SINA CORPORATION Annual Report 2006

To Our Shareholders:

Since becoming CEO in May 2006, my priority has been to concentrate the company's efforts on our core business in online brand advertising. As a key part of strengthening our content offerings, we devoted significant resources to capitalize on the growing popularity of Web 2.0 and rich media in China. I am pleased to report that our efforts have been paid off and we saw a significant increase in web traffic during 2006. Full year 2006 revenues increased 10% to approximately $212.9 million from 2005, with online advertising revenues in China growing 44% over the prior year.

Our continuing leadership and growing influence in Chinese online media contributed significantly to our strong performance in 2006, which was shared by industry watchers. According to Internet Society's 2007 China Report, SINA ranked number one in terms of web site reach in China. China's Ministry of Information Industry awarded SINA "Internet Company of the Year" for 2006, and the Economy Observer selected SINA as one of the "China's Most Respected Enterprises"

Below I have highlighted a few achievements that helped contribute to our 2006 performance.

Web 2.0 Initiatives

During 2006, SINA Blog experienced a tenfold growth in traffic. According to the latest survey conducted by Internet Society of China, SINA Blog ranked number one in terms of reach among its Chinese peers, leading the second place player by over 70%. Today, thousands of celebrities and opinion leaders post blogs on SINA's web site. This has not only contributed to strong growth in users and traffic across key vertical channels, but has also significantly increased our brand recognition and relevancy in the Chinese Internet marketplace.

Leveraging the success of our blog, we began building our video and audio offerings. In 2006, we signed content partnerships with major TV stations and video production houses in China and overseas, positioning ourselves as a formidable video content provider among Chinese Internet companies. In December 2006, we launched SINA Podcasting, which is a YouTube-like platform that allows for video uploading and sharing and is fully integrated with our blog service, broadband video channel and vertical content channels. Initial results are positive. In its first month, SINA Podcasting received more than 15,000 daily video uploads and 5 million daily video downloads, making it one of the largest video sharing platforms in China. Additionally in March 2007, we introduced SINA MusicBox, which aggregates the music offerings of the "Big 4" international music labels as well as the largest Chinese music label company, making SINA MusicBox the largest legal online music offering in China.

The success of SINA blog is a testament of our brand versatility. The growing popularity of Web 2.0 in China presents a great opportunity for SINA to be a leading force in the Chinese interactive online community. We intend to continue our investments in these and other innovative platforms that will further grow web site traffic, increase user loyalty and broaden brand influence.

Vertical Channels

Our relentless focus on providing the largest number of high quality content offerings in China paid off in 2006, where we experienced significant traffic growth from our key vertical content channels. We differentiate ourselves through partnerships with approximately 2,000 media companies, unmatched in-house content development capabilities and innovative user-generated content offerings.

For example, our sports channel achieved further dominance in 2006. Despite the strong efforts taken by our competitors in 2006, we managed to further increase the gap in sports traffic between our closest competitors. We intend to invest more in the sports area in the future to further dominate Internet sports in China and lay a strong foundation for our 2008 Beijing Olympic Games coverage. Our auto channel also merits special recognition. According to a recent report by Internet Society of China, our auto channel is ranked number one in terms of reach, with an over 40% lead over the nearest competitor. With China becoming the second largest auto market in the world, we see great potential for online advertising growth in the next few years. Our finance channel also experienced significant growth in traffic as total page views for the vertical increased more than fivefold during 2006, driven by a growing interest in the Chinese stock market.

In addition to these content verticals, our news and entertainment channels continue to lead in their respective fields in both traffic and reach. While we will continue to make investments in multimedia products, pursuing excellence in major content verticals will remain an important focus.

MVAS

2006 has been a challenging year for our MVAS business. However, we have been actively managing the challenges to optimize for profitability by adjusting our strategy and exploring new business model in the MVAS area. We believe the anticipated 3G roll-out will bring tremendous opportunities to mobile Internet and mobile online advertising. SINA has a natural advantage over other service providers due to our strong brand, established leadership in both mobile and Internet portal and existing rich content offerings. I am pleased to report that we have grown the traffic of our free WAP portal by almost 300% in 2006, making SINA a leading WAP portal in China. With 461 million mobile users in China, triple the size of personal computer internet users, we view mobile advertising as a business with great potential and we will continue to pursue opportunities in this area.

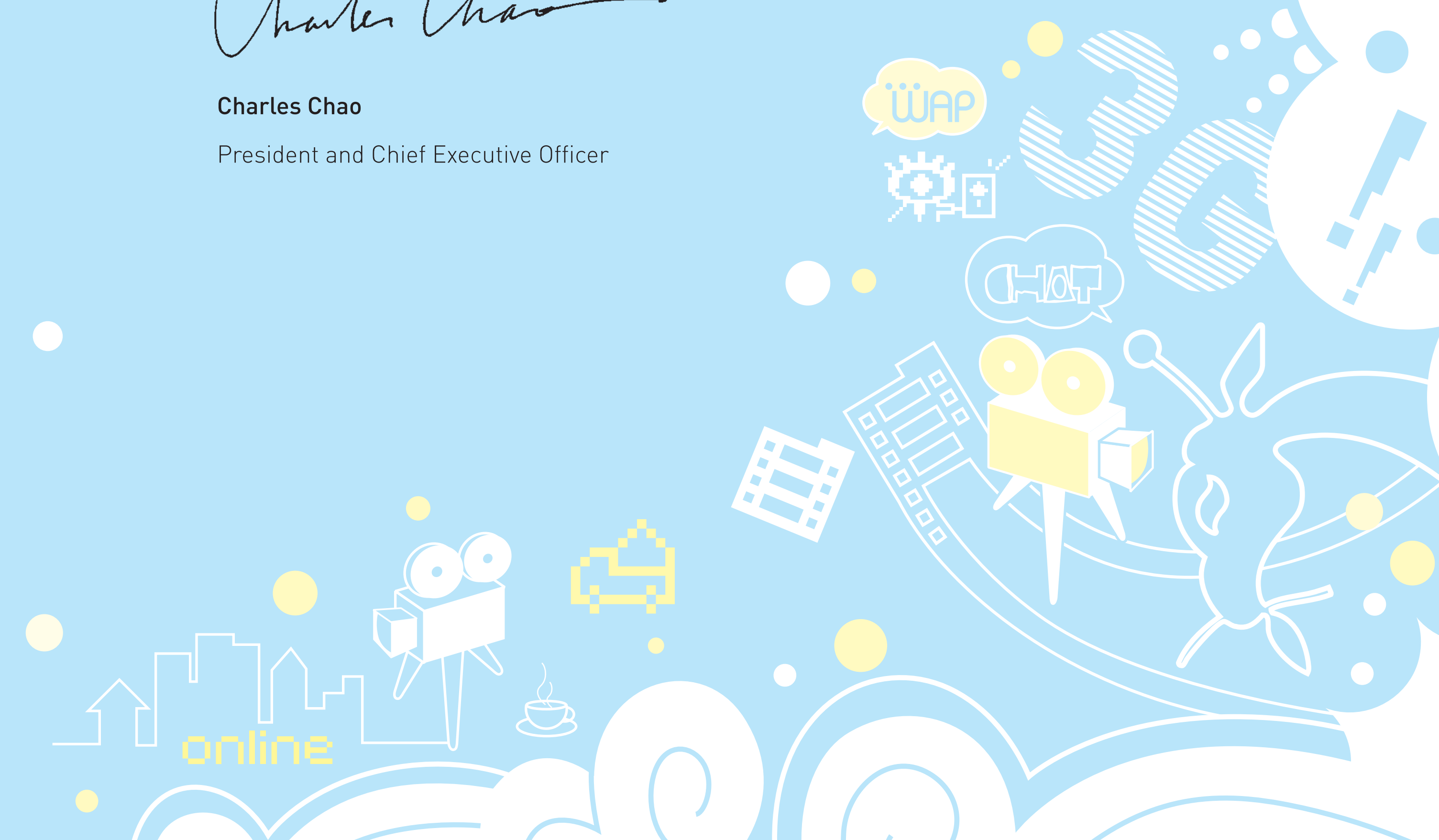
Looking Ahead

As we look to 2007, China's GDP, already the fourth largest in the world, is expected to continue an annual growth rate similar to the 9-10% in recent years. With China gearing up for the 2008 Olympics, we believe the general market conditions will be in favor of the growth of advertising industry. We also expect the growth rate of online advertising revenues to continue outpacing that of traditional media in China. These trends, combined with the anticipated 3G roll-out, bring about bright opportunities for online advertising in China. As a leader in both online advertising and MVAS in China, I believe SINA is well positioned to seize the opportunities.

Charles Chao

Charles Chao

President and Chief Executive Officer



Financial Information

Contents

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 the Form 10-K which can be downloaded from our web site http://corp.sina.com. In November 2002, we changed our fiscal year-end from June 30 to December 31. The selected consolidated statements of operation data presents the twelve month results for the four years ended December 31, 2006, 2005, 2004, 2003 and the six month results for the six months ended December 31, 2002, as well as the twelve month results for the year ended June 30, 2002. The selected unaudited consolidated statements of operation data for the year ended December 31, 2002 is also presented.

(in thousands, except per share data)	Years ended December 31,					Six months ended December 31,	Year ended June 30,
	2006	**2005**	**2004**	**2003**	**2002** (unaudited)	**2002**	**2002**
Operations:							
Net revenues	**$ 212,854**	$ 193,552	$ 199,987	$ 114,285	$ 38,894	$ 23,216	$ 28,508
Gross profit	**133,444**	130,445	138,376	79,848	23,385	14,674	14,900
Income (loss) before income taxes	**43,967**	45,525	69,224	32,318	(4,949)	916	(16,092)
Net income (loss)*	**39,916**	43,115	65,996	31,423	(4,949)	916	(16,092)
Net income (loss) per share*:							
Basic	**$ 0.74**	$ 0.82	$ 1.33	$ 0.66	$ (0.11)	$ 0.02	$ (0.36)
Diluted	**$ 0.69**	$ 0.75	$ 1.15	$ 0.58	$ (0.11)	$ 0.02	$ (0.36)

(in thousands)	December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Financial position:					
Cash, cash equivalents and short-term investments	**$ 362,751**	$ 300,689	$ 275,635	$ 227,164	$ 96,736
Working capital	**267,116**	297,910	252,027	219,866	91,814
Total assets	**538,809**	468,721	430,425	289,897	130,479
Long-term liabilities	**–**	100,000	102,142	100,000	–
Total liabilities	**150,996**	149,099	177,080	130,390	13,092
Total shareholders' equity	**387,813**	319,622	253,345	159,507	117,387

* Fiscal 2006 includes a $9.5 million or $0.16 diluted net income per share stock-based compensation charge, which the Company began to include in its costs of revenues and operating expenses starting January 1, 2006, in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment."

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 Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," the negative of such terms or other comparable terminology. All forward-looking statements included in this document are based on information available to us on the date hereof, and we undertake no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth below under the caption "Business — Risk Factors" set forth herein. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties, including the factors identified in "Business — Risk Factors," that could cause actual results to differ materially from those in the forward-looking statements. For more details, please visit our 10-K document which can be downloaded from our web site http://corp.sina.com.

OVERVIEW

We are an online media company and value-added information services provider in the People's Republic of China (the "PRC" or "China") and the global Chinese communities. With a branded network of localized web sites targeting Greater China and overseas Chinese, we provide services through five major business lines including SINA.com (online news and content), SINA Mobile (MVAS), SINA Community (Web 2.0—based services and games), SINA.net (search and enterprise solutions) and SINA E-Commerce (online shopping). Together these provide an array of services including region-focused online portals, MVAS, search and directory, interest-based and community-building channels, free and premium email, blog services, audio and video streaming, online games, virtual Internet Service Provider ("ISP"), classified listings, fee-based services, e-commerce and enterprise e-solutions. In turn, we generate revenues through advertising, MVAS and other fee-based services.

The primary focus of our operations is in China, where we derive the majority of our revenues. From 1999 to 2001, our growth was mainly driven by our online advertising business, which generated the majority of our total revenues. We began offering MVAS under arrangements with third-party mobile operators in the PRC in late 2001 and have up until 2004 experienced significant growth in MVAS revenues. Advertising and MVAS are currently the major sources of our revenues and we expect this trend to continue in the near future periods.

Our business operations in China are conducted primarily through material wholly-owned subsidiaries, including BSIT, Star-Village.com (Beijing) Internet Technology, Beijing New Media Information Technology, Beijing SINA Internet Technology Service, Sina.com Technology (China) and Fayco Network Technology Development (Shenzhen), and VIEs, including the ICP Company, the GDICP Company, Xunlong, Star VI, Wangxing and the IAD Company.

We have completed a number of acquisitions over the past few years, including MeMeStar in 2003, Crillion in 2004 and Davidhill in 2004. Our historical financial statements reflect the impact of these acquired businesses from their respective dates of acquisition. Excluding the impact from the acquisitions, our year-over-year comparison, calculated on a consolidated basis, would be significantly different.

