisition. Intangible assets are amortized over their estimated useful lives of one to three years. The amortization methods and estimated useful lives of intangible assets are reviewed regularly.

Identifiable intangible assets are required to be determined separately from goodwill based on fair value. SFAS No. 141 "Business Combinations" ("SFAS 141") specifies criteria that must be applied to determine whether an intangible should be recognized separately from goodwill. In particular, an intangible asset which is acquired in a business combination should be recognized as an asset separate from goodwill if it satisfies either the "contractual-legal" or "separability" criterion.

Prior to January 1, 2002, intangible assets were reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of such intangible assets might not be recoverable. Upon the Company's adoption of SFAS 142 on January 1, 2002, intangible assets were tested for impairment and tested annually thereafter or more frequently if events or changes in circumstances indicate the intangibles might be impaired. The Company evaluates recoverability of an intangible to be held and used by comparing the carrying amount of the intangible to its future net undiscounted cash flows. If the intangible is considered to be impaired, the impairment loss is measured as the amount by which the carrying amount of the intangible exceeds the fair value of the intangible calculated using a discounted future cash flow analysis.

Goodwill, net

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Company's acquisitions of interests in its subsidiaries and variable interest entities.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over the expected future economic life of three years and is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of goodwill is measured by a comparison of the carrying amount of goodwill and the future net discounted cash flows. If goodwill is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the goodwill exceeds its fair value.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Intangible Assets" ("SFAS 142") on January 1, 2002. Under SFAS 142, goodwill is no longer amortized, but tested for impairment upon first adoption and annually thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired.

Purchase price allocation

The Company accounts for its acquisitions using purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets and liabilities the Company acquired based on their fair values. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities. The Company bases its determination on independent appraisal reports as well as its experience with similar assets and liabilities in the similar industries. If different judgments or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

Revenue recognition

The Company derives its revenues from advertising and non-advertising sources.

Advertising

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 the Company's websites, 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 reasonable assured. Multiple element advertising arrangements were broken down to single element arrangement based on relative fair value for revenue recognition purpose. In some of the advertising contracts, the Company guarantees a minimum number of impressions or pages to be delivered to users over a specified period of time for a fixed fee. Advertising revenues are recognized on the basis of the number of impressions delivered or ratably over the period in which the advertising is displayed, whichever amount is lower, when the collectibility is reasonably assured. To the extent that minimum guaranteed impression deliveries are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions deliveries are achieved. For the year ended December 31, 2003, advertising revenues from contracts that require guaranteed minimum impressions were minimal. Sponsorship arrangements allow advertisers to sponsor a particular area on its websites 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 its websites are recognized ratably over the term of such programs.

Revenues from barter transactions are recognized during the period in which the advertisements are displayed in the Company's properties. Barter transactions are recorded at the lower of the fair value of the goods or services received or the fair value of the advertisement given, provided the fair value of the transaction is reliably measurable. Revenues from barter transactions were minimal for all periods presented.

Non-advertising

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

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.

The Company contracts with third party mobile operators for billing and transmission services related to the mobile value-added services transmitted to its users. The Company records the gross amount it bills to users for its mobile value-added services as revenues and the fees charged or retained by the third party mobile operators as cost of revenues. The Company considered EITF 99-19 in determining whether it should recognize such revenues at gross or net of revenue sharing by mobile operators for billing and transmission services. The Company believes that based on its arrangement with the third party mobile operators as stipulated in its agreements with them, the gross approach is appropriate as the Company is the primary obligor to the user with respect to the mobile value-added services.

Estimation of revenue is based on the Company's 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 its estimated revenue and actual revenue confirmed by the third party mobile operators. Historically, there were no significant true up adjustments to the estimates. To the extent that such revenues cannot be accurately estimated, the Company relies on the billing statements from the third party mobile operators to record revenues. Due to the time lag of receiving the billing statements from the third party mobile operators, for revenues recorded based on the billing statements from the third party mobile operators, the Company has adopted a one month lag reporting policy. Such policy has been applied on a consistent basis. For the years ended December 31, 2003 and 2002, the Company recorded $64.4 million and $9.1 million of revenues from its mobile value-added services, respectively. If the Company had not used one month lag reporting policy, revenues from its mobile value-added services for those periods would have been $68.3 million and $9.7 million, respectively. There was no significant mobile value-added services revenue before the year ended December 31, 2002.

The Company purchases certain contents from third party content providers for its 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 contents after deducting the fees paid to the third party mobile operators. The Company's mobile value-added service revenue is inclusive of such fees since the Company acts 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 the Company's users to subscribe for services on its websites 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 its 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 its website 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.

Revenue from the sale of software products is recognized primarily upon delivery of software products to end users, resellers, distributors, retail merchants and original equipment manufacturers ("OEM"). The Company delivers its software products in packaged form or under software licenses. Revenues from sales of software products in the packaged form are recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. Software license agreements are non-refundable and allow the OEM partners to reproduce the Company's software products for a specified period of time for a fixed fee or a specified number of copies for a predetermined unit price. Revenues from software license agreements are recognized upon delivery of a master copy when the fixed-fee agreements become effective or based upon activity reports provided by the OEM partners under the per-copy arrangements. Provision is made for expected sales returns and allowances when revenue is recognized. Payments received in advance of revenue recognition are recorded as deferred revenue. The Company recognizes revenues in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9. These Statements generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair value of the elements. The Company's software product agreements do not involve multiple elements.

In accordance with generally accepted accounting principles in the United States of America, the recognition of these revenues is partly based on the Company's 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.

Cost of revenues

Advertising

Cost of advertising revenues consists mainly of costs associated with the production of websites, which includes fees paid to third parties for Internet connection, content and services, personnel related costs and equipment depreciation associated with our website production. Cost of advertising revenues also includes the business taxes levied on advertising sales in China.

Non-advertising

Cost of non-advertising revenues consists mainly of fees paid to or retained by the third party mobile operators for their services relating to the collection of the Company's 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 the mobile value-added services, depreciation and costs for providing the enterprise services. Cost of non-advertising revenues also includes the business taxes levied on non-advertising sales in China.

Product development expenses

Product development costs include expenses incurred by the Company to maintain, monitor and manage the Company's website. The Company recognizes website development costs in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development and costs associated with repair or maintenance of the existing site or the development of website content. Costs incurred in the development phase are capitalized and amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected product revenue, whichever is greater. Since inception, the amount of costs qualifying for capitalization has been immaterial and as a result, all product development costs have been expensed as incurred.