We had incurred net losses through the third quarter of 2002. As of December 31, 2006 and 2005, we had accumulated earnings of $66.0 million and $26.1 million, respectively. We have funded our operations and capital expenditures primarily using the net proceeds raised through the sale of preference shares prior to our initial public offering and the sale of our ordinary shares in the initial public offering. Since we became profitable, we have also financed our operations using cash generated from operations. We raised additional capital through the issuance of zero-coupon, convertible, subordinated notes in July 2003. We will continue our investment in the development and enhancement of our products, content and services, as well as investment in sales and marketing. If we are unable to generate sufficient net income from our operations in the future, we may have to finance our operations from the current funds available or seek equity or debt financing.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS 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 generally accepted accounting principles in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates, judgments and assumptions 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, stock-based compensation, income taxes, financing operations, employee benefits, 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. For further information on our critical accounting policies, see the discussion in the section titled "Recent Accounting Pronouncements" below and Note 1 to the Consolidated Financial Statements.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue recognition

Advertising

Our advertising revenues are derived principally from online advertising and sponsorship arrangements. Online advertising arrangements allow advertisers to place advertisements on particular areas of our web sites, in particular formats and over particular periods of time. Sponsorship arrangements allow advertisers to sponsor a particular area on our web sites in exchange for a fixed payment over the contract period. While the majority of our revenue transactions contain standard business terms and conditions, there are certain transactions that contain non-standard business terms and conditions. In addition, we have certain sales transactions that involve multiple element arrangements (arrangements with more than one deliverable) that may include placement on specific properties. We also enter into arrangements to purchase goods and/or services from certain customers. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting for these transactions including: 1) how the arrangement consideration should be allocated among potential multiple elements; 2) when to recognize revenue on the deliverables; 3) whether all elements of the arrangement have been delivered; and 4) whether we receive a separately identifiable benefit from purchase arrangements with our customers for which we can reasonably estimate fair value. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

MVAS

We mainly rely on third-party mobile operators for billing and transmission of our MVAS to our users. The determination of whether we are the primary obligor for a particular type of service is subjective in nature and is based on an evaluation of the terms of the arrangement. If the terms of the arrangement with mobile operators were to change and cause us to no longer be the primary obligor to the users, we would have to record our MVAS revenues on a net basis. Consequently, this would cause a significant decline in our net revenues, but should not have a significant impact on our gross margin. During fiscal 2006, approximately 90% of our MVAS revenues were recorded on a gross basis.

Due to the time lag between when the services are rendered and when the mobile operator billing statements are received, MVAS revenues are estimated based on our internal records of billings and transmissions for the month, adjusting for prior periods' confirmation rates with mobile operators and prior periods' discrepancies between internally estimated revenues and actual revenues confirmed by mobile operators. The confirmation rate applied to the estimation of revenue is determined at the lower of the latest confirmation rate available and the average of six months historical rates available, provided that we have obtained confirmation rates for six months. If we have not yet received confirmation rates for six months, revenues would be deferred until billing statements are received from the mobile operators. If subsequent billing statements from the mobile operators differ significantly from management's estimates, our revenues could be materially impacted.

In the past, one of our mobile operators has requested resettlement of billings that were settled in previous periods and on which payments have been received. We have accrued for such credits to revenue based on a historical rolling average and the true ups between accrued amounts and actual credit memos issued have not been significant. If mobile operators request for a resettlement of billings for previous periods at an amount significantly higher than historical average, our revenues could be severely impacted.

In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

Advertising expenses

We expense all advertising costs as incurred and classify these costs under sales and marketing expenses. Advertising expenses include costs related to direct advertising that are intended to acquire subscribers for monthly subscription based and usage based MVAS. Assessing whether costs related to direct advertising should be expensed as incurred or capitalized and amortized over a longer period requires judgment, including determining whether the direct advertising activity has a primary purpose to elicit sales from customers who could be shown to have responded specifically to the advertising and whether the activities would result in probable future economic benefits. Changes in assumptions could materially affect the manner in which direct advertising costs are expensed.

Business combinations

We account for our business combinations using the 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, based on independent appraisal reports for material purchases as well as our experience with similar assets and liabilities in similar industries. If different judgments or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

Goodwill

We test goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis, or more frequently, if facts and circumstances warrant a review. We make judgments about goodwill whenever events or changes in circumstances indicate that an impairment in the value of goodwill recorded on our balance sheet may exist. The timing of an impairment test may result in charges to our statements of operations in our current reporting period that could not have been reasonably foreseen in prior periods. Application of goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to the reporting units, assigning goodwill to reporting units and estimating the fair value of each reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value of each reporting unit which could trigger impairment. More conservative assumptions of the anticipated future benefits from these reporting units could result in impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values. See Note 3 "Goodwill and intangible assets" in the consolidated financial statements for additional information on goodwill.

Property and equipment

Property and equipment 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. Judgment is required to determine the estimated useful lives of assets, especially for computer equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

Impairment of long-lived assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold or use is based on the amount by which the carrying value exceeds the fair value of the asset. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

Stock-based compensation

We adopted the provisions of, and have accounted for stock-based compensation in accordance with, Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") since January 1, 2006. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. We use the Black-Scholes option pricing model to determine the fair value of stock options and ESPP shares. The determination of the fair value of stock-based compensation awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Furthermore, we are required to estimate forfeitures at the time of grant and record stock-based compensation expense only for those awards that are expected to vest. If actual forfeitures differ from those estimates, we may need to revise those estimates used in subsequent periods.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and ESPP shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based compensation awards, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

The guidance provided in SFAS 123R and Staff accounting Bulletin ("SAB") No. 107 ("SAB 107") is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimates of stock-based compensation awards. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

See Note 13 for further information regarding stock-based compensation under SFAS 123R.

Income taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carryforwards. Management must make assumptions, judgments and estimates to determine our current provision for income taxes and our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impact our financial position and results of operations.

Foreign currency

Our functional currency is the U.S. dollar and our subsidiaries and VIEs in China, Hong Kong and Taiwan use their respective local currencies as their functional currencies. An entity's functional currency is the currency of the primary economic environment in which the entity operates. Management must use judgment in determining an entity's functional currency, assessing economic factors including cash flow, sales price, sales market, expense, financing and inter-company transactions and arrangements. Impact from exchange rate changes related to transactions denominated in currencies other than the functional currency is recorded as a gain and loss in our consolidated statements of operations, while impact from exchange rate changes related to translating a foreign entity's financial statements from the functional currency to our reporting currency, the U.S. dollar, is disclosed and accumulated in a separate component under the equity section of our consolidated balance sheets. Different judgments or assumptions resulting in a change of functional currency may materially impact our financial position and results of operations. For fiscal 2006, our translation adjustment was $8.3 million and our transactional loss was approximately $0.1 million.

Equity investments

Our equity investments are comprised of joint ventures and other privately held companies. We account for equity investments in entities in which we exercise significant influence but do not own a majority equity interest or otherwise control using the equity method. For equity investments over which we do not have significant influence, the cost method of accounting is used. We evaluate our equity investments for impairment whenever events and changes in business circumstances indicate the carrying amount of the equity investment may not be fully recoverable. The impairment evaluation requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the equity investments. Equity investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the equity investments. The determination of fair value of the equity investments involves considering factors such as current economic and market conditions, the operating performance of the companies including current earnings trends and undiscounted cash flows and other company-specific information including recent financing rounds. The evaluation process is based on information that we request from these privately-held companies. This information is not subject to the same disclosure regulations as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies. Fair value determination, particularly for equity investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the equity investments and the determination of whether any identified impairment is other-than-temporary.

Marketable securities

Our marketable securities are held as available for sale and are reported at fair value. The treatment of a decline in the fair value of an individual security is based on whether the decline is other-than-temporary. Significant judgment is required to assess whether the impairment is other-than-temporary. Our judgment of whether an impairment is other-than-temporary is based on an assessment of factors including our ability and intent to hold the individual security, severity of the impairment, expected duration of the impairment and forecasted recovery of fair value. Changes in the estimates and assumptions could affect our judgment of whether an identified impairment should be recorded as an unrealized loss in the equity section of our consolidated balance sheets or as a realized loss in the consolidated statements of operations.

Recent Accounting Pronouncements

In September 2006, the SEC released SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 will be effective for us for the fiscal year ended December 31, 2006. We are currently evaluating the impact of applying SAB 108 but do not believe that the application of SAB 108 will have a material effect on our financial position, cash flows nor results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No.157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for us starting January 1, 2008. We are currently evaluating the impact of adopting SFAS 157 on our consolidated financial position, cash flows and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize and disclose in our financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. We are currently evaluating the impact of adopting FIN 48 and its impact on our consolidated financial position, cash flows and results of operations.

In June 2006, FASB ratified the provisions of EITF Issue No. 06-3 "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"), which requires us to disclose how we account for taxes imposed on and concurrent with a specific revenue-producing transaction. EITF 06-3 will be effective for us starting January 1, 2007. We do not believe that the application of EITF 06-03 will have a material effect on our financial position, cash flow and results of operations.

RESULTS OF OPERATIONS

Net revenues

(In thousands, except percentages)	Years ended December 31,									
	2006			2005			2004		% of Change	
									YOY 06 & 05	YOY 05 & 04
Net revenues										
Advertising	**$ 120,067**	**56%**	$	84,999	44%	$	65,417	33%	41%	30%
Non-advertising:										
MVAS	**86,257**	**41%**		98,070	51%		123,954	62%	-12%	-21%
Others	**6,530**	**3%**		10,483	5%		10,616	5%	-38%	-1%
Subtotal	**92,787**	**44%**		108,553	56%		134,570	67%	-15%	-19%
Total net revenues	**$ 212,854**	**100%**	$	193,552	100%	$	199,987	100%	10%	-3%

Total net revenues increased 10% from 2005 to 2006. This was primarily due to the 41% year-over-year increase in advertising revenues and was partially offset by the 12% year-over-year decrease in MVAS revenues as well as the 38% year-over-year decline in other non-advertising revenues, mainly from search. Advertising revenues as a percentage of total net revenues grew to 56% in 2006 from 44% in 2005 while MVAS revenues declined to 41% in 2006 from 51% in 2005. Total net revenues declined 3% from 2004 to 2005. This was primarily due to the 21% year-over-year decline in MVAS revenues and was partially offset by the 30% year-over-year increase in advertising revenues.

Advertising. Advertising revenues grew 41% year-over-year in 2006 and 30% year-over-year in 2005. These increases were primarily due to the increase in the number of advertisers, price and overall average spending per advertiser in China.

For 2006, advertising revenues from China accounted for 97% of our total advertising revenues, compared to 96% and 94% of our total advertising revenues for 2005 and 2004, respectively. Total number of advertisers in China was approximately 980 in 2006, compared to approximately 790 and 760 in 2005 and 2004, respectively. Average revenue per advertising customer in China was approximately $120K in 2006, as compared to approximately $100K and $80K in 2005 and 2004, respectively. Our top ten customers in aggregate generated approximately 16%, 15% and 21% of our advertising revenues in the PRC in 2006, 2005 and 2004, respectively. Revenues from the automobile, information technology and real estate sectors contributed to approximately 53% and 47% of advertising revenues for 2006 and 2005, respectively, and were responsible for the majority of our advertising revenue growth for these two years.

Non-advertising. *MVAS.* MVAS revenues from China make up the majority of our non-advertising revenues. MVAS revenues declined 12% and 21% year-over-year in 2006 and 2005, respectively, which was the primary cause for the year-over-year declines in non-advertising revenues in 2006 and 2005.

(In thousands, except percentages)	Years ended December 31,										
	2006			2005			2004			**% of Change**	
										YOY 06 & 05	**YOY 05 & 04**
2.0G products	**$**	**73,665**	**85%**	$	83,745	85%	$	109,712	89%	-12%	-24%
2.5G products		**12,592**	**15%**		14,325	15%		14,242	11%	-12%	1%
Total MVAS revenues	**$**	**86,257**	**100%**	$	98,070	100%	$	123,954	100%	-12%	-21%

Revenues from 2.0G products, including SMS, IVR, CRBT, decreased 12% and 24% year-over-year in 2006 and 2005, respectively. SMS is the largest component of our MVAS. Revenues from SMS were $55.4 million, $71.5 million and $103.3 million or 64%, 73% and 83% of total MVAS revenues in 2006, 2005 and 2004, respectively. The decline in SMS revenues in 2006 from 2005 was largely due to higher churn rates by our monthly subscription users, less effective means to recruit new users and tightening operator policies and regulatory environment in China in general. The decline was partially offset by the increase in IVR revenues which were $15.0 million, $7.4 million and $4.7 million or 17%, 7% and 4% of total MVAS revenues in 2006, 2005 and 2004, respectively. The year-over-year growth of IVR revenues in 2006 was primarily due to increased promotion and the addition of IVR service with China Telecom. Revenues from CRBT declined 35% in 2006 as a result of reduced marketing efforts but previously increased 178% in 2005.

Revenues from 2.5G products, including MMS, WAP and Kjava, decreased 12% year-over-year in 2006 while increasing 1% year-over-year in 2005. MMS declined 41% and 33% year-over-year in 2006 and 2005, respectively, which was mainly due to certain changes by China Mobile, including the switch to a new billing platform as well as policy changes on monthly subscription service. WAP revenues dropped 1% year-over-year in 2006, while Kjava grew significantly in 2006 and 2005 but from a negligible base in 2004.

In July 2006, China Mobile made significant changes to their policy on subscription-based MVAS. These changes were in accordance with policy directives from China's Ministry of Information Industry ("MII") and were intended to address a number of issues, including reducing subscriber complaints, increasing customer satisfaction and promoting healthy development of the MVAS industry in China. The key changes include requiring double confirmations on new MVAS subscriptions as well as sending SMS reminders to existing monthly subscribers of SMS, MMS and WAP to inform them of their MVAS subscription and fee information. Certain provincial subsidiaries, such as Guangdong Mobile, one of China Mobile's largest provincial subsidiaries, have begun to discontinue charging MVAS users monthly subscription fees unless the users reply to the SMS reminders and reconfirm their subscription. Other provincial subsidiaries are expected to announce similar measures of their own. In addition, China Mobile's provincial subsidiaries began canceling existing WAP subscriptions that have been inactive for four months and existing SMS subscriptions of users who have not successfully received more than three SMS messages during the month. In September 2006, China Unicom began enforcing double confirmations on new subscription services. These policy changes by mobile operators have significantly reduced our ability to acquire new monthly MVAS subscribers and increased the churn rate of our existing monthly MVAS subscribers. China Mobile, China Unicom and other operators may announce additional measures in response to the MII campaign in the future, which may adversely impact on our results of operations, cash flows and financial condition.