Advertising expenses

Advertising expenses generally represent the cost of promotions for corporate image or for product marketing and are expensed as incurred. Advertising expenses totaled $6.3 million, $1.8 million, $4.7 million and $12.1 million for the year ended December 31, 2003, six months ended December 31, 2002 and for the two years ended June 30, 2002 and 2001 respectively.

Stock-based compensation

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. Total compensation cost as determined at the grant date of option is recorded in shareholders' equity as additional paid-in capital with an offsetting entry recorded to deferred stock compensation. Deferred stock compensation is amortized over the vesting period of 4 years on an accelerated basis using the model presented in paragraph 24 of FIN 28. Accordingly, the percentages of the deferred compensation amortized in the first, second, third and fourth years following the option grant date are approximately 52%, 27%, 15% and 6%, respectively. 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.

Prior to the Company's initial public offering, the fair value of each option grant was determined using the minimum value method. Options granted subsequent to the initial public offering have been valued using the Black-Scholes model considering the expected volatility of our stock price, determined in accordance with SFAS 123, in arriving at an option valuation. The minimum value method does not consider stock price volatility. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for the awards under a method prescribed by SFAS No. 123, the Company's net loss per share would have been adjusted to the pro forma amounts as follows:

(In thousands, except per share amounts)	Year Ended December 31	Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2001
Net income (loss):				
As reported	**$ 31,423**	$ 916	$ (16,092)	$ (36,351)
Added: Stock-based employee compensation expenses included in reported net income	**554**	741	2,341	7,511
Deduct: Employee stock purchase plan related compensation expenses determined under fair value based method	**(119)**	(30)	(4)	(190)
Deduct: Stock-based employee compensation expenses determined under fair value based method	**(7,712)**	(1,406)	(2,558)	(7,848)
Pro forma	**$ 24,146**	$ 221	$ (16,313)	$ (36,878)
Net income (loss) per share, basic and diluted:				
As reported	**$ 0.58**	$ 0.02	$ (0.36)	$ (0.91)
Pro forma	**$ 0.44**	$ 0.00	$ (0.37)	$ (0.92)

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes pricing method with the following assumptions:

	Year Ended December 31	Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2001
Risk-free interest rate	**2.04% – 3.47%**	2.44% – 3.07%	3.70% – 4.36%	4.64% – 6.15%
Expected life (in years)	**1 – 4**	1 – 4	1 – 4	1 – 4
Expected dividend yield	**–**	–	–	–
Volatility	**93%**	92%	49%	108%

Income taxes

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence assessed using the criteria in SFAS No. 109, "Accounting for Income Taxes," will not more-likely-than-not be realized.

Foreign currency

The Company's reporting currency is the US dollar. The Company's operations in China, Hong Kong and Taiwan use the local currencies as their functional currencies. Accordingly, all assets and liabilities of the entities in China, Hong Kong and Taiwan are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Gains and losses resulting from foreign currency translation are recorded in accumulated other comprehensive income (loss) as a component of shareholders' equity.

Net gains and losses resulting from foreign exchange transactions are included in the consolidated statement of operations and were not significant during the periods presented.

Net income (loss) per share

Basic net income (loss) per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of ordinary share and ordinary share equivalents outstanding during the period.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income (loss) for the periods presented includes net income (loss), foreign currency translation adjustments and unrealized gains (losses) on marketable securities classified as available for sale.

Recent accounting pronouncements

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

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must

recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on the Company's consolidated financial statements.

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

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

2. Acquisition of MeMeStar

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

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

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

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

Amortizable intangible assets acquired, including customer lists and non-compete arrangements with certain MeMeStar executives, have estimated useful lives ranging from fourteen to eighteen months. The amortization expense for the year ended December 31, 2003 was $1.7 million. Goodwill of $18.1 million represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired, and is not deductible for tax purposes. In accordance with SFAS 142, goodwill is not amortized but is tested for impairment. The Company performed an impairment test relating to goodwill arising from MeMeStar acquisition and concluded there was no impairment as to the carrying value of the goodwill as of December 31, 2003. The purchase allocation for MeMeStar acquisition is based on an appraisal performed by an independent appraisal firm in the United States.

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

(In thousands, except per share amounts)	Years Ended December 31	
	2003	**2002**
Net revenues:	**$114,534**	$ 48,604
Net income (loss)	**$ 31,523**	$ (4,236)
Basic net income (loss) per share	**$ 0.66**	$ (0.09)
Diluted net income (loss) per share	**$ 0.58**	$ (0.09)

3. Investment in Shanghai NC-SINA

In January 2003, the Company formed a joint venture named Shanghai NC-SINA Information Technology Co. Ltd. ("Shanghai NC-SINA") in China with NCsoft, a Korean online game company. The Company invested $2.6 million in cash for 51% of the equity interest in the joint venture. The Company accounted for the investment in the joint venture using the equity method of accounting as NCsoft has certain participating rights as defined in EITF 96-16. During the twelve months ended December 31, 2003, the Company recorded $1.0 million of equity loss from this investment. As of December 31, 2003, the carrying value of this investment was $1.6 million and was included in long-term investments.

4. Intangible Assets

As a result of the acquisition of MeMeStar, the Company recorded intangible assets including customer list and non-competition arrangements with certain MeMeStar executives in the amount of $2.2 million, which were amortized over periods ranging from fourteen to eighteen months. The amortization expense for the year ended December 31, 2003 was $1.7 million. As of December 31, 2003, the carrying value of the intangible assets was $0.6 million which will be amortized in the first and second quarter during the year ending December 31, 2004.

In October 2002, the Company acquired Shanghai Techur Technology Developing Co., Ltd. ("Techur") for $1.9 million in cash. As a result of the acquisition of the Company recorded intangible assets relating to customer relationships in the amount of $1.1 million, which was amortized over a period of three years. Because the revenue and the gross margin of Techur did not grow as expected, the Company's 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.

As a result of the acquisition of Sinanet.com in March 1999, the Company recorded goodwill and other intangible assets of approximately $20.3 million, which were amortized over the three-year period ended June 30, 2002. The amortization expenses for the years ended June 30, 2002 and 2001 was $5.1 million and $6.8 million, respectively. The intangible assets had been fully amortized by March 31, 2002.