For the fourth quarter of 2006, 34% of our revenues were from the MVAS business, approximately 34% and 16% of which related to monthly subscription from China Mobile and China Unicom, respectively. We derive the majority of our subscription revenues from SMS, MMS and WAP, and we expect revenues from these products to continue to be negatively impacted in the near future. We are in the process of developing and promoting new products that we believe are not subject to either China Mobile's or China Unicom's recent policy changes. However, there is no guarantee that we will be able to develop any such new products, that any such products will achieve market acceptance or that such products will not be affected by future changes in rules and regulations.

Other non-advertising revenues. Other non-advertising revenues include fee-based services, such as virtual ISP and paid email services, e-commerce and other enterprise services such as paid search and directory listings. The year-over-year decrease in other non-advertising revenues in 2006 was mainly due to revenue declines from paid search and directory listings, loss of revenues from the sale of our online hotel-booking business in the third quarter of 2005 and the sale of our interest in an online auction joint venture in the fourth quarter of 2005.

Revenues from paid search and directory listings accounted for 55%, 58% and 52% of our other non-advertising revenues in 2006, 2005 and 2004, respectively. Revenues from paid search and directory listings were mainly generated from pay-by-listing products related to an old search platform. Due to the phasing out of customer agreements, such revenues declined 41% year-over-year in 2006. Starting in the first quarter of 2006, we began to promote our new search engine iAsk as the preferred search engine on our web site. iAsk was offered free of charge during 2006.

Costs of revenues

(In thousands, except percentages)	Years ended December 31,				
	2006	**2005**	**2004**	**% of Change**	
				YOY 06 & 05	**YOY 05 & 04**
Costs of revenues:					
Advertising	**$ 42,529**	$ 27,627	$ 22,187	54%	25%
Non-advertising:					
MVAS	**34,255**	33,814	38,277	1%	-12%
Other	**2,626**	1,666	1,147	58%	45%
Subtotal	**36,881**	35,480	39,424	4%	-10%
Total costs of revenues	**$ 79,410**	$ 63,107	$ 61,611	26%	2%

Costs of revenues increased 26% and 2% year-over-year in 2006 and 2005, respectively. This was primarily due to the increase in costs of advertising revenue.

Advertising. Costs of advertising revenue consist mainly of expenses associated with the production of our web sites, which include fees paid to third parties for Internet connection, content and services, personnel-related costs and equipment depreciation expenses associated with our web site production. Costs of advertising revenue also include the business taxes on advertising sales in the PRC. Business taxes, surcharges and cultural business construction fees levied on advertising sales are approximately 8.5% of the advertising revenues.

Costs of advertising revenue increased 54% and 25% year-over-year in 2006 and 2005, respectively. The increases were due to higher web production costs driven by an increase in web production personnel and content fees, the increase in Internet connection costs associated with the additional bandwidth as well as the increase in business taxes associated with higher advertising revenues. These increases were driven by the need to provide additional resources to support our web traffic and advertising revenue growth. In 2006, costs of advertising revenue included stock-based compensation of $1.7 million as a result of the adoption of SFAS 123R on January 1, 2006. In 2004, content fees included $1.1 million paid to an exclusive Olympic content partner and $0.1 million paid for other one-time content purchases relating to Olympic coverage.

Non-advertising. Costs of non-advertising revenue consist mainly of fees paid to third-party mobile operators for their services relating to the collection of our MVAS revenues and for using their transmission gateways and fees or royalties paid to third-party content providers for services and contents associated with our MVAS. Costs of non-advertising revenue also include business taxes and surcharges levied on non-advertising sales in the PRC. Business taxes and surcharges levied on non-advertising revenues are approximately 3.3% for mobile related revenues and 5.5% for other non-advertising revenues.

Costs of MVAS revenue increased slightly by 1% year-over-year in 2006 while decreasing 12% year-over-year in 2005. Fees retained by or paid to mobile operators for 2006, 2005 and 2004 were $24.7 million, $24.7 million and $28.9 million, respectively, or 29%, 25% and 23%, respectively, of our MVAS revenues. Fees paid to third party content providers for 2006, 2005 and 2004 were $7.6 million, $6.3 million and $6.6 million, respectively, or 9%, 6% and 5%, respectively, of our MVAS revenues.

Costs of other non-advertising revenue also include costs for providing our enterprise services and other fee-based services. For 2006, costs of other non-advertising revenues include a $1.1 million write-off of prepaid royalty related to our iGame based on management's assessment of the game business.

Historical MVAS cost trends may not be indicative of future results, as the mobile operators in China have made changes to the way service fees are charged. For example, under a new arrangement with China Mobile, we were required to switch from using our own platform for IVR services to China Mobile's platform. Consequently, the service fees for IVR services were increased from 15% to 30% starting January 2007. Revenues from IVR are mostly generated from direct advertising. As a result of this change, we may incur higher costs of revenues or we may have to reduce, or discontinue, our promotion of IVR products, resulting in significant reduction of IVR revenues. For 2006, IVR revenues generated from China Mobile were approximately $8.0 million or 9% of our MVAS revenues. China Mobile, China Unicom and other operators may choose to further change their fee policies, which may have a material and adverse impact to our results of operation, financial position and cash flow.

Gross profit margins

	Years ended December 31,		
	2006	2005	2004
Gross profit margins:			
Advertising	**65%**	67%	66%
Non-advertising:			
MVAS	**60%**	66%	69%
Other	**60%**	84%	89%
Subtotal	**60%**	67%	71%
Overall	**63%**	67%	69%

Overall gross margin dropped four percentage points year-over-year to 63% for 2006 and dropped two percentage points year-over-year for 2005.

Advertising. The year-over-year decrease in advertising gross profit margin in 2006 was primarily due to the increased investment in our web site production and stock-based compensation, which we began to expense starting January 1, 2006, pursuant to SFAS 123R. Stock-based compensation for 2006 accounted for approximately 1% of our advertising revenues. For 2004, we paid $1.1 million in revenue-share expenses to an exclusive Olympic content partner and incurred an additional $0.1 million of other one-time content purchases relating to the Olympic coverage. These one-time content purchases were approximately 2% of our advertising revenue for 2004. The 1% year-over-year adjusted decline in advertising margin for 2005 was primarily due to the increase in our web site production expenses at a rate higher than the growth of advertising revenues. We expect to continue to increase our investments in the production of web content and Internet connection in absolute dollars to maintain our competitiveness.

Non-advertising. The majority of the costs associated with non-advertising revenues are variable costs. Gross margin for non-advertising revenues decreased 7% year-over-year in 2006 and 4% year-over-year in 2005. These decreases were mainly driven by the increase in transmission and content costs without a proportionate increase in revenues from MVAS.

We expect further increases in fees paid to mobile operators and content providers as a percentage of MVAS revenues, which will result in continuing decline in MVAS gross margin in the future.

Operating expenses

(In thousands, except percentages)	Years ended December 31,							
	2006		2005		2004		% of Change	
		% of net revenues		% of net revenues		% of net revenues	YOY 06 & 05	YOY 05 & 04
Sales and marketing expenses	**$ 49,972**	**23%**	$ 51,690	27%	$ 39,585	20%	-3%	31%
Product development expenses	**$ 19,573**	**9%**	$ 15,268	8%	$ 10,355	5%	28%	47%
General and administrative expenses	**$ 27,172**	**13%**	$ 18,820	10%	$ 15,619	8%	44%	20%

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotional expenditures and travel expenses. The year-over-year decrease in sales and marketing expenses in 2006 was primarily due to lower promotional expenditures from the MVAS business, partially offset by higher payroll-related expenses, such as sales commissions from the advertising business, bonuses, and stock-based compensation expenses of $1.5 million, as a result of adopting SFAS 123R on January 1, 2006. The year-over-year increase in sales and marketing expenses in 2005 was primarily due to higher promotional expenditures from the MVAS business and higher sales commissions from the advertising business. Sales and marketing expenses in 2004 included approximately $1.0 million used to promote Olympic-related content on our web site. Marketing expenses related to MVAS were $13.7 million, $21.2 million and $13.2 million for 2006, 2005 and 2004, respectively.

Product development expenses. Product development expenses consist primarily of personnel-related expenses incurred for the enhancement to and maintenance of our web sites as well as costs associated with new product development and enhancement for products such as email, blog and search engine. The year-over-year increases for 2006 and 2005 were primarily due to increases in headcount and higher depreciation expenses, resulting from additional purchases of capital equipment. Product development expenses in 2006 also included stock-based compensation of $1.8 million, as a result of adopting SFAS 123R. We expect our product development expenses to continue to increase in absolute dollars in the near future.

General and administrative expenses. General and administrative expenses consist primarily of compensation for personnel, fees for professional services, and provisions for doubtful accounts. Our general and administrative expenses also include expenses relating to the transfer of the economic benefits generated from our VIEs in the PRC to our subsidiaries, which were $5.9 million, $5.0 million and $4.7 million for 2006, 2005 and 2004, respectively.

The year-over-year increase in 2006 was mainly due to the increase in provision for doubtful accounts, as a result of increase in advertising revenues, increase in expenses relating to the transfer of the economic benefits generated from our VIEs in the PRC to our subsidiaries, increase in personnel compensation and inclusion of stock-based compensation of $4.4 million from the adoption of SFAS 123R. The year-over-year increase in 2005 was mainly due to the increase in provision for doubtful accounts, as a result of increase in advertising revenues, increase in expenses relating to the transfer of the economic benefits generated from our VIEs in the PRC to our subsidiaries, increase in personnel compensation, inclusion of $1.4 million professional services fees relating to our adoption of a shareholder rights plan, announced in February 2005, and related activities, and inclusion of $0.2 million related to the consolidation of our facilities in Beijing. General and administrative expenses in 2004 include professional services fees totaling $1.0 million for compliance with the regulations under the Sarbanes-Oxley Act of 2002 and related rules in 2004.

Amortization of intangible assets. Amortization of intangibles was approximately $1.8 million, or 1% of total net revenues, in 2006, compared with $3.2 million, or 2%, in 2005 and $3.5 million, or 2%, in 2004. As of December 31, 2006, the net carrying amount of our intangible assets includes purchased technology and non-compete agreements. These intangible assets are amortized over their respective useful lives. See Note 3 to the Consolidated Financial Statements for further information on intangible assets, including estimates of amortization expenses for future periods.

Interest and other income

Net interest income and other income consist mainly of interest income and totaled $8.5 million, $6.6 million and $5.1 million for 2006, 2005 and 2004, respectively. The year-over-year increases in 2006 and in 2005 were due to higher balance of cash, cash equivalent and short-term investments as well as higher interest rates overall in 2006 and 2005.

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 on a straight-line basis over four years. The amortization expense was $0.7 million for 2006, 2005 and 2004, respectively.

Gain on sale of business and investments, net

The following summarizes the gain and (loss) on the sale of business and investments:

(In thousands)	Years ended December 31,		
	2006	2005	2004
Bravado	**$ 161**	$ 1,487	$ –
COAL	**–**	2,649	–
Shanghai NC Soft	**2,006**	–	–
Others	**(134)**	–	1,160
	$ 2,033	$ 4,136	$ 1,160
% of total net revenues	**1%**	2%	1%

During the third quarter of 2005, we sold our online hotel business Bravado to Elong Inc. Total gain from the sale was $1.6 million. During the fourth quarter of 2005, we sold our 33% interest in COAL (a.k.a. 1Pai.com), an online auction joint venture with Yahoo!, to Alibaba.com, and recorded a gain of $2.6 million from the sale. During second quarter of 2006, we sold our 51% interest in Shanghai NC SINA, a game joint venture with NC Soft, to NC Soft, and recorded a gain of $2.0 million from the sale.

Loss on equity investments, net

The following summarizes our share of income (loss) from our equity investments:

(In thousands)	Years ended December 31,		
	2006	2005	2004
Shanghai NC Soft	**$ (108)**	$ 33	$ (964)
COAL	**–**	(2,187)	(2,168)
Others	**(582)**	(656)	(33)
	$ (690)	$ (2,810)	$ (3,165)
% of total net revenues	*****	(1%)	(2%)

* Less than 1%

Provision for income taxes

(In thousands)	Years ended December 31,		
	2006	2005	2004
Current income tax provision	**$ 4,401**	$ 2,671	$ 3,441
Deferred income tax benefit	**(350)**	(261)	(213)
Total	**$ 4,051**	$ 2,410	$ 3,228
Effective tax rate for China operation	**7%**	5%	4%

Based on our current operating structure and preferential tax treatments available to us in China, the effective income tax rate for our China operation in 2006 was 7%. The increases in effective income tax rate from 4% in 2004 and 5% in 2005 to 7% in 2006 was primarily due to the increase in valuation allowance for the deferred tax assets arising from the allowances for doubtful accounts, accruals and other liabilities. For further information on our tax structures and inherent risks see "If tax benefits currently available to us in China were no longer available, our effective income tax rates for our China operations could increase to 33%" under Risk Factors in Part I Item 1A. See also Note 9 — "Income Taxes" to the Consolidated Financial Statements for further discussion on income taxes. We expect our effective tax rate for our operation in China to continue to increase in the future, as we experience further expiration of tax holidays.