5. Investment in Sun Media Group

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

The above investment was accounted for using the equity method of accounting until September 30, 2002 when the Company's equity interest in Sun Media dropped to below 20% and the Company ceased to maintain significant influence over its operations. Commencing October 1, 2002, such investment was accounted for as an investment in marketable equity securities under the provisions of SFAS 115 and was classified as available for sale and reported at fair value with unrealized gains (losses), if any, recorded as a component of comprehensive income (loss) included in shareholders' equity. For the six months ended December 31, 2002, the Company recorded $3.8 million of unrealized gains on the Sun Media investment as a component of comprehensive income in shareholders' equity. The fair market value of such investment was $16.7 million as of December 31, 2002.

The Company had recorded $0.9 million of equity loss from this investment through September 30, 2002 and the carrying value of this investment was $12.9 million at the time when the accounting method changed. The fair market value of this investment began to drop below the carrying value starting May 2003. At December 31, 2003, the fair market value of this investment was $6.8 million. The Company considered the decline in the value of this investment to be other than temporary and recognized $6.1 million as impairment of investment during the three months ended December 31, 2003.

6. Balance Sheet Components

(In U.S. dollars, in thousands)	December 31	
	2003	2002
Cash and cash equivalents:		
Cash and investment in money market accounts	$ 153,149	$ 43,268
Commercial paper	4,999	9,994
	$ 158,148	$ 53,262
Short-term investments:		
Time deposits	$ 35	$ 34
Marketable debt securities*	68,981	43,440
	$ 69,016	$ 43,474
*Marketable debt securities due within one year	$ 13,094	$ 28,585
Marketable debt securities due after one year through five years	55,887	14,855
	$ 68,981	$ 43,440
Accounts receivable, net:		
Accounts receivable	$ 19,183	$ 7,426
Less: Allowance for doubtful accounts	(1,577)	(1,579)
	$ 17,606	$ 5,847
Property and equipment, net:		
Computer equipment and software	$ 19,340	$ 16,764
Furniture and fixtures	1,295	903
Automobiles	231	–
Leasehold improvements	1,499	1,199
	22,365	18,866
Less: Accumulated depreciation and amortization	(13,719)	(11,267)
	$ 8,646	$ 7,599

6. Balance Sheet Components *(cont'd)*

(In U.S. dollars, in thousands)	December 31 2003	December 31 2002
Intangible assets, net:		
(i) MeMeStar		
Non-Compete agreements	$ 1,256	$ –
Customer lists	972	–
	2,228	–
Less: Accumulated amortization	(1,659)	–
Net	569	–
(ii) Techur		
Non-Compete agreements	181	181
Customer lists	902	902
	1,083	1,083
Less: Accumulated amortization	(180)	(90)
Write-off due to permanent impairment	(903)	–
Net	–	993
(iii) Sinanet.com		
Purchased technology	1,638	1,638
Trade name	931	931
Work force	762	762
Content relationship	1,197	1,197
Goodwill	15,895	15,895
	20,423	20,423
Less: Accumulated amortization	(20,423)	(20,423)
Net	–	–
Total intangible assets, net	$ 569	$ 993
Accrued liabilities:		
Payroll and related expenses	$ 6,147	$ 2,627
Deferred revenues and customer advances	4,253	3,346
Business taxes	2,485	654
Sales rebates	3,222	1,328
Content fees	1,970	488
Withholding tax from employees for stock options exercised	1,547	–
Payment for MeMeStar acquisition	2,625	–
Others	5,193	3,304
	$ 27,442	$ 11,747

7. Related Party Transactions

Transactions with ICP Company and Ad Company. To comply with Chinese regulations, in April 2000, Beijing SINA Information Technology Co. Ltd. or BSIT, the Company's subsidiary in China, entered into agreements with two limited liability companies incorporated in China: Beijing SINA Interactive Advertising Co., Ltd. (the "Ad Company") and Beijing SINA Internet Information Services Co., Ltd. (the "ICP Company".) The Ad Company is a Chinese advertising company that is 75% owned by Yan Wang, the Company's Chief Executive Officer, and 25% owned by BSIT. The ICP Company is a Chinese Internet content provider that is 3% owned by Yan Wang and 97% by six other PRC employees of the Company. All individual shareholders of the Ad Company and the ICP Company are required under their agreements with BSIT to transfer their interest in the Ad Company or ICP Company to BSIT or to any person specified by BSIT at any time at BSIT's request, provided that such transfer is not in violation of Chinese

laws and regulations. In the opinion of SINA's Chinese counsel, the ownership of BSIT and its businesses comply with existing Chinese laws and regulations.

Pursuant to these agreements, the ICP Company is responsible for operating www.sina.com.cn in connection with its Internet content company license and sells advertising space on the China website to the Ad Company. The Ad Company, in turn, places advertisements in this space for third parties under its advertising license. The Ad Company has become inactive after the ICP Company obtained online advertising license in May 2002 and the ICP Company began to sell advertising directly to advertisers. In addition, BSIT licensed intellectual property and transferred equipment to the ICP Company and acts as the ICP Company's provider of technical services, all in exchange for fees or other payments. BSIT is also a consultant and service provider to the Ad Company for its domestic Chinese customers. Substantially all of the income received from sales by the Ad Company and ICP Company from third parties is paid to BSIT.

Through ten-year proxies ending in the years 2011 and 2010, BSIT has complete voting control over the ICP Company and the Ad Company. The employee owners of the ICP Company and the Ad Company do not have participating rights as defined in EITF 96-16 with respect to the management of the ICP Company and the Ad Company. Therefore, the financial position and results of operations of the ICP Company and the Ad Company are consolidated with the financial statements of SINA, and intercompany transactions and balances are eliminated in the consolidation.

Prior to October 1, 2001, when BSIT obtained the proxy for the ICP Company, the financial position and results of operations of the ICP Company were not consolidated in the Company's financial statements. During the quarter ended September 30, 2001 and the year ended June 30, 2001, BSIT recorded $614,000 and $924,000, respectively, of revenue from technical support service provided to the ICP Company, which amounts were equal to the revenue the ICP Company received from unrelated parties during the same periods. During the quarter ended September 30, 2001 and the year ended June 30, 2001, the Ad Company paid the ICP Company $72,000 and $338,000, respectively, for advertising space. As a result of the transactions, BSIT recorded a receivable from the ICP Company of $436,000 at June 30, 2001. The amount plus loans by BSIT to certain employees for the purpose of setting up the ICP Company totaled to $556,000, which were reported as receivables from related parties as of June 30, 2001. Also, BSIT accrued for the costs and expenses of the ICP Company in excess of its revenues as the costs are incurred by the ICP Company. For the quarter ended September 30, 2001 and the year ended June 30, 2001, BSIT accrued $662,000 and $1.6 million, respectively, for the ICP Company's losses. BSIT obtained the proxy for the Ad Company earlier, and the results of the Ad Company have been consolidated for all periods presented.

BSIT was formerly known as Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS.

Joint venture investment. In December 1999, the Company contributed $1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd. The investment in the joint venture was accounted for under the equity method. The total expenses incurred from service provided by the joint venture for the year ended June 30, 2001 amounted to $309,000. The payable to the joint venture as of June 30, 2001 was $309,000. The investment was written off due to the joint venture's cessation of operation during the year ended June 30, 2001.

Shareholder notes. In 1999, certain officers of the Company exercised stock options prior to being vested with notes payable to the Company. The notes have a five-year term expiring in 2004 with full recourse and bear interest at rates ranging from 5.74% to 5.87%. Ordinary shares issued with notes payable are subject to rights of repurchase by the Company until such shares are vested. During the year ended December 31, 2003, six months ended December 31, 2002, and years ended June 30, 2002 and 2001, notes of $1.1 million, nil, $0.4 million and $0.6 million were repaid respectively. As of December 31, 2003, there were no outstanding notes receivable from shareholders.

8. Income Taxes

The Company is registered in Cayman Islands and has operations in four tax jurisdictions including China, the United States of America, Hong Kong and Taiwan. Taiwan is a branch office of the subsidiary in the United States.

The components of income before income taxes are as follows:

(In U.S. dollars, in thousands, except percentage)	Year Ended December 31	Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2001
Loss subject to non China operation	$ (11,864)	$ (2,770)	$ (12,155)	$ (24,180)
Income (loss) subject to China operation	44,182	3,686	(3,937)	(12,171)
Income (loss) before taxes	$ 32,318	$ 916	$ (16,092)	$ (36,351)
Income tax expenses subject to non China operation	$ –	$ –	$ –	$ –
Effective tax rate for non China operation	–	–	–	–
Income tax expenses subject to China operation	$ 895	$ –	$ –	$ –
Effective tax rate for China operation	2%	–	–	–

Cayman Islands

Under the current tax laws of Cayman Islands, the Company is not subject to tax on income or capital gain. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

United States of America

As of December 31, 2003, the Company's subsidiary in the United States of America had approximately $50.0 million of federal and $21.6 million of state net operating loss carryforwards available to offset future taxable income. The federal net operating loss carryforwards will expire, if unused, in the years ending December 31, 2012 through 2024, and the state net operating loss carryforwards will expire, if unused, in the years ending December 31, 2005 through 2014. Included in the net operating loss carryforwards is $7.5 million and $2.7 million of federal and state net operating loss carryforwards relating to employee stock options, the benefit of which will be credited to equity when realized. The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations when changes occur in the stock ownership of a company. In the event the Company has a change in ownership, utilization of carryforwards could be restricted. The deferred tax assets for the United States subsidiary at December 31, 2003 consists mainly of net operating loss carryforwards and were fully reserved as the management believes it is more likely than not that these assets will not be realized in the future.

The following table set forth the significant components of the net deferred tax assets for operation in the United States of America as of December 31, 2003 and 2002, and June 30, 2002 and 2001:

(In U.S. dollars, in thousands)	December 31	December 31	June 30	
	2003	2002	2002	2001
Deferred tax assets:				
Net operating loss carryforwards	$ 18,251	$ 15,323	$ 14,805	$ 12,301
Other accruals and liabilities	139	248	282	407
Depreciation and amortization	–	117	113	113
Other tax credits	564	592	622	578
Total deferred tax assets	18,954	16,280	15,822	13,399
Less: valuation allowance	(18,954)	(16,280)	(15,822)	(13,399)
Deferred tax assets	$ –	$ –	$ –	$ –

Hong Kong

As of December 31, 2003, the Company's Hong Kong subsidiary had approximately $10.4 million net operating loss carryforwards which can be carried forward indefinitely to offset future taxable income. The deferred tax assets for Hong Kong subsidiary at December 31, 2003 consists mainly of net operating loss carryforwards and were fully reserved as the management believes it is more likely than not that these assets will not be realized in the future.

The following table set forth the significant components of the net deferred tax assets for Hong Kong operation as of December 31, 2003 and 2002, and June 30, 2002 and 2001:

(In U.S. dollars, in thousands)	December 31	December 31	June 30	
	2003	2002	2002	2001
Deferred tax assets:				
Net operating loss carryforwards	**$ 1,778**	$ 1,624	$ 1,524	$ 1,268
Other accruals and liabilities	**16**	–	–	–
Total deferred tax assets	**1,794**	1,624	1,524	1,268
Less: valuation allowance	**(1,794)**	(1,624)	(1,524)	(1,268)
Deferred tax assets	**$ –**	$ –	$ –	$ –

China

The Company's subsidiaries and VIEs that are incorporated in China are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law and the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprise and Foreign Enterprises (collectively the "PRC Income Tax Laws"), respectively. Pursuant to the PRC Income Tax Laws, the Company's subsidiaries and VIEs are generally subject to EIT at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. However, some of the Company's subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to preferential tax rate of 15%. In addition, some of the Company's subsidiaries are Foreign Investment Enterprise and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing 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. As of December 31, 2003, the Company's China subsidiaries and VIEs on a combined basis had net operating losses carryforwards of approximately $2.1 million expiring from the year 2004 to 2007.

Composition of income tax expenses for China operation

The following table set forth current and deferred portion of income tax expenses of the Company's China subsidiaries and VIEs, which were included in the consolidated statements for the periods presented:

(In U.S. dollars, in thousands)	Year Ended December 31	Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2001
Current income taxes benefits (expenses)	**$ (1,802)**	$ –	$ –	$ –
Change in deferred tax assets	**1,545**	(190)	274	824
Change in valuation allowance	**(638)**	190	(274)	(824)
Income tax expenses	**$ (895)**	$ –	$ –	$ –

Reconciliation of the differences between statutory tax rate and the effective tax rate for China operation

The following table set forth reconciliation between the statutory EIT rate and the effective tax rate for China operation for the periods presented:

	Year Ended December 31	Six Months Ended December 31	Years Ended June 30	
	2003	2002	2002	2001
Statutory EIT rate	**33%**	33%	33%	33%
Tax differential from statutory rate applicable to the subsidiaries and VIEs	**(1%)**	(23%)	(7%)	(22%)
Effect on tax holiday	**(30%)**	–	–	–
Permanent differences	**2%**	1%	(20%)	(4%)
Change in valuation allowance	**(2%)**	(5%)	(7%)	(7%)
Others	**–**	(6%)	1%	–
Effective tax rate for China operations	**2%**	–	–	–