LIQUIDITY AND CAPITAL RESOURCES

(In thousands)	As of December 31		
	2006	2005	2004
Cash and cash equivalents and short-term investments	**$ 362,751**	$ 300,689	$ 275,635
Working capital	**$ 267,116**	$ 297,910	$ 252,027
Shareholder's equity	**$ 387,813**	$ 319,622	$ 253,345

We have funded our operations and capital expenditures primarily using the $97.5 million raised through the sale of preference shares, the $68.8 million raised from the sale of ordinary shares in the initial public offering and the $97.3 million raised from the sale of zero coupon convertible subordinated notes in July 2003, as well as cash generated from 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 bear no interest. The Notes are 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. 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. In accordance with SFAS 78, obligations such as the Notes are required to be classified as a current liability if they are or will be callable within one year from the balance sheet date. The closing price of our ordinary shares on December 29, 2006, the last trading day of 2006, was $28.70. Based on the circumstances and information provided to us as of December 31, 2006, we do not believe that it is likely the purchasers will require us to repurchase the Notes in 2007. 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, which Registration Statement is no longer 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 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 quarter ended December 31, 2006, the sale price of SINA ordinary shares did not exceed 115% of the conversion price per ordinary share for five consecutive trading days. The Notes are therefore not convertible into SINA ordinary shares for the quarter ending March 31, 2007 in accordance with threshold (i) described above. Upon a purchaser's election to convert the Notes in the future periods, we have the right to deliver cash in lieu of ordinary shares, or a combination of cash and ordinary shares.

As of December 31, 2006, we had $362.8 million in cash and cash equivalents and short-term investments to meet the future requirements of our operating activities. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months.

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

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

(In thousands)	Years ended December 31,		
	2006	**2005**	**2004**
Net cash provided by operating activities	**$ 63,097**	$ 58,273	$ 74,858
Net cash used in investing activities	**(850)**	(133,810)	(95,007)
Net cash provided by financing activities	**9,979**	7,015	15,769
Effect of exchange rate changes on cash and cash equivalents	**2,541**	3,164	–
Net increase (decrease) in cash and cash equivalents	**74,767**	(65,358)	(4,380)
Cash and cash equivalents at beginning of period	**88,410**	153,768	158,148
Cash and cash equivalents at end of period	**$ 163,177**	$ 88,410	$ 153,768

Operating activities

Net cash provided by operating activities for 2006 was $63.1 million. This was primarily attributable to our net income of $39.9 million, adjusted by non-cash related expenses including depreciation of $9.9 million, stock-based compensation of $9.5 million, amortization of intangible assets of $1.8 million, allowance for doubtful accounts of $5.0 million, amortization of convertible debt issuance cost of $0.7 million, and net losses from equity investments of $0.7 million, offset by gains from the sale of businesses and investments of $2.0 million and a net decrease in working capital items of $2.2 million. The net decrease in working capital items was mainly due to increase in account receivables which resulted from the significant increase in our advertising revenues during 2006, partially offset by the increase in income tax payable and accrued liabilities such as sales rebates, content fees, bandwidth costs, sales commission, bonuses, and overall marketing expenses.

Net cash provided by operating activities for 2005 was $58.3 million. This was primarily attributable to our net income of $43.1 million, adjusted by non-cash related expenses including depreciation of $9.6 million, amortization of intangible assets of $3.2 million, an impairment charge on investment in Tidetime Sun of $3.2 million, allowance for doubtful accounts of $2.3 million, amortization of convertible debt issuance cost of $0.7 million, and net losses from equity investments of $2.8 million, offset by a gain from the sale of business of $4.1 million and a net decrease in working capital items of $2.3 million. The decrease in working capital items was mainly due to decrease in accrued liabilities such as customer advance, withholding tax from employees and sales rebates offset by decreased accounts receivable and prepaid expenses and other current assets. The decrease in account receivables resulted from better collection.

Net cash provided by operating activities for 2004 was $74.9 million. This was primarily attributable to our net income of $66.0 million, adjusted by non-cash related expenses including depreciation of $5.8 million, amortization of intangible assets of $3.5 million, net loss on equity investments of $3.2 million, an impairment charge of investment in Tidetime Sun of $2.6 million, allowance for doubtful accounts of $1.1 million, and amortization of convertible debt issuance cost of $0.7 million, offset by gain on sale of business and investment of $1.2 million and a net decrease in working capital items of $6.6 million. The decrease in working capital items was mainly due to increase in accounts receivable and prepaid expenses and other current assets, offset by the increase in accrued liabilities such as customer advance and sales rebates. The increase in account receivables resulted from the significant increase in our net revenues, especially our MVAS during 2004. The increase in prepaid expenses and other current assets was mainly related to prepayments for our office lease and renovation work of our new office premises in Beijing.

Investing activities

Net cash used in investing activities for 2006 was $0.9 million. This was primarily due to equipment purchases of $14.1 million and additional consideration related to Crillion acquisition of $11.3 million. This was partly offset by the net proceeds from the maturities of short-term investments of $18.0 million, the sales of equity investments of $5.3 million, Bravado of $0.6 million and Tidetime Sun of $0.6 million.

Net cash used in investing activities for 2005 was $133.8 million. This was primarily due to the net purchase of short-term investments of $90.5 million, additional considerations related to acquisitions totaling $26.1 million, equipment purchases of $15.4 million and additional equity investments of $3.0 million. This was partly offset by the proceeds of $1.7 million from the sale of Bravado.

Net cash used in investing activities for 2004 was $95.0 million. This was primarily due to the net purchase of short-term investments of $53.0 million, acquisition of Bravado, Crillion and Davidhill (net of cash acquired) of $27.6 million, purchase of equipment of $13.0 million and equity investments of $2.7 million. The decrease in cash and cash equivalents was offset by the proceeds of $1.2 million from the sale of a minority interest investment. Cash used in business acquisitions (net of cash acquired) included the last two installments of our acquisition of MeMeStar of $2.6 million, acquisition of Bravado of $0.9 million, acquisition of Crillion of $8.5 million, acquisition of Davidhill of $15.0 million and direct costs associated with the acquisitions of $0.6 million.

Financing activities

Net cash provided by financing activities for 2006 and 2005 was $10.0 million and $7.0 million, respectively, and were primarily related to the proceeds from the exercise of stock options.

Net cash provided by financing activities for 2004 was $15.8 million representing the proceeds from the exercise of stock options and the issuance of ordinary shares pursuant to the Employee Stock Purchase Plan.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2006:

(In thousands)	Payments due by period				
	Total	Less than one Year	One to three years	Three to five years	More than five years
Operating lease obligations	$ 1,637	$ 900	$ 737	$ –	$ –
Purchase commitments	22,350	15,754	6,185	201	210
Total contractual obligations	$ 23,987	$ 16,654	$ 6,922	$ 201	$ 210

Operating lease obligations include the commitments under the lease agreements for our office premises. We lease office facilities under non-cancelable operating leases with various expiration dates beginning 2005 through 2009. Rental expenses for the years ended December 31, 2006, 2005 and 2004 were $3.6 million, $3.1 million and $3.0 million, respectively. Based on the current rental lease agreements, future minimum rental payments required as of December 31, 2006 are $0.9 million, $0.6 million and $0.1 million for the years ending December 31, 2007, 2008 and 2009, respectively. The majority of the commitments are from our office lease agreements in the PRC.

Purchase commitments mainly include minimum commitments for Internet connection fees associated with web site production, content fees associated with web site production and MVAS, advertising serving services and marketing activities.

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 such restrictions currently in place, but in addition regulations are unclear as to in which 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.

For a discussion of current lawsuits, please refer to Item 3 Legal Proceedings in the 10-K document which can be downloaded from our web site http://corp.sina.com.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated 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.

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, high-quality corporate securities and bank-guaranteed products. 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 believe that the Company has the ability to hold to maturity these investments. As of December 31, 2006, we had unrealized losses of $2.4 million related to our short-term investments included in accumulated other comprehensive loss in shareholders' equity.

We have approximately $246.7 million in cash and bank deposits, such as time deposits and bank notes, with five different banks in China, which constitute about 68% of our total cash, cash equivalent and short-term investments as of December 31, 2006. The terms or these deposits are, in general, up to twelve months. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors' interests. However, China promulgated a new Bankruptcy Law in August 2006, which will come into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the new Bankruptcy Law, a Chinese bank may go bankrupt. In addition, since China's concession to WTO, foreign banks have been gradually permitted to operate in China and have been severe competitors against Chinese banks in many aspects, especially since the opening of renminbi business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those banks in which we have deposits has increased. In the event of bankruptcy of one of the banks which holds our deposits, we are unlikely to claim our deposits back in full since we are unlikely to be classified as a secured creditor based on PRC laws.

Our $100 million, zero-coupon, convertible, subordinated notes due 2023 bear no interest and are denominated in U.S. dollars. Therefore, there is no interest or foreign currency exchange risk associated with the outstanding notes.

FOREIGN CURRENCY EXCHANGE RATE RISK

The majority of our revenues derived and expenses and liabilities incurred are in Chinese renminbi with a relatively small amount in New Taiwan dollars, Hong Kong dollars and U.S. dollars. Thus, our revenues and operating results may be impacted by exchange rate fluctuations in the currencies of China, Taiwan and Hong Kong. See "Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenue in U.S. dollar terms" in the "Risk Factors" section. We have not reduced our exposure to exchange rate fluctuations by using hedging transactions. While we may choose to do so in the future, the availability and effectiveness of any hedging transactions may be limited and we may not be able to successfully hedge our exchange rate risks. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. During the twelve months ended December 31, 2006, the foreign currency translation adjustments to our comprehensive income were $8.3 million and the currency transaction loss was approximately $0.1 million, primarily as a result of the Chinese renminbi appreciating against the U.S. dollar. Below is a sensitivity analysis on the impact of a change in the value of the Chinese renminbi against the U.S. dollar assuming: 1) projected net income from operation in China equal to fiscal 2006, 2) projected net assets of the operation in China equal to the balances in Chinese renminbi and U.S. dollar as of December 31, 2006 and 3) currency fluctuation occurs proportionately over the period:

(in thousands) **Change in the value of Chinese renminbi against the U.S. dollar**	**Translation adjustments to comprehensive income**	**Transaction gain (loss)**
Appreciate 2%	**$ 6,140**	**$ (80)**
Appreciate 5%	**$ 15,370**	**$ (200)**
Depreciate 2%	**$ (6,130)**	**$ 80**
Depreciate 5%	**$ (15,300)**	**$ 200**

INVESTMENT RISK

Equity investment

We have direct equity investment in a privately held company, which is considered in the start-up or development stages. This equity investment is inherently risky, as the technologies or products this company has under development are typically in the early stages and may never materialize, and we could lose a substantial part of our equity investment in this company. As of December 31, 2006, our direct equity investment was $1.2 million. See also Note 5 in our Notes to Consolidated Financial Statements.

Investment in marketable debt securities

We invest in marketable debt securities to preserve principal and maximize yield without significantly increasing risks. As of December 31, 2006, our marketable debt securities totaled $44.2 million. These marketable debt securities are accounted for as available-for-sale and are reported at fair value, because our intent is to make them readily available for sale to meet operating or acquisition needs. As of December 31, 2006, unrealized loss recorded in accumulated other comprehensive income of shareholders' equity was $2.4 million. See also Note 6 in our Notes to Consolidated Financial Statements.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the Company's management, including our principal executive officer and principal financial officer, the Company evaluated the effectiveness of the its internal control over financial reporting based on criteria established in the framework in Internal Control-integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that its internal control over financial reporting was effective as of December 31, 2006.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian CPAs Limited Company, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of SINA Corporation:

We have completed integrated audits of SINA Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SINA Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Beijing, the People's Republic of China

March 1, 2007

Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 163,177**	$ 88,410
Short-term investments	**199,574**	212,279
Accounts receivable, net of allowances for doubtful accounts of $4,471 and $2,443, respectively	**45,031**	33,940
Short-term deferred tax assets	**437**	857
Prepaid expenses and other current assets	**9,893**	11,523
Total current assets	**418,112**	347,009
Investment in Tidetime Sun	**–**	716
Property and equipment, net	**27,101**	22,207
Equity investments	**1,170**	3,261
Intangible assets, net	**7,871**	9,691
Goodwill	**82,663**	82,663
Other assets	**1,892**	3,174
Total assets	**$ 538,809**	$ 468,721
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 1,614**	$ 1,582
Accrued liabilities	**41,993**	43,235
Income taxes payable	**7,389**	4,282
Convertible debt	**100,000**	–
Total current liabilities	**150,996**	49,099
Long-term liabilities:		
Convertible debt	**–**	100,000
Total liabilities	**150,996**	149,099
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Ordinary Shares: $0.133 par value; 150,000 shares authorized; 54,344 and 53,265 shares issued and outstanding	**7,228**	7,084
Additional paid-in capital	**303,868**	284,559
Retained earnings	**65,973**	26,057
Accumulated other comprehensive income (loss):		
Unrealized loss on investments in marketable securities	**(2,371)**	(2,903)
Cumulative translation adjustments	**13,115**	4,825
Total shareholders' equity	**387,813**	319,622
Total liabilities and shareholders' equity	**$ 538,809**	$ 468,721

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

Consolidated Statements of Operations

(In thousands, except per share data)	Years ended December 31,		
	2006	2005	2004
Net revenues:			
Advertising	**$ 120,067**	$ 84,999	$ 65,417
Non-advertising	**92,787**	108,553	134,570
	212,854	193,552	199,987
Costs of revenue:			
Advertising (*)	**42,529**	27,627	22,187
Non-advertising	**36,881**	35,480	39,424
	79,410	63,107	61,611
Gross profit	**133,444**	130,445	138,376
Operating expenses:			
Sales and marketing*	**49,972**	51,690	39,585
Product development*	**19,573**	15,268	10,355
General and administrative*	**27,172**	18,820	15,619
Amortization of intangible assets	**1,820**	3,159	3,492
Total operating expenses	**98,537**	88,937	69,051
Income from operations	**34,907**	41,508	69,325
Interest and other income, net	**8,549**	6,551	5,139
Amortization of convertible debt issuance cost	**(685)**	(685)	(685)
Gain on sale of business and investment, net	**2,033**	4,136	1,160
Loss on investment in Tidetime Sun	**(147)**	(3,175)	(2,550)
Share of loss of equity investments, net	**(690)**	(2,810)	(3,165)
Income before income taxes	**43,967**	45,525	69,224
Income tax expenses	**(4,051)**	(2,410)	(3,228)
Net income	**$ 39,916**	$ 43,115	$ 65,996
Basic net income per share	**$ 0.74**	$ 0.82	$ 1.33
Shares used in computing basic income per share	**53,696**	52,485	50,274
Diluted net income per share	**$ 0.69**	$ 0.75	$ 1.15
Shares used in computing diluted income per share	**58,549**	58,792	58,204

* Costs of revenues and operating expenses for the year ended December 31, 2006 include stock-based compensation expense in accordance with SFAS 123R, which the Company adopted on January 1, 2006. See Note 13 – "Shareholder's Equity" to the Consolidated Financial Statements for additional information.