The following table set forth the significant components of the net deferred tax assets for China operation as of December 31, 2003 and 2002, and June 30, 2002 and 2001:

(In U.S. dollars, in thousands)	December 31	December 31	June 30	
	2003	2002	2002	2001
Deferred tax assets:				
Net operating loss carryforwards	**$ 566**	$ 1,394	$ 1,691	$ 1,655
Other accruals and liabilities	**1,048**	192	202	114
Depreciation and amortization	**619**	378	261	111
Total deferred tax assets	**2,233**	1,964	2,154	1,880
Less: valuation allowance	**(1,326)**	(1,964)	(2,154)	(1,880)
Deferred tax assets	**$ 907**	$ –	$ –	$ –

Aggregate net deferred tax assets

The following table set forth the significant components of the aggregate net deferred tax assets of the Company as of December 31, 2003 and 2002, and June 30, 2002 and 2001:

(In U.S. dollars, in thousands)	December 31	December 31	June 30	
	2003	2002	2002	2001
Deferred tax assets:				
Net operating loss carryforwards	**$ 20,595**	$ 18,341	$ 18,020	$ 15,224
Other accruals and liabilities	**1,203**	440	484	521
Depreciation and amortization	**619**	495	374	224
Other tax credits	**564**	592	622	578
Total deferred tax assets	**22,981**	19,868	19,500	16,547
Less: valuation allowance	**(22,074)**	(19,868)	(19,500)	(16,547)
Deferred tax assets	**$ 907**	$ –	$ –	$ –

9. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income (loss) 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 net income (loss) per share for the periods indicated:

(In U.S. dollars, in thousands, except per share amounts)	Years ended December 31		Six months ended December 31	Years ended June 30	
	2003	2002 (unaudited)	2002	2002	2001
Numerator:					
Net income (loss)	$ 31,423	$ (4,949)	$ 916	$ (16,092)	$ (36,351)
Amortization of convertible debt issuance cost	341	–	–	–	–
Net income (loss) used in computing diluted net income (loss) per share	$ 31,764	$ (4,949)	$ 916	$ (16,092)	$ (36,351)
Denominator:					
Weighted average ordinary shares outstanding	47,518	45,629	45,725	44,315	40,110
Ordinary shares to be issued for business acquisition	322	–	–	–	–
Shares used in computing basic net income (loss) per share	47,840	45,629	45,725	44,315	40,110
Weighted average ordinary share equivalents:					
Stock options	4,994	–	2,113	–	–
Unvested restricted shares	21	–	192	–	–
Convertible debt	1,939	–	–	–	–
	6,954	–	2,305	–	–
Shares used in computing diluted net income (loss) per share	54,794	45,629	48,030	44,315	40,110
Basic net income (loss) per share	$ 0.66	$ (0.11)	$ 0.02	$ (0.36)	$ (0.91)
Diluted net income (loss) per share	$ 0.58	$ (0.11)	$ 0.02	$ (0.36)	$ (0.91)

10. Employee Benefit Plans

401(k) Savings Plan

The Company's U.S. subsidiary has a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). Under the 401(k) Plan, participating employees may defer 100% of their eligible pretax earnings up to the Internal Revenue Service's annual contribution limit. All employees on the United States payroll of the Company age 21 years or older are eligible to participate in the 401(k) Plan. The Company has not been required to contribute to the 401(k) Plan.

China Contribution Plan

The Company's subsidiaries and VIEs in China participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiary to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond its monthly contribution. During the year ended December 31, 2003, six months ended December 31, 2002 and the years ended June 30, 2002 and 2001, the Company contributed a total of $2.3 million, $0.7 million, $0.8 million and $0.7 million, respectively, to these funds.

11. Profit Appropriation

The Company's subsidiaries and VIEs in China are required to make appropriations to certain non-distributable reserve funds. Its subsidiaries, in accordance with the laws applicable to China's Foreign Investment Enterprises, must make appropriations from its after-tax profit (as determined under PRC GAAP) to non-distributable reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. General reserve fund is at least 10% of the after-tax profits calculated in accordance with the PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the

respective company. The appropriation of the other two reserve funds is at the Company's discretion. At the same time, the Company's VIEs, in accordance with the China Company Laws, must make appropriations from its after-tax profit (as determined under PRC GAAP) to non-distributable reserve funds including (i) statutory surplus fund, (ii) statutory public welfare fund and (iii) discretionary surplus fund. Statutory surplus fund is at least 10% of the after-tax profits calculated in accordance with the PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the respective company. Appropriation to the statutory public welfare fund is 5% to 10% of the after-tax profits calculated in accordance with the PRC GAAP. Appropriation to discretionary surplus fund is made at the discretion of the Company.

General reserve fund and statutory surplus fund are restricted for set off against losses, expansion of production and operation or increase in register capital of the respective company. Statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of December 31, 2003, the Company had appropriated totaling $4.3 million to these non-distributable reserve funds.

12. Stock Plans

1999 Stock Plan

In May 1999, the Company adopted the 1999 Stock Plan (the "1999 Plan"). The 1999 Plan provides for the granting of stock options to employees, consultants and directors of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. As of December 31, 2003, the Company has cumulatively reserved 12,858,000 ordinary shares for issuance under the 1999 Plan, including a previous plan carried over from 1997 and options assumed in the Sinanet acquisition. The 1999 Plan provides for an annual automatic increase in the number of ordinary shares reserved for issuance under the plan on the first day of 2001, 2002, 2003, 2004 and 2005 fiscal years equal to the lesser of (1) 750,000 shares, (2) 3% of the ordinary shares outstanding on the last day of the immediately proceeding fiscal year, or (3) such lesser number of shares as is determined by the Board. The 1999 Plan will continue in effect until May 2009, unless terminated earlier in accordance with the terms of the Plan. As of December 31, 2003, there were a total of 4,370,000 options outstanding and 1,556,000 options were available for grant under the 1999 Plan.

Options under the Company's 1999 Plan may be granted for a term of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively. The exercise price of an ISO and NSO granted to a 10% shareholder should not be less than 110% of the estimated fair value of the shares on the date of grant. Options granted under the Plan through December 31, 2002 generally vest 25% after the first year and then 2.083% each month thereafter. Certain options vest monthly over a four year term or a one year term. Certain grants are exercisable immediately under such terms and conditions as determined by the Board of Directors. Ordinary shares issued upon such early exercises are subject to rights of repurchases by the Company until such shares become fully vested. At December 31, 2003, 2002 and June 30, 2002, there were nil, 150,000 and 309,000, respectively, shares of such ordinary shares issued that were subject to repurchase.