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

Consolidated Statements of Shareholders' Equity

(In thousands)

	Ordinary Shares	
	Shares	**Amount**
Balances at December 31, 2003	48,627	$ 6,471
Comprehensive income:		
Net income	–	–
Unrealized gain on marketable securities	–	–
Currency translation adjustments	–	–
Total comprehensive income		
Issuance of ordinary shares pursuant to stock plans	2,296	305
Business acquisition	436	58
Balances at December 31, 2004	51,359	6,834
Comprehensive income:		
Net income	–	–
Unrealized loss on marketable securities	–	–
Currency translation adjustments	–	–
Total comprehensive income		
Issuance of ordinary shares pursuant to stock plans	1,589	208
Business acquisition	317	42
Balances at December 31, 2005	53,265	7,084
Comprehensive income:		
Net income	–	–
Unrealized gain on marketable securities	–	–
Currency translation adjustments	–	–
Total comprehensive income		
Issuance of ordinary shares pursuant to stock plans	895	119
Stock-based compensation expenses	–	–
Business acquisition	184	25
Balances at December 31, 2006	**54,344**	**$ 7,228**

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

Additional Paid-in Capital	Ordinary Shares Subject to Subsequent Issuance	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
$ 236,222	$ 1,349	$ (83,054)	$ (1,481)	$ 159,507
–	–	65,996	–	65,996
–	–	–	1,115	1,115
–	–	–	23	23
				67,134
15,464	–	–	–	15,769
12,226	(1,349)	–	–	10,935
263,912	–	(17,058)	(343)	253,345
–	–	43,115	–	43,115
–	–	–	(2,508)	(2,508)
–	–	–	4,773	4,773
				45,380
6,807	–	–	–	7,015
13,840	–	–	–	13,882
284,559	–	26,057	1,922	319,622
–	–	39,916	–	39,916
–	–	–	532	532
–	–	–	8,290	8,290
				48,738
9,860	–	–	–	9,979
9,474	–	–	–	9,474
(25)	–	–	–	–
$ 303,868	**$ –**	**$ 65,973**	**$ 10,744**	**$ 387,813**

Consolidated Statements of Cash Flows

(In thousands)	Years ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net income	**$ 39,916**	$ 43,115	$ 65,996
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**9,892**	9,593	5,827
Stock-based compensation	**9,474**	–	–
Amortization of convertible debt issuance cost	**685**	685	685
Amortization of intangible assets	**1,820**	3,159	3,492
Allowances for doubtful accounts	**5,044**	2,271	1,060
Deferred income tax benefits	**(350)**	(261)	(213)
Gain on sale of business and investment, net	**(2,033)**	(4,136)	(1,160)
Loss on investment in Tidetime Sun	**147**	3,175	2,550
Share of loss of equity investments, net	**690**	2,810	3,165
Loss on disposal of property and equipment	**17**	156	33
Changes in assets and liabilities (net of effect from acquisition and disposal):			
Accounts receivable	**(14,791)**	4,324	(19,469)
Prepaid expenses and other current assets	**(490)**	3,227	(2,586)
Other assets	**1,429**	(803)	311
Accounts payable	**(1)**	(513)	671
Accrued liabilities	**8,726**	(8,217)	13,006
Income taxes payable	**2,922**	(312)	1,490
Net cash provided by operating activities	**63,097**	58,273	74,858
Cash flows from investing activities:			
Purchases of short-term investments	**(102,135)**	(212,532)	(110,712)
Maturities of short-term investments	**120,121**	122,040	57,669
Purchases of property and equipment	**(14,090)**	(15,369)	(13,000)
Cash paid for business acquisitions, net of cash acquired	**(11,266)**	(26,141)	(27,573)
Cash paid for equity investments	**–**	(3,024)	(2,660)
Deposits on equity investment and acquisition	**–**	(800)	(241)
Proceeds from sale of business, net	**636**	1,730	–
Proceeds from sale of investments	**5,315**	286	1,215
Proceeds from sale of investment in Tidetime Sun	**569**	–	295
Net cash used in investing activities	**(850)**	(133,810)	(95,007)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares	**9,979**	7,015	15,769
Net cash provided by financing activities	**9,979**	7,015	15,769
Effect of exchange rate change on cash and cash equivalents	**2,541**	3,164	–
Net increase (decrease) in cash and cash equivalents	**74,767**	(65,358)	(4,380)
Cash and cash equivalents at the beginning of the year	**88,410**	153,768	158,148
Cash and cash equivalents at the end of the year	**$ 163,177**	$ 88,410	$ 153,768
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	**$ 1,294**	$ 2,891	$ 1,090
Cash paid for acquisitions, net:			
Cash paid for acquisitions	**$ (11,266)**	$ (26,141)	$ (29,100)
Cash acquired	**–**	–	1,527
	$ (11,266)	$ (26,141)	$ (27,573)
Supplemental disclosure of noncash financing activities:			
Increase in equity investment from deposit on equity investment	**$ 800**	$ –	$ –
Ordinary shares issued and subject to subsequent issuance for acquisitions	**$ –**	$ 13,882	$ 12,284
Deferred non-advertising services exchanged for equity interest in joint venture	**$ –**	$ –	$ 3,430

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

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Business

SINA Corporation ("SINA" or the "Company"), a Cayman Islands corporation, is a leading online media company and value-added information service provider in the People's Republic of China (the "PRC" or "China") and the global Chinese communities. With a branded network of localized web sites targeting Greater China and overseas Chinese, the Company provides services through five major business lines including SINA.com (online news and content), SINA Mobile (mobile value-added services or "MVAS"), SINA Community (Web 2.0-based services and games), SINA.net (search and enterprise services) and SINA E-Commerce (online shopping). Together these business lines provide an array of services including region-focused online portals, MVAS, search and directory, interest-based and community-building channels, free and premium email, blog services, audio and video streaming, online games, virtual ISP, classified listings, fee-based services, e-commerce 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. The Company has adopted FASB Interpretation No. 46R "Consolidation of Variable Interest Entities" ("FIN 46R"), an Interpretation of Accounting Research Bulletin No. 51. FIN 46R requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the VIEs or is entitled to receive a majority of the VIE's residual returns.

To comply with PRC laws and regulations, the Company provides substantially all its Internet content, MVAS and advertising services in China via its VIEs. These VIEs are wholly or partially owned by certain employees of the Company. The capital for the VIEs 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, 2006, the total amount of interest-free loans to these PRC employees was $9.6 million and the aggregate accumulated losses of all VIEs were approximately $4.6 million, which have been included in the consolidated financial statements.

The following is a summary of the major 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, selling the advertisements to advertisers and providing MVAS in China via third party mobile operators to the users. It is 1.5% owned by Yan Wang, the Company's Vice Chairperson, and 98.5% owned by five other non-executive PRC employees of the Company. The registered capital of the ICP Company is $2.5 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 MVAS in China via third party mobile operators to the users under its Internet content company license. It became inactive since late 2004. 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 MVAS in China via third party mobile operators to the users under its Internet content company license. It is owned by three 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 MVAS in China via third party mobile operators to the users under its Internet content company license. It is owned by three non-executive PRC employees of the Company. The registered capital of the StarVI is $1.2 million.
- Shenzhen Wang Xing Technology Co., Ltd. ("Wangxing"), a China company controlled through business agreement. Wangxing is responsible for providing MVAS in China via third party mobile operators to the users under its Internet content company license. It is owned by three non-executive PRC employees of the Company. The registered capital of Wangxing is $1.2 million.
- Beijing SINA Infinity Advertising Co., Ltd. ("the IAD Company"), a China company controlled through business agreement. The IAD Company is responsible for placing advertisements on www.sina.com.cn for its third party customers. It is owned by five non-executive PRC employees of the Company. This entity has an approved business scope including design, production, agency and issuance of advertisements. The registered capital of the IAD Company is $0.1 million.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of consolidation and basis of presentation (Continued)

The Company began to consolidate the ICP Company in October 2001. Operating results for the GDICP Company were consolidated since 2003. Xunlong and Star VI were acquired from the MeMeStar acquisition (see Note 2-Acquisitions -MeMeStar) in January 2003 and the operating results for these two companies were consolidated by the Company since January 2003. Wangxing was acquired from the Crillion acquisition (see Note 2-Acquisitions-Crillion) in March 2004 and the operating results for Wangxing were consolidated by the Company since March 2004. The operating results of the IAD Company were consolidated since its establishment in 2004.

Certain prior year amounts have been reclassified to conform to the current year presentation.

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, such differences may be material to the financial statements.

Cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2006 and 2005, cash equivalents were comprised primarily of investments in time deposits, commercial paper and money market funds stated at cost plus accrued interest, which approximated fair value.

Available-for-sale securities

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 the 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 is written down to fair value as a new cost basis and the amount of the write-down is accounted for as 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 increases and decreases in the fair value of available-for-sale securities will be included in comprehensive income through a credit or charge to shareholders' equity except for an other-than-temporary impairment, which will be charged to income.

Investments classified as available-for-sale securities include marketable equity securities of Tidetime Sun (Group) Limited ("Tidetime Sun") (see Note 4 -"Investment in Tidetime Sun"), and marketable debt securities included in short-term investments. The Company invests in marketable debt securities that are readily available for sale to meet operating or acquisition needs and, accordingly, classifies them as short-term investments.

Allowances for doubtful accounts

The Company determines the allowance for doubtful accounts based on a historical, rolling average, actual bad debt rate in the prior year and other factors. 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 the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Allowances for doubtful accounts charged to income were $5.0 million, $2.3 million and $1.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Long-lived assets

Property and equipment. Property and equipment are stated at 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 for computers and equipment and five years for furniture and fixtures. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining lease term. Depreciation expenses were $9.9 million, $9.6 million and $5.8 million for fiscal 2006, 2005 and 2004, respectively.

As a result of the Company's evaluation on its estimate of the useful life of its computer equipment (e.g., servers and filers) during the first quarter of 2006, such life was changed from three years to four years. This change in accounting estimate resulted in a reduction in depreciation expenses of $0.6 million for the three months ended March 31, 2006, of which $0.2 million were in the costs of advertising revenue and $0.4 million were in operating expenses.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-lived assets (Continued)

Goodwill. Goodwill is carried at cost. Under SFAS No. 142, "Goodwill and Intangible Assets" ("FAS 142"), goodwill is no longer amortized but tested for impairment annually, or more frequently, if facts and circumstances warrant a review. The provisions of FAS 142 require that a two-step test be performed to assess goodwill for impairment. First, the fair value of each reporting unit, defined as the operating segment or one level, is compared to its carrying value, including goodwill. The Company generally determines the fair value of its reporting units using the market valuation approach. If the carrying value of a reporting unit exceeds its fair value, the second step shall be performed and an impairment loss equal to the difference between the implied fair value of reporting unit's goodwill and the carrying amount of the goodwill will be recorded.

Intangible assets other than goodwill. Intangible assets arising from acquisitions are recognized at fair value upon acquisition and amortized on a straight-line basis over their estimated useful lives, generally from 18 months to ten years.

Impairment of long-lived assets. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold or use is based on the amount by which the carrying value exceeds the fair value of the asset.

Equity investments

Equity investments are comprised of joint ventures and privately held companies. The Company accounts for an equity investment over which it has significant influence but does not own a majority equity interest or otherwise control using the equity method. For equity investments over which the Company does not have significant influence, the cost method accounting is used.

The Company assesses its equity investments for other-than-temporary impairment by considering factors including, but are not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and undiscounted cash flows and other company-specific information including recent financing rounds. The evaluation process is based on information that it receives from these privately-held companies. This information is not subject to the same disclosure requirements as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies.

Business combinations

The Company accounts for its business combinations using the 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. When considering whether an acquired assets group constitutes a "business," the Company used the criteria defined by EITF No. 98-3 "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business."

Convertible debt

The Company applies SFAS No. 78, "Classification of Obligations That Are Callable by the Creditor" to determine the classification of its convertible debt. In accordance with SFAS 78, obligations such as convertible notes are required to be classified as a current liability if they are or will be callable within one year from the balance sheet date, even though liquidation may not be expected within that period.