1999 Executive Stock Option Plan

In October 1999, the Board adopted the 1999 Executive Stock Option Plan (the "Executive Plan"). An aggregate of 2,250,000 ordinary shares have been reserved for issuance under the Executive Plan. The Executive Plan provides for the granting of options to purchase ordinary shares and ordinary share purchase rights to eligible employees and consultants. As of December 31, 2003, there were a total of 1,574,000 options outstanding and 86,000 options were available for grant under the Executive Plan. Options under Executive Plan may be granted for a term of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively. The exercise price of an ISO and NSO granted to a 10% shareholder should not be less than 110% of the estimated fair value of the shares on the date of grant. Options granted under the Executive Plan through December 31, 2002 generally vest 25% after the first year

and then 2.083% each month thereafter. Certain options vest monthly over a four-year term or a one year term. Certain grants are exercisable immediately under such terms and conditions as determined by the Board of Directors. Ordinary shares issued upon such early exercises are subject to rights of repurchases by the Company until such shares become fully vested. The Executive Plan will continue in effect until October 2009, unless terminated earlier in accordance with the terms of the Executive Plan.

Directors' Stock Option Plan

In October 1999, the Board approved the 1999 Directors' Stock Option Plan (the "Directors' Plan") covering an aggregate of 750,000 ordinary shares. The Directors' Plan became effective on the effective date of the initial public offering and provides a non-employee director after the completion of the offering (1) a non statutory stock option to purchase 37,500 ordinary shares on the date on which he or she first becomes a member of the Board of Directors, and (2) an additional non statutory stock option to purchase 15,000 shares on the date of each annual shareholders' meeting immediately thereafter, if on such date he or she has served on the Board for at least six months. All options granted under the Director's Plan shall not be less than 100% of the estimated fair value of the shares on the date of grant and shall have a maximum term of 10 years. All options granted under the Directors' Plan vest in full immediately upon grant. As of December 31, 2003, 326,000 options were outstanding and 315,000 options were available for grant under the Directors' Plan.

Activities of All Stock Option Plans

The following table summarizes stock option activity under the Company's stock option plans:

(In thousands, except per share amounts)	Year Ended December 31		Six Months Ended December 31		Years Ended June 30			
	2003		2002		2002		2001	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Outstanding at beginning of period	**6,583**	**$ 3.38**	5,551	$ 3.75	4,469	$ 6.21	4,722	$ 7.02
Granted	**2,077**	**14.42**	1,265	2.11	2,470	1.62	1,919	4.10
Exercised	**(1,668)**	**3.52**	(43)	1.07	(37)	0.47	(531)	1.66
Canceled	**(722)**	**3.30**	(190)	6.19	(1,351)	8.08	(1,641)	7.53
Outstanding at period end	**6,270**	**7.00**	6,583	3.38	5,551	3.75	4,469	6.21
Weighted average fair value of options granted during the year		**$ 8.56**		$ 1.39		$ 0.71		$ 3.08

At December 31, 2003, approximately 1,957,000 options were available for grant under the Plans.

	Options Outstanding at December 31, 2003			Options Exercisable at December 31, 2003	
Range of Exercise Prices	**Number Outstanding** *(In thousands)*	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Outstanding** *(In thousands)*	**Weighted Average Exercise Price**
$ 0.16 – $1.68	2,064	7.95	$ 1.54	1,148	$ 1.47
$ 1.88 – $3.125	1,235	8.24	2.19	384	2.42
$ 3.14 – $7.33	795	6.17	7.02	754	7.07
$ 8.42 – $37.59	2,176	9.07	14.91	524	18.41
	6,270			2,810	

Stock-based compensation. The Company recorded cumulative deferred stock compensation, which represents the difference between the exercise price of options granted and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was $0.6 million and $0.7 million for the year ended December 31, 2003 and six

months ended December 31, 2002, respectively, and $2.3 million and $7.5 million for the years ended June 30, 2002, and 2001, respectively.

Employee Stock Purchase Plan

In October 1999, the Board adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan"). An aggregate of 3,750,000 ordinary shares have been reserved for issuance under the plan, plus annual increases equal to the lesser of (1) 600,000 shares, (2) 0.5% of the ordinary shares outstanding on the last day of the immediately preceding fiscal year, or (3) such lesser number of shares as is determined by the Board. The Purchase Plan is implemented by a series of overlapping periods of approximately 24 months' duration, with new offering periods (other than the first offering period which will be approximately 9 1/2 months) commencing on February 1 and August 1 of each year. The price at which stock is purchased under the Purchase Plan is equal to the lower of 85% of the fair market value of the ordinary shares at the beginning of each offering period or at the end of each purchase period. The eligible employees can have up to 20% of their earnings withheld to be used to purchase shares of the Company's ordinary share. The Purchase Plan offers automatic withdrawal and reenrollment provision under which the participant in the ongoing offering period shall automatically be deemed to have withdrawn from the ongoing offering period and enrolled in such new offering period under the same subscription agreement in effect for such ongoing offering period if the fair market value of the shares on the new offering period is lower than the in progress offering period. The 1999 Employee Stock Purchase Plan became effective on the effective date of the initial public offering. As of December 31, 2003, total contributions by employees to the Purchase Plan were $0.8 million and 170,000 shares had been issued under the Purchase Plan.

13. 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 two principal business segments globally; advertising and non-advertising. The Company does not allocate any operating costs or assets to its 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 meaningful in evaluating these segments' performance.

The following is a summary of revenues, cost of revenues and gross profit margins:

(In U.S. dollars, in thousands)	Years Ended December 31		Six Months Ended December 31	Years Ended June 30	
	2003	2002 (Unaudited)	2002	2002	2001
Revenues:					
Advertising	**$ 41,173**	$ 24,703	$ 13,869	$ 21,105	$ 23,393
Mobile value-added services	**64,377**	9,079	6,047	3,920	–
Others	**8,735**	5,112	3,300	3,483	3,290
	$114,285	$ 38,894	$ 23,216	$ 28,508	$ 26,683
Cost of revenues:					
Advertising	**$ 14,001**	$ 11,267	$ 5,824	$ 11,537	$ 13,771
Mobile value-added services	**19,455**	3,267	2,258	1,275	–
Others	**950**	873	418	663	1,169
	$ 34,406	$ 15,407	$ 8,500	$ 13,475	$ 14,940
Gross profit margins:					
Advertising	**66%**	54%	58%	45%	41%
Mobile value-added services	**70%**	64%	63%	68%	–
Others	**89%**	83%	87%	81%	65%
Overall	**70%**	60%	63%	53%	44%

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

(In thousands)	U.S.	China	Hong Kong	Taiwan	Total
Year ended and as of December 31, 2003:					
Revenues	$ 2,398	$ 108,507	$ 1,854	$ 1,526	$ 114,285
Long-lived assets	66	7,592	132	856	8,646
Year ended and as of December 31, 2002 (unaudited):					
Revenues	$ 2,772	$ 32,502	$ 1,715	$ 1,905	$ 38,894
Long-lived assets	362	5,453	452	1,332	7,599
Six months ended and as of December 31, 2002:					
Revenues	$ 1,427	$ 19,675	$ 1,060	$ 1,054	$ 23,216
Long-lived assets	362	5,453	452	1,332	7,599
Year ended and as of June 30, 2002:					
Revenues	$ 2,524	$ 22,832	$ 1,542	$ 1,610	$ 28,508
Long-lived assets	666	5,079	824	1,671	8,240
Year ended and as of June 30, 2001:					
Revenues	$ 6,866	$ 17,190	$ 1,002	$ 1,625	$ 26,683
Long-lived assets	1,754	6,103	1,317	2,737	11,911

Revenues are attributed to the countries in which the invoices are issued. Long-lived assets comprise the net book value of property and equipment.

14. Certain Risks and Concentrations

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., China, 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.

The Company believes that the risk associated with accounts receivable is mitigated, to some extent, by the fact that the Company's customer base is geographically dispersed. Accounts receivable consist primarily of advertising agencies, direct advertising customers and third party mobile operators. Regarding its advertising revenues, one advertising customer represented 11% of net revenues for the year ended June 30, 2001. No individual advertising customer accounted for more than 10% of total net revenues for the year ended December 31, 2003, six months ended December 31, 2002 and the year ended June 30, 2002. Also, no individual advertising customer accounted for more than 10% of accounts receivables as of December 31, 2003 and 2002. For its mobile value-added services revenues, the Company contracts with third party mobile operators, China Mobile Communication Corporation ("China Mobile") and its subsidiaries and to a lesser extent China Unicom Co., Ltd ("Unicom") and its subsidiaries, for utilizing their billing systems to collect subscription or usage fees from its subscribers and transmission gateway for message delivery. Mobile value-added services fees charged to users via these third party mobile operators accounted for 56%, 26%, 14% of the Company's net revenues for the year ended December 31, 2003, six months ended December 31, 2002 and the year ended June 30, 2002. There were no such revenues for the year ended June 30, 2001. 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 such losses have not been significant and within the Company's expectation.

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

(unaudited)	% of Total Accounts Receivable	
Customer	**As of December 31, 2003**	**As of December 31, 2002**
China Mobile and its subsidiaries	45%	7%

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 affect 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 affect on the Company's business and operating results.

The Compare prepared the consolidated financial statements in accordance with the accounting principles generally accepted in the United States of America which 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.

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

The Company had recorded $6.1 million of as impairment of Investment in Sun Media Group during the three months ended December 31, 2003. If the fair market value continues to drop, the Company will need to recognize additional impairment charges in the future periods.

15. Convertible Debts

As of December 31, 2003, the Company has $100 million of zero coupon convertible subordinated notes (the "Notes") due 2023. The Notes were issued at par and bears no interest. The Notes will be convertible into SINA ordinary shares, upon satisfaction of certain conditions, at an initial conversion price of $25.79 per share, subject to adjustments for certain events.

One of the conditions for conversion of the Notes to SINA ordinary shares is conversion upon satisfaction of market price condition, when the sale price (defined as closing per share sales price) of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is more than 115% of the conversion price per ordinary share. For the two consecutive fiscal quarters ended September 30 and December 31, 2003, the sale price of SINA ordinary shares exceeded 115% of the conversion price per ordinary share for five consecutive trading days. The Notes are therefore convertible into SINA ordinary shares according to the threshold (i) described above until it is not being satisfied. As of December 31, 2003, the Company did not receive any request for conversion of the Notes to SINA ordinary shares.

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

16. Commitments and Contingencies

The following table sets forth the contractual commitments and obligations of the Company as of December 31, 2003:-

(In US dollars, in thousands)	Payments due by period				
	Total	Less than one year	One to three years	Three to five years	More than five years
Contractual obligations:					
Long-term debt obligations	$ 100,000	$ –	$ –	$ 100,000	$ –
Operating lease obligations	3,594	1,405	1,726	463	–
Purchase obligations	6,481	6,078	403	–	–
Other long-term liabilities	2,175	1,118	1,057	–	–
Total contractual obligations	$ 112,250	$ 8,601	$ 3,186	$ 100,463	$ –

Long-term debt obligations represent the zero coupon convertible subordinated notes issued on July 7, 2003. Please see Note 15 – "Convertible debts" for further information. Operating lease obligations include the commitments under the lease agreements for the Company's office premises. Purchase obligations include the commitments for Internet connection fees associated with website production, content fees associated with website production and mobile value-added services, advertising serving and tracking services and marketing activities.

The Company leases office facilities under noncancelable operating leases with various expiration dates through 2008. Rental expenses for the year ended December 31, 2003, six months ended December 31, 2002 and the years ended June 30, 2002 and 2001 totaled $1.7 million, $0.7 million, $1.1 million and $1.1 million, respectively.

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 December 31, 2003.

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

17. Subsequent Events

In January 2004, the Company entered into a definitive agreement with Yahoo!, the leading provider of comprehensive online products and services to consumers and businesses worldwide, to form a joint venture for providing online auction in China. According to the agreement, the Company will contribute certain services, advertising spaces and cash to account for 33% equity interest in the joint venture.

In February 2004, the Company entered into a definitive agreement to acquire all outstanding shares of Crillion Corporation, a BVI company engaged in mobile value-added services through its subsidiary and a VIE in China. The initial purchase price consists of $9.9 million in cash and approximately 196,000 of the Company's ordinary shares valued at $40.90 per share. Additional payments will be made on an earn-out basis at approximately 1.5 to 2 times of Crillion's 2004 and 2005 earnings if its pretax income for 2004 and 2005 exceeds $6.7 million and $13.3 million, respectively. The total consideration is subject to a cap of $125 million and will be paid 60% in cash and 40% in the Company's ordinary shares valued at $40.90 per share. The acquisition will be subject to customary closing conditions.