Revenue recognition

Advertising

Advertising revenues are derived principally from online advertising and sponsorship arrangements. Online advertising arrangements allow advertisers to place advertisements on particular areas of the Company's web sites, in particular formats and over particular periods of time. Advertising revenues from online advertising arrangements are recognized ratably over the displayed period of the contract when the collectibility is reasonably assured. Sponsorship arrangements allow advertisers to sponsor a particular area on its web sites in exchange for a fixed payment over the contract period. Advertising revenues from sponsorship are recognized ratably over the contract period. Advertising revenues derived from the design, coordination and integration of online advertising and sponsorship arrangements to be placed on the Company's web sites are recognized ratably over the term of such programs. In accordance with Emerging Issues Task Force ("EITF") No. 0021, "Accounting for Revenue Arrangements with Multiple Deliverables," advertising arrangements involving multiple deliverables are broken down into single-element arrangements based on their relative fair value for revenue recognition purposes, when possible. The Company recognizes revenue on the elements delivered and defers the recognition of revenue for the fair value of the undelivered elements until the remaining obligations have been satisfied. In accordance with EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product," cash consideration given to customers or resellers, for which the Company does not receive a separately identifiable benefit or cannot reasonably estimate fair value, are accounted for as a reduction of revenue rather than as an expense.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Advertising (Continued)
Revenues from barter transactions are recognized during the period in which the advertisements are displayed on the Company's properties. Barter transactions are recorded at the lower of the fair value of the goods and 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.

Deferred revenue primarily comprises contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Non-advertising
MVAS. MVAS revenues are derived principally from providing mobile phone users with short messaging service ("SMS"), multimedia messaging service ("MMS"), color ring back tone ("CRBT"), wireless application protocol ("WAP"), interactive voice response system ("IVR") and Kjava games. 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 MVAS are charged on a monthly or 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 mobile operators China Mobile Communication Corporation ("China Mobile") and its subsidiaries, China Unicom Co., Ltd. ("China Unicom") and its subsidiaries, and, to a lesser degree, other operators, for billing and transmission services related to the MVAS transmitted to its users. In accordance with EITF No. 99-19, "Reporting Revenues Gross as a Principal Versus Net as an Agent," revenues are recorded on a gross basis when the Company is considered the primary obligor to the MVAS users. Under the gross method, the amounts billed to MVAS users are recognized as revenues and the fees charged or retained by the third-party operators are recognized as costs of revenue. Revenues on MVAS where the Company is not considered the primary obligor to the user are recorded on a net basis. Under the net method, revenues are recorded net of fees charged or retained by the third-party operators.

The Company purchases certain contents from third-party content providers for its MVAS. In most of these arrangements, 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 MVAS revenues are 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.

Due to the time lag between when the services are rendered and when the mobile operator billing statements are received, MVAS revenues are estimated based on the Company's internal billing records and transmissions for the month, adjusting for prior periods' confirmation rates with mobile operators and prior periods' discrepancies between internally estimated revenues and actual revenues confirmed by mobile operators. The confirmation rate applied to the estimation of revenue is determined at the lower of the latest confirmation rate available and the average of six-months' historical rates available, provided that the Company has obtained confirmation rates for six months. If the Company has not yet received confirmation rates for six months, revenues would be deferred until billing statements are received from the mobile operators. Historically, there have been no significant adjustments to the revenue estimates.

Historically, due to the time lag of receiving billing statements from mobile operators and the lack of adequate information to make estimates, the Company has adopted a one-month lag reporting policy for MVAS revenues. Such policy has been applied on a consistent basis and does not apply to MVAS revenues from acquired entities MeMeStar Limited and Crillion Corporation as the acquired entities were able to obtain timely and accurate information to support their revenue estimates through the acquisition dates which has continued since our acquisition. For the years ended December 31, 2006, 2005 and 2004, the Company recorded MVAS revenues in the amount of $86.3 million, $98.1 million and $124.0 million, respectively. If the Company had not used the one-month lag reporting policy, its revenues from MVAS for the years ended December 31, 2006, 2005 and 2004 would have been $87.1 million, $96.2 million and $125.9 million, respectively.

Credit memos issued to operators on billings that were previously settled and for which payments have been received are accounted for as a credit to revenue based on a historical rolling average. Historically, the true ups between accrued amounts and actual credit memos issued have not been significant.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Non-advertising (Continued)

E-commerce. E-commerce revenues are derived principally from slotting fees charged to merchants for selective positioning and promotion of their goods or services within the Company's 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 the Company's web site while the commission revenue is recognized on a net basis after both successful online verification of customers' credit cards and shipment of products. Product returns have not been significant and are assumed by vendors.

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

In accordance with GAAP, 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 the Company's assessment of the probability of collection of accounts receivable had been different.

Costs of revenues

Advertising

Costs of advertising revenue consist mainly of costs associated with the production of web sites, which includes fees paid to third parties for Internet connection, content and services, personnel related costs, and equipment depreciation associated with the web site production. Costs of advertising revenue also include business taxes, surcharges and cultural business construction fees levied on advertising sales in China, which are approximately 8.5% of the advertising revenues in China.

Non-advertising

Costs of non-advertising revenue consist mainly of fees paid to or retained by the third-party operators for their services relating to the collection of the Company's MVAS revenues and for using their transmission gateways. Costs of non-advertising revenue also consist of fees or royalties paid to third-party content providers for services and content associated with the MVAS, costs for providing the enterprise services and business taxes levied on non-advertising sales in China. Business taxes and surcharges levied on non-advertising revenues are approximately 3.3% for mobile related revenues and 5.5% for other non-advertising revenues.

Product development expenses

Product development expenses consist primarily of personnel related expenses incurred for enhancement to and maintenance of the Company's web sites as well as costs associated with new product development and enhancement for products such as email, blog and search engine. The Company recognizes web site 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 web site 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 consist primarily of costs of promotion for corporate image and product marketing and costs of direct advertising. The Company expenses all advertising costs as incurred and classify these costs under sales and marketing expenses. The nature of the Company's direct advertising activities is such that they are intended to acquire subscribers for subscription-based and usage-based MVAS. The Company considered Statement of Position 93-7 – "Reporting on Advertising Costs" ("SOP 93-7") issued by the American Institute of Certified Public Accountants ("AICPA") and concluded that the criteria specified for capitalizing the costs of direct response advertising for subscription-based SMS were not met. Advertising expenses for fiscal years 2006, 2005 and 2004 were $23.3 million, $28.6 million and $20.9 million, respectively.

Stock-based incentive compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which revises SFAS No. 123, "Accounting-Based Compensation" ("SFAS 123") and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the fair value recognition provisions of SFAS 123R, the Company is required to measure the cost of employee services received in exchange for stock-based compensation measured at the grant date fair value of the award.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based incentive compensation (Continued)

The Company recognizes the compensation costs, net of a forfeiture rate, on a straight-line basis over the requisite service period of the award, which is the vesting term (generally three to four years for stock options). In March 2005, the Securities & Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 107 ("SAB 107") relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company elected the modified prospective method and therefore has not restated results for prior periods. The valuation provisions of SFAS 123R apply to new grants and unvested grants that were outstanding as of the effective date. Estimated compensation for unvested grants that were outstanding as of the effective date are recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures.

In conjunction with the adoption of SFAS 123R, the Company changed its method of attributing the value of stock compensation expense from accelerated basis to straight-line basis. Compensation expense for share-based payment awards granted prior to fiscal 2006 will continue to be recognized using the accelerated basis while compensation expense for awards granted after the effective date are recognized using the straight-line basis.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. Compensation cost estimated for the SFAS 123 pro forma disclosures accounted for forfeitures as they occur. See Note 13 for further discussion on stock-based compensation.

Operating leases

The Company leases office space under operating lease agreements with original lease periods up to three years. Rental expenses are recognized from the date of initial possession of the leased property on a straight-line basis over the term of the lease. Certain lease agreements contain rent holidays, which are recognized on a straight-line basis over the lease term. Lease renewal periods are considered on a lease-bylease basis and are generally not included in the initial lease term.

Income taxes

Income taxes are accounted for using an asset and liability approach. Under this approach, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. The Company records a valuation allowance to reduce deferred tax assets to an amount for which realization is more likely than not.

Foreign currency

The Company's reporting currency is the U.S. dollar. The Company's operations in China, Hong Kong and Taiwan use their respective currencies as their functional currencies. The financial statements of these subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates of exchange in the period for revenues and expenses. Translation gains and losses are recorded in accumulated other comprehensive income or loss as a component of shareholders' equity. Net gains and losses resulting from foreign exchange transactions are included in interest and other income. During the year ended December 31, 2006 and 2005, the foreign currency translation adjustments to the Company's comprehensive income were $8.3 million and $4.8 million, respectively; the currency transaction losses were approximately $0.1 million and $0.2 million, respectively, primarily as a result of the Chinese renminbi appreciating against the U.S. dollar. Foreign currency translation adjustments and transaction loss for the year ended December 31, 2004 were immaterial.

Net income per share

Basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted average number of ordinary share and ordinary share equivalents outstanding during the period. Options to purchase ordinary shares that were anti-dilutive were excluded from the calculation of diluted net income per share.

Per EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"), which became effective for reporting periods ending after December 15, 2004, contingently convertible debt are included in diluted earnings per share computations regardless of whether the market price trigger has been met. As a result of adopting EITF 04-08 for the three months ended December 31, 2004, and retroactively, the Company included the dilutive effect of its outstanding contingent convertible debt in its diluted earnings per share calculations. The retroactive application of EITF 04-08 resulted in a reduction of $0.02 to the diluted earnings per share for the three months ended September 30, 2004 and had no impact to the diluted earnings per share for all other prior periods.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive income

Comprehensive income 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 for the periods presented includes net income, foreign currency translation adjustments and unrealized gains (losses) on marketable securities classified as available for sale.

Recent accounting pronouncements

In September 2006, the SEC released SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 is effective for the Company in the current fiscal year ended December 31, 2006. The Company is currently evaluating the impact of SAB 108 but does not believe that the application of SAB 108 will have a material effect on its financial position, cash flow nor results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No.157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company starting January 1, 2008. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial position, cash flows and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize and disclose in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 and its impact on its consolidated financial position, cash flows and results of operations.

In June 2006, the FASB ratified the provisions of the Emerging Issue Task Force Issue No. 06-3 "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"), which requires the Company to disclose how it accounts for taxes imposed on and concurrent with a specific revenue-producing transaction. EITF 06-3 will be effective for the Company starting January 1, 2007. The Company does not believe that the application of EITF 06-03 will have a material effect on its financial position, cash flow and results of operations.

2. ACQUISITIONS

MeMeStar. In January 2003, the Company completed the acquisition of MeMeStar Limited, a British Virgin Islands limited liability corporation ("MeMeStar"), through a purchase of all of the outstanding shares of MeMeStar. As a result of such acquisition, MeMeStar became a wholly-owned subsidiary of SINA. MeMeStar, through its various subsidiaries and exclusive contractual arrangements with two local entities in the PRC (Xunlong and Star VI) is engaged in the business of providing MVAS in the PRC. The primary purposes of the acquisition were to enhance the Company's MVAS as well as increase its market share in the PRC MVAS market. The aggregate purchase price of $24.3 million is comprised of cash, SINA ordinary shares 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. 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 at least annually.

2. ACQUISITIONS (Continued)

Bravado. In February 2004, the Company completed the acquisition of Bravado Investments Limited, ("Bravado"), which was engaged in the business of providing online and offline hotel reservation services under the brand Fortune Trip in the PRC. The aggregate purchase price was $1.8 million comprised of two elements: (a) $1.8 million in cash; and (b) approximately $24,000 in legal and professional fees related to the acquisition, which was allocated as follows (in thousands):

Cash	$ 64
Accounts receivable	82
Other assets	109
Intangible assets	895
Goodwill	824
Current liabilities	(138)
Purchase price	$ 1,836

In the three months ended September 30, 2005, the Company sold Bravado and exited the online hotel booking business. The sale price was approximately $3.8 million less certain liabilities that the buyer agreed to assume. As a result of this transaction, the Company recognized a gain of $1.5 million in 2005 and $0.1 million in 2006. Total gain from the sale was $1.6 million.

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

The aggregate purchase price is comprised of an initial consideration and two contingent consideration payments based on Crillion's financial performances in 2004 and 2005. The initial consideration of $19.0 million is comprised of three elements: (a) $10.0 million in cash; (b) 195,593 newly issued SINA ordinary shares, valued at $8.5 million at the time of closing, delivered at the closing of the acquisition; and (c) approximately $0.5 million in legal and professional fees related to the acquisition. The two contingent consideration payments based on 2004 and 2005 financial performance of the acquired entities operations totaled $40.9 million, and were recorded as additional goodwill.

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

Cash	$ 1,453
Accounts receivable	3,845
Other assets	772
Intangible assets	4,466
Goodwill	50,800
Current liabilities	(1,475)
	$ 59,861

Amortizable intangible assets acquired, including customer list, content provider contracts and non-competition arrangements with certain Crillion executives, have estimated useful lives ranging from sixteen to thirty-six months. Total goodwill included an initial payment of $9.9 million, representing the excess of the initial purchase price over the fair value of the net tangible and identifiable intangible assets acquired, and two contingent consideration payments totaled $40.9 million for the achievement of the 2004 and 2005 performance targets. In accordance with SFAS 142, goodwill is not amortized but is subject to periodic impairment assessment at least annually. Immediately after the closing of the acquisition, the operating results of Crillion were consolidated with those of the Company starting March 25, 2004.

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

2. ACQUISITIONS (Continued)

Davidhill. (Continued) Davidhill owns the UC instant messaging technology platform and certain fixed assets (the "asset group") via its wholly-owned subsidiary in the PRC. Davidhill and its subsidiary have not commenced generating any revenue from the UC instant messaging services. The Company acquired the asset group through a purchase of all of the outstanding shares of Davidhill. As a result of such acquisition, Davidhill became a wholly-owned subsidiary of SINA. The Company considered EITF 98-3 "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business" and concluded that the asset group constitutes a business. The Company therefore applied SFAS 141, "Business Combinations" to account for the acquisition of Davidhill.

The aggregate purchase price is comprised of an initial consideration and a contingent consideration for a total of $24.7 million. The initial consideration of $15.3 million is comprised of three elements: (a) $12.6 million in cash; (b) 63,828 newly issued SINA ordinary shares, valued at $2.4 million in accordance with the average of per share closing prices of SINA ordinary shares on the NASDAQ Global Select Market during the thirty (30) calendar days immediately preceding July 1, 2004, delivered at the closing of the acquisition; and (c) approximately $0.3 million in legal and professional fees related to the acquisition. The contingent consideration of $9.5 million was based on certain concurrent online user targets reached in the three months ended September 30, 2005 and was recorded as additional goodwill.

The total purchase price of $24.7 million was allocated as follows (in thousands):

Cash	**$**	**10**
Fixed assets		**187**
Intangible assets		**10,780**
Goodwill		**13,772**
Purchase price	**$**	**24,749**

Amortizable intangible assets acquired, including technology and non-competition arrangements with certain Davidhill executives, have estimated useful lives ranging from twenty-seven months to ten years. Goodwill of $13.8 million represents the excess of the total 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 at least annually. The operating results of Davidhill were consolidated with those of the Company starting July 1, 2004 after the Company took effective control over the operations of Davidhill.

3. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes goodwill from the Company's acquisitions:

(In thousands)	December 31,			
		2006		**2005**
Davidhill	**$**	**13,772**	$	13,772
Crillion and MeMeStar		**68,891**		68,891
Total	**$**	**82,663**	$	82,663

The Company performed an impairment test relating to goodwill arising from its acquisitions and concluded that there was no impairment as to the carrying value of goodwill as of December 31, 2006 and 2005.

The following table summarizes intangible assets:

(In thousands)	December 31, 2006						December 31, 2005					
		Cost		**Accumulated amortization**		**Net**		**Cost**		**Accumulated amortization**		**Net**
Crillion and MeMeStar												
Non-compete agreements	**$**	**3,147**	**$**	**(3,001)**	**$**	**146**	$	3,147	$	(2,371)	$	776
Davidhill												
Non-compete agreements		**480**		**(480)**		**–**		480		(320)		160
Technology		**10,300**		**(2,575)**		**7,725**		10,300		(1,545)		8,755
Subtotal		**10,780**		**(3,055)**		**7,725**		10,780		(1,865)		8,915
Total	**$**	**13,927**	**$**	**(6,056)**	**$**	**7,871**	$	13,927	$	(4,236)	$	9,691

All intangible assets are amortizable. Non-compete agreements have original estimated useful lives of eighteen months to thirty-six months, and technology has original estimated useful lives of ten years.

3. GOODWILL AND INTANGIBLE ASSETS (Continued)

Amortization expense related to intangible assets was $1.8 million, $3.2 million and $3.5 million for the years ended December 31, 2006, 2005 and 2004, respectively. As of December 31, 2006, estimated amortization expenses for future periods are expected to be as follows:

Fiscal year	(In thousands)
2007	$ 1,176
2008	1,030
2009	1,030
2010	1,030
2011	1,030
Thereafter	2,575
Total expected amortization expense	$ 7,871

4. INVESTMENT IN TIDETIME SUN

Investment in Tidetime Sun is accounted for as an investment in marketable equity securities under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and classified as available for sale. In December 2006, the Company sold its investment in Tidetime Sun for $0.6 million and recorded a gain of $0.1 million. Net loss on investment for the year ended December 31, 2006 was $0.1 million, after considering the other than temporary loss of $0.2 million recorded during the year.

5. EQUITY INVESTMENTS

Equity investments comprised of joint ventures and other privately held companies. The following sets forth the changes in the Company's equity investments.

(In thousands)	Shanghai NC-SINA	COAL	Others	Total
Balances at December 31, 2004	$ 1,384	$ 1,932	$ 1,225	$ 4,541
Investments	–	1,749	1,275	3,024
Sale of investments	–	(1,494)	–	(1,494)
Share of gain (loss) of equity investments	33	(2,187)	(656)	(2,810)
Balances at December 31, 2005	1,417	–	1,844	3,261
Investments	–	–	800	800
Share of loss of equity investments	(108)	–	(582)	(690)
Sale of investments	(1,309)	–	(892)	(2,201)
Balances at December 31, 2006	**$ –**	**$ –**	**$ 1,170**	**$ 1,170**

In December 2005, the Company sold its 33% interest in China Online Auction Limited ("COAL," a.k.a. 1 Pai.com), a joint venture with Yahoo!, to Alibaba.com. In May 2006, the Company sold its 51% interest in Shanghai-NC SINA, a joint venture with NC Soft, a Korean online game company, to NC Soft. The following summarizes the gain and (loss) on the sale of equity investments:

(In thousands)	Years ended December 31,		
	2006	**2005**	**2004**
COAL	**$ –**	$ 2,649	$ –
Shanghai NC Soft	**2,006**	–	–
Others	**(134)**	–	1,160
	$ 1,872	$ 2,649	$ 1,160

6. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2006:

(In thousands)	Carrying value	Unrealized gains	Unrealized losses	Estimated fair value
Cash and cash equivalents:				
Cash	$ 86,876	$ –	$ –	$ 86,876
Cash equivalents:				
Bank time deposits	22,167	–	–	22,167
Commercial paper	24,889	–	–	24,889
Investment in money market funds	29,245	–	–	29,245
	76,301	–	–	76,301
	163,177	–	–	163,177
Short-term investments:				
Bank time deposits	123,810	–	–	123,810
U.S. Treasury and federal agency bonds	19,128	–	(1,146)	17,982
China bank notes	31,532	–	–	31,532
Corporate bonds and notes	22,507	–	(357)	22,150
Floating rate notes	4,968	–	(868)	4,100
	201,945	–	(2,371)	199,574
Total cash, cash equivalents and short-term investments	$ 365,122	$ –	$ (2,371)	$ 362,751

Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2005:

(In thousands)	Carrying value	Unrealized gains	Unrealized losses	Estimated fair value
Cash and cash equivalents:				
Cash	$ 78,704	$ –	$ –	$ 78,704
Cash equivalents:				
Bank time deposits	36	–	–	36
Commercial paper	8,973	–	–	8,973
Investment in money market funds	697	–	–	697
	9,706	–	–	9,706
	88,410	–	–	88,410
Short-term investments:				
Bank time deposits	128,787	–	–	128,787
U.S. Treasury and federal agency bonds	19,112	–	(1,386)	17,726
Corporate bonds and notes	62,259	82	(787)	61,554
Floating rate notes	5,024	–	(812)	4,212
	215,182	82	(2,985)	212,279
Total cash, cash equivalents and short-term investments	$ 303,592	$ 82	$ (2,985)	$ 300,689

In accordance with EITF 03-1, the following table summarizes the fair value and gross unrealized losses related to available-for-sale debt securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006:

(In thousands)	Less than 12 months		12 months or more		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
U.S. Treasury and federal agency bonds	$ –	$ –	$ 17,982	$ (1,146)	$ 17,982	$ (1,146)
Corporate bonds and notes	–	–	22,150	(357)	22,150	(357)
Floating rate notes	–	–	4,100	(868)	4,100	(868)
	$ –	$ –	$ 44,232	$ (2,371)	$ 44,232	$ (2,371)

Market values were determined for each individual security in the investment portfolio. The declines in value of these investments are primarily related to changes in interest rates and are considered to be temporary in nature. See Note 1 for the Company's policy on available-for-sale securities. Realized gains or loss on short-term investments were immaterial for the periods presented.

6. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS (Continued)

The following table summarizes the contractual maturities of available-for-sale debt securities at December 31, 2006:

(In thousands)	Estimated fair value	Gross unrealized losses
Short-term investments:		
Due within one year	$ 175,661	$ (257)
Due one to five years	9,835	(225)
Due after five years	14,078	(1,889)
	$ 199,574	$ (2,371)

In 2006, the Company changed its presentation in the statement of cash flows to disclose the gross cash inflows and outflows from short-term investments. We had previously reported these amounts net. The Company has revised its 2005 and 2004 Consolidated Statements of Cash Flows accordingly.

7. BALANCE SHEET COMPONENTS

(In thousands)	December 31, 2006	December 31, 2005
Accounts receivable, net:		
Accounts receivable	$ 49,502	$ 36,383
Allowance for doubtful accounts:		
Balance at beginning of year	(2,443)	(1,754)
Charge to expenses	(5,044)	(2,271)
Write-off, net of recoveries	3,016	1,582
Balance at end of year	(4,471)	(2,443)
	$ 45,031	$ 33,940
Property and equipment, net:		
Computers and equipment	$ 54,630	$ 41,836
Leasehold improvements	5,107	4,724
Furniture and fixtures	2,995	2,744
Other	1,313	216
	64,045	49,520
Less: Accumulated depreciation and amortization	(36,944)	(27,313)
	$ 27,101	$ 22,207
Accrued liabilities:		
Payroll and related expenses	$ 7,478	$ 3,786
Deferred revenue	4,156	6,601
Business taxes	4,231	2,933
Sales rebates	8,454	5,623
Marketing expenses	3,128	1,687
Professional fees	1,616	2,494
Content fees	6,243	3,215
Payment for Crillion acquisition	–	11,266
Others	6,687	5,630
	$ 41,993	$ 43,235

8. RELATED PARTY TRANSACTIONS

Transactions with joint ventures. The Company sold advertising space to Shanghai NC-SINA to allow the joint venture to promote its online game on the Company's web site. The contract terms are at rates and terms that are comparable with those entered into with independent third parties. Prior to the Company's sale of its interest in Shanghai NC-SINA in May 2006, revenues derived from the advertising arrangements with Shanghai NC-SINA were nil and approximately $0.5 million and $0.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company also provides a payment platform for customers of Shanghai NC-SINA to purchase virtual point cards to play its online game. Payments from its customers are recorded as customer advances received on behalf of Shanghai NC-SINA. As of December 31, 2005 and 2004, respectively, the balances for such customer advances were $1.8 million and $3.7 million.

8. RELATED PARTY TRANSACTIONS (Continued)

As part of the joint venture arrangement with COAL, the Company agreed to divert a certain number of users to COAL's auction site in exchange for an equity interest in COAL. Such obligation was recorded as deferred revenue at the time the Company recorded the equity investment in COAL. Non-advertising revenues from this arrangement were recognized on a pro-rated basis, based on the number of users diverted to COAL's auction site. Prior to the Company's sale of its interest in COAL in December 2005, non-advertising revenue from this arrangement was $0.9 million and $0.4 million for the years ended December 31, 2005 and 2004, respectively.

9. INCOME TAXES

The Company is registered in the Cayman Islands and has operations in four tax jurisdictions - the PRC, the United States of America, Hong Kong and Taiwan. The operations in Taiwan represent a branch office of the subsidiary in the United States. For operations in the United States of America, Hong Kong and Taiwan, the Company has incurred net accumulated operating losses for income tax purposes. The Company believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future. Therefore, the Company has provided full valuation allowance for the deferred tax assets arising from the losses at these locations as of December 31, 2006. The Company generated substantially all of its net income from its PRC operations for the years ended December 31, 2006, 2005 and 2004, and the Company has recorded income tax provisions for these years.

The components of income before income taxes are as follows:

(In thousands, except percentage)	Years ended December 31,		
	2006	**2005**	**2004**
Loss subject to non China operation	**$ (12,161)**	$ (6,349)	$ (7,798)
Income subject to China operation	**56,128**	51,874	77,022
Income before taxes	**$ 43,967**	$ 45,525	$ 69,224
Income tax expenses applicable to China operation	**$ 4,051**	$ 2,410	$ 3,228
Effective tax rate for China operation	**7%**	5%	4%

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

The components of income (loss) before income taxes separating U.S. and non U.S. operations are as follows:

(In thousands)	Years ended December 31,		
	2006	**2005**	**2004**
Income (loss) subject to U.S. operation (including Taiwan branch)	**$ (798)**	$ (446)	$ 41
Loss subject to other operations	**(11,363)**	(5,903)	(7,839)
Income subject to China operation	**56,128**	51,874	77,022
Income before taxes	**$ 43,967**	$ 45,525	$ 69,224

As of December 31, 2006, the Company's subsidiary in the United States of America had approximately $77.3 million of federal and $34.1 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 June 30, 2011 through December 31, 2027, and the state net operating loss carryforwards will expire, if unused, in the years ending June 30, 2010 through December 31, 2017. Included in the net operating loss carryforwards is $32.5 million and $20.2 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, 2006 consists mainly of net operating loss carryforwards and for which a full valuation allowance has been provided, as the management believes it is more likely than not that these assets will not be realized in the future.

9. INCOME TAXES (Continued)

United States of America (Continued)

The following table sets forth the significant components of the net deferred tax assets for operation in the United States of America as of December 31, 2006, 2005 and 2004:

(In thousands)	December 31, 2006	2005	2004
Deferred tax assets:			
Net operating loss carryforwards	**$ 28,461**	$ 27,848	$ 20,817
Allowances for doubtful accounts, accruals and other liabilities	**99**	117	131
Other tax credits	**346**	346	549
Total deferred tax assets	**28,906**	28,311	21,497
Less: valuation allowance	**(28,906)**	(28,311)	(21,497)
Deferred tax assets	**$ –**	$ –	$ –

Hong Kong

As of December 31, 2006, the Company's Hong Kong subsidiary had approximately $13.1 million net operating loss carryforwards which can be carried forward indefinitely to offset future taxable income. The deferred tax assets for the Hong Kong subsidiary at December 31, 2006 consists mainly of net operating loss carryforwards and for which a full valuation allowance has been provided, as the management believes it is more likely than not that these assets will not be realized in the future.