Supplementary **Financial Data** (unaudited)

Quarterly financial result

The following table reflects the Company's unaudited quarterly consolidated statement of operations data for the quarters presented. The Company believes that the historical quarterly information has been prepared substantially on the same basis as the audited consolidated financial statements, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to state fairly the unaudited quarterly results of operations data. Please refer to the Company's consolidated financial statements and the notes thereto for an explanation of the computation of basic and diluted net income (loss) per share.

(In U.S. dollars, in thousands, except per share amounts)	Quarterly Results for the Year Ended December 31, 2003			
	Dec. 31 2003	Sept. 30 2003	June 30 2003	March 31 2003
Net revenues	$ 38,270	$ 31,914	$ 25,987	$ 18,114
Gross profit	27,608	22,352	17,881	12,007
Net income	9,269	11,657	7,121	3,376
Basic net income per share	$ 0.19	$ 0.24	$ 0.15	$ 0.07
Shares used in computing basic net income per share	48,647	48,279	47,661	46,774
Diluted net income per share	$ 0.16	$ 0.21	$ 0.14	$ 0.07
Shares used in computing diluted net income per share	57,784	57,622	51,971	50,844

(In U.S. dollars, in thousands, except per share amounts)	Quarterly Results for the Six Months Ended December 31, 2002		Quarterly Results for the Year Ended June 30, 2002			
	Dec. 31 2002	Sept. 30 2002	June 30 2002	March 31 2002	Dec. 31 2001	Sept. 30 2001
Net revenues	$ 12,870	$ 10,346	$ 8,563	$ 7,115	$ 6,769	$ 6,061
Gross profit	8,409	6,265	5,014	3,697	3,272	2,917
Net income (loss)	1,475	(559)	(1,894)	(3,971)	(4,933)	(5,294)
Basic net income (loss) per share	$ 0.03	$ (0.01)	$ (0.04)	$ (0.09)	$ (0.11)	$ (0.13)
Shares used in computing basic net income (loss) per share	45,780	45,671	45,579	45,488	45,396	40,798
Diluted net income (loss) per share	$ 0.03	$ (0.01)	$ (0.04)	$ (0.09)	$ (0.11)	$ (0.13)
Shares used in computing diluted net income (loss) per share	48,868	45,671	45,579	45,488	45,396	40,798

(In U.S. dollars, in thousands, except per share amounts)	Quarterly Results for the Year Ended June 30, 2001			
	June 30 2001	March 31 2001	Dec. 31 2000	Sept. 30 2000
Net revenues	$ 5,779	$ 6,129	$ 7,622	$ 7,153
Gross profit	2,470	2,472	3,378	3,009
Net loss	(8,217)	(9,010)	(8,875)	(10,249)
Basic net loss per share	$ (0.20)	$ (0.22)	$ (0.22)	$ (0.26)
Shares used in computing basic net loss per share	40,453	40,300	40,123	39,565
Diluted net loss per share	$ (0.20)	$ (0.22)	$ (0.22)	$ (0.26)
Shares used in computing diluted net loss per share	40,453	40,300	40,123	39,565

Movement of allowances for doubtful accounts

The following is a summary of movement of allowance for doubtful accounts:

(In U.S. dollars, in thousands)	For the Year Ended December 31	For the Six Months Ended December 31	For the Years Ended June 30	
	2003	2002	2002	2001
Balance at beginning of year	**$ 1,579**	$ 1,996	$ 1,581	$ 756
Charge to expenses	**1,348**	1,091	$ 1,777	$ 1,438
Write-offs net of recoveries	**(1,350)**	(1,508)	$ (1,362)	$ (613)
Balance at end of year	**$ 1,577**	$ 1,579	$ 1,996	$ 1,581

Movement of valuation allowances for deferred tax assets

The following table set forth the movement of the aggregate valuation allowances for deferred assets for the periods presented:

(In U.S. dollars, in thousands)	For the Year Ended December 31	For the Six Months December 31	For the Years Ended June 30	
	2003	2002	2002	2001
Balance at beginning of the year	**$ 19,868**	$ 19,500	$ 16,547	$ 10,302
Provision for the year	**3,348**	1,075	2,953	6,245
Recoveries of deferred tax assets	**(1,142)**	(707)	–	–
Balance at end of the year	**$ 22,074**	$ 19,868	$ 19,500	$ 16,547

Company Information

Board of Directors

Daniel Chiang
Co-Chairman, SINA

Yongji Duan
Co-Chairman, SINA and Chairman, Stone Group Corporation

Dr Pehong Chen
Chief Executive Officer, President and Chairman, BroadVision, Inc

Lip-Bu Tan
Chairman, Walden International Investment Group

Ter Fung Tsao
Chairman, Standard Foods Corporation

Wang Yan
Chief Executive Officer and President, SINA

Yi-Chen Zhang
Chief Executive Officer, CITIC Capital Markets Holdings Ltd

Corporate Officers

Wang Yan
Chief Executive Officer and President

Charles Chao
Chief Financial Officer

Hurst Lin
Chief Operating Officer

LC Chang
Executive Vice President and Chief Marketing Officer

Benjamin Tsiang
Executive Vice President, Product Development/
General Manager of SINA Online

Corporate Governance

Compensation Committee:
Pehong Chen, Yongji Duan and Lip-Bu Tan

Audit Committee:
Lip-Bu Tan, Ter Fung Tsao and Yi-Chen Zhang

Share Administration Committee:
Daniel Chiang and Wang Yan

Corporate Headquarters

SINA Corporation
Room 1802, United Plaza
No. 1468 Nanjing West Road
Shanghai, 200040
PRC
Tel: +86 21 6289 5678
Fax: +86 21 6279 3803

Market Data

Exchange: NASDAQ
Ticker: SINA

Transfer Agent

American Stock Transfer and Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
United States of America

Independent Accountant

PricewaterhouseCoopers, LLP
18th Floor, North Tower
Beijing Kerry Center
1 Guanghua Lu, Chao Yang District
Beijing, 100020
PRC

Investor Relations

Chen Fu
Investor Relations Manager
Room 1802, United Plaza
No. 1468 Nanjing West Road
Shanghai, 200040
PRC
http://corp.sina.com
Tel: +86 21 6289 5678 ext. 6089
Fax: +86 21 6247 1903
Email: fuchen@staff.sina.com

Denise Roche
The Ruth Group
Tel: +1 646 536 7008
Email: droche@theruthgroup.com

A copy of this annual report can be found online at: http://corp.sina.com

Design: Format Limited www.format.com.hk