The following table sets forth the significant components of the net deferred tax assets for Hong Kong operation as of December 31, 2006, 2005 and 2004:

(In thousands)	December 31, 2006	2005	2004
Deferred tax assets:			
Net operating loss carryforwards	**$ 2,290**	$ 2,013	$ 1,798
Less: valuation allowance	**(2,290)**	(2,013)	(1,798)
Deferred tax assets	**$ –**	$ –	$ –

China

Pursuant to the PRC Income Tax Laws, the Company's subsidiaries and VIEs are generally subject to Enterprise Income Taxes ("EIT") at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax. Some of these subsidiaries and VIEs are qualified new technology enterprises and under PRC Income Tax Laws, they are subject to a preferential tax rate of 15%. In addition, some of the Company's subsidiaries are Foreign Investment Enterprises and under PRC Income Tax Laws, they are entitled to either a three-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first operating year, or a two-year tax exemption followed by three years with a 50% reduction in the tax rate, commencing the first profitable year. The VIEs are wholly owned by the Company's employees and controlled by the Company through various contractual agreements. To the extent that these VIEs have undistributed after-tax net income, the Company has to pay taxes on behalf of its employees when dividends are distributed from these local entities in the future. The dividend tax rate is 20%.

Composition of income tax expenses for China operation

The following table sets 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 thousands)	Years ended December 31, 2006	2005	2004
Income tax provision	**$ (4,401)**	$ (2,671)	$ (3,441)
Change in deferred tax assets	**2,948**	2,492	(1,113)
Change in valuation allowance	**(2,598)**	(2,231)	1,326
Income tax expenses	**$ (4,051)**	$ (2,410)	$ (3,228)

9. INCOME TAXES (Continued)

China (Continued)

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

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

	Years ended December 31,		
	2006	2005	2004
Statutory EIT rate	**33%**	33%	33%
Tax differential from statutory rate applicable to the subsidiaries and VIEs	**–**	(2%)	(1%)
Effect on tax holiday	**(32%)**	(31%)	(32%)
Permanent differences	**1%**	1%	2%
Change in valuation allowance	**5%**	4%	2%
Effective tax rate for China operations	**7%**	5%	4%

The provisions for income taxes for the years ended December 31, 2006, 2005 and 2004 differ from the amounts computed by applying the EIT primarily due to the tax holidays and the preferential tax rate enjoyed by certain of the Company's entities in the PRC. The effective tax rates for the PRC operations for the year ended December 31, 2006 were higher than 2005 and 2004 primarily due to increase in valuation allowance for the deferred tax assets arising from the allowances for doubtful accounts, accruals and other liabilities. As of December 31, 2006, existing tax holiday available to the Company is effective until 2007. The Company is in the process of applying for additional tax holiday benefits.

The following table sets forth the effects of the tax holidays granted to the entities of the Company for the periods presented:

(In thousands, except per share amount)	Years ended December 31,		
	2006	2005	2004
Tax holiday effect	**$ 18,323**	$ 16,032	$ 24,297
Basic net income per share effect	**$ 0.34**	$ 0.31	$ 0.48

The following table sets forth the significant components of the net deferred tax assets for China operation as of December 31, 2006, 2005 and 2004.

(In thousands)	December 31,		
	2006	2005	2004
Deferred tax assets:			
Net operating loss carryforwards*	**$ 1,774**	$ 964	$ –
Allowances for doubtful accounts, accruals and other liabilities	**3,165**	1,358	260
Depreciation	**1,620**	1,289	859
Total deferred tax assets	**6,559**	3,611	1,119
Less: valuation allowance	**(4,829)**	(2,231)	–
Deferred tax assets	**$ 1,730**	$ 1,380	$ 1,119

* The net operating loss carryforwards will expire, if unused, in the years ending December 31, 2008 through 2011.

9. INCOME TAXES (Continued)

Aggregate net deferred tax assets

The following table sets forth the significant components of the aggregate net deferred tax assets of the Company as of December 31, 2006, 2005 and 2004:

(In thousands)	December 31, 2006	2005	2004
Short-term deferred tax assets:			
Allowances for doubtful accounts, accruals and other liabilities	**$ –**	$ 549	$ 391
Depreciation	**697**	597	429
Total deferred tax assets	**697**	1,146	820
Less: valuation allowance	**(260)**	(289)	(131)
Short-term deferred tax assets	**$ 437**	$ 857	$ 689
Long-term deferred tax assets included in other assets:			
Net operating loss carryforwards	**$ 32,525**	$ 30,825	$ 22,615
Allowances for doubtful accounts, accruals and other liabilities	**3,264**	926	–
Depreciation	**923**	692	430
Other tax credits	**346**	346	549
Total deferred tax assets	**37,058**	32,789	23,594
Less: valuation allowance	**(35,765)**	(32,266)	(23,164)
Long-term deferred tax assets	**$ 1,293**	$ 523	$ 430
Net deferred tax assets	**$ 1,730**	$ 1,380	$ 1,119

Movement of valuation allowances for deferred tax assets

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

(In thousands)	Years Ended December 31, 2006	2005	2004
Balance at beginning of the year	**$ 32,555**	$ 23,295	$ 22,074
Provision for the year	**3,470**	9,260	2,547
Recoveries of deferred tax assets	**–**	–	(1,326)
Balance at end of the year	**$ 36,025**	$ 32,555	$ 23,295

10. NET INCOME PER SHARE

Basic net income per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period. Options to purchase ordinary shares that were anti-dilutive and were excluded from the calculation of diluted net income per share were approximately 1.9 million, 0.2 million and 0.1 million for years ended December 31, 2006, 2005 and 2004, respectively.

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

(In thousands, except per share amounts)	Years ended December 31,		
	2006	**2005**	**2004**
Basic net income per share calculation:			
Numerator:			
Net income used in computing basic net income per share	**$ 39,916**	$ 43,115	$ 65,996
Denominator:			
Weighted average ordinary shares outstanding	**53,696**	52,455	50,274
Ordinary shares to be issued for business acquisition	**–**	30	–
Shares used in computing basic net income per share	**53,696**	52,485	50,274
Basic net income per share	**$ 0.74**	$ 0.82	$ 1.33
Diluted net income per share calculation:			
Numerator:			
Net income	**$ 39,916**	$ 43,115	$ 65,996
Amortization of convertible debt issuance cost	**685**	685	685
Net income used in computing diluted net income per share	**$ 40,601**	$ 43,800	$ 66,681
Denominator:			
Weighted average ordinary shares outstanding	**53,696**	52,455	50,274
Weighted average ordinary shares equivalents:			
Stock options	**967**	2,335	4,053
Convertible debt	**3,877**	3,877	3,877
Others	**9**	125	–
Shares used in computing diluted net income per share	**58,549**	58,792	58,204
Diluted net income per share	**$ 0.69**	$ 0.75	$ 1.15

11. 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, housing 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, 2006, 2005 and 2004, the Company contributed a total of $6.1 million, $5.1 million, $4.3 million, respectively, to these funds.

12. PROFIT APPROPRIATION

The Company's subsidiaries and VIEs in China are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws applicable to China's Foreign Investment Enterprises, its subsidiaries have to 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. Effective January 1, 2006 under the revised China Company Laws, appropriation to the statutory public welfare fund is no longer mandatory. 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, 2006, the Company is subject to a maximum appropriation of $14.1 million to these non-distributable reserve funds.

13. SHAREHOLDER'S EQUITY

Stockholder Rights Plan

On February 18, 2005, Shanda and certain related persons and entities filed a Schedule 13D with the U.S. Securities and Exchange Commission indicating that they beneficially own 19.5% of SINA's outstanding ordinary shares. For this and other reasons, the Company has put in place a Rights Plan to protect the best interests of all shareholders. In general, the Plan vests stockholders of SINA with rights to purchase ordinary common shares of the Company at a substantial discount from those securities' fair market value upon a person or group acquiring, without the approval of the Board of Directors, more than 10% of the Company's ordinary shares (or, in the case of the members of the Shanda group, the acquisition of an additional 0.5% or more of the Company's ordinary shares). Any person or group who triggers the purchase right distribution becomes ineligible to participate in the Plan, causing substantial dilution of such person or group's holdings. The rights will expire on February 22, 2015.

In addition, the Company's Board of Directors has the authority, without further action by its shareholders, to issue up to 3,750,000 preference shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with its ordinary shares. Preference shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. Similarly, the Board of Directors may approve the issuance of debentures convertible into voting shares, which may limit the ability of others to acquire control of the Company.

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, 2006, the Company has cumulatively approved 14,358,000 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 will continue in effect until May 2009, unless terminated earlier in accordance with the terms of the Plan. As of December 31, 2006, there were a total of 3,402,000 options outstanding and 772,000 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 determined by the Board of Directors of the Company, provided, however, that the exercise price of an ISO shall not be less than 100% of the fair value of the shares on the date of grant or, if granted to a 10% shareholder, shall not be less than 110% of the fair value of the shares on the date of grant. The exercise price of an NSO granted to a named executive officer of the Company shall not be less than 100% of the fair value of the shares on the date of grant if such option is intended to qualify as performance-based compensation under Section 162(m) of the US Internal Revenue Code of 1986, as amended. Options granted under the 1999 Plan generally vest over a four 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. No shares of such Ordinary Shares issued were subject to repurchase at December 31, 2006.

13. SHAREHOLDER'S EQUITY (Continued)

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 approved 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, 2006, there were a total of 224,000 options outstanding and 180,000 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 determined by the Board of Directors of the Company, provided, however, that the exercise price of an ISO shall not be less than 100% of the fair value of the shares on the date of grant or, if granted to a 10% shareholder, shall not be less than 110% of the fair value of the shares on the date of grant. The exercise price of an NSO granted to a named executive officer of the Company shall not be less than 100% of the fair value of the shares on the date of grant if such option is intended to qualify as performance-based compensation under Section 162(m) of the US Internal Revenue Code of 1986, as amended. Options granted under the Executive Plan generally vest over a four- 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.

1999 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 have an exercise price equal to 100% of the fair value of the shares on the date of grant and shall have a term of 10 years from the date of grant. All options granted under the Directors' Plan vest in full immediately upon grant. On September 27, 2005, the shareholders of the Company approved an increase to the aggregate number of ordinary shares issuable under the Directors' Plan from 750,000 ordinary shares to 1,125,000 ordinary shares. As of December 31, 2006, 466,000 options were outstanding and 351,000 options were available for grant under the Directors' Plan.

Stock Compensation

Effective January 1, 2006, the Company adopted SFAS 123R. See Note 1 for a description of the Company's adoption of SFAS 123R. The fair value of stock-based compensation awards is determined using the Black-Scholes option pricing model, which is consistent with the valuation techniques previously utilized for options in footnote disclosures required under SFAS 123, as amended by FASB Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." The determination of the fair value of stock-based compensation awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including the expected volatility of the Company's stock price over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

The assumptions used to value stock-based compensation awards for the periods presented are as follows:

	Years ended December 31,		
	2006	**2005**	**2004**
Expected term (in years)	**3.8-5.0**	1.0-4.0	1.0-4.0
Expected volatility	**68%-71%**	61%-87%	88%-91%
Risk-free interest rate	**5.0%-5.2%**	2.93%-4.09%	1.19%-3.32%
Expected dividend yield	**0**	0	0

Expected term represents the weighted average period of time that stock-based awards granted are expected to be outstanding giving consideration to historical exercise patterns. The simplified method was used for fiscal 2006. Expected volatilities are based on historical volatilities of the Company's ordinary shares. Risk-free interest rate is based on US Treasury zero-coupon issues with maturity terms similar to the expected term on the stock-based awards. The Company does not anticipate paying any cash dividends in the foreseeable future. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

13. SHAREHOLDER'S EQUITY (Continued)

Stock Compensation (Continued)

Total stock-based compensation recognized on the Company's Consolidated Statement of Operations for the year ended December 31, 2006 is as follows:

(in thousands)	Year ended December 31, 2006
Costs of revenues	**$ 1,743**
Sales and marketing	**1,511**
Product development	**1,808**
General and administrative	**4,412**
Total	**$ 9,474**

The following table sets forth the pro forma amounts of net income and net income per share for the years ended December 31, 2005 and 2004 that would have resulted if the Company had accounted for stock-based awards under the fair value recognition provisions of SFAS 123:

(in thousands, except per share amount)	Years ended December 31, 2005	2004
Net income:		
As reported	$ 43,115	$ 65,996
Deduct: Employee stock purchase plan related compensation expenses determined under fair value based method	(73)	(135)
Deduct: Stock-based employee compensation expenses determined under fair value based method	(9,332)	(11,063)
Pro forma	$ 33,710	$ 54,798
Basic net income per share:		
As reported	$ 0.82	$ 1.33
Pro forma	$ 0.64	$ 1.09
Diluted net income per share:		
As reported	$ 0.75	$ 1.15
Pro forma	$ 0.59	$ 0.95

General Stock Option Information

The following table sets forth the summary of option activity under the Company' stock option program for the periods presented:

(in thousands, except per share amount)	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
December 31, 2003	1,957	6,270	$ 7.00		
Additional approved	750	N/A	N/A		
Granted	(1,644)	1,644	$ 22.85		
Exercised	N/A	(2,242)	$ 6.90		
Cancelled/expired/forfeited	254	(254)	$ 11.98		
December 31, 2004	1,317	5,418	$ 11.62		
Additional approved	1,125	N/A	N/A		
Granted	(146)	146	$ 26.38		
Exercised	N/A	(1,569)	$ 4.30		
Cancelled/expired/forfeited	385	(385)	$ 15.59		
December 31, 2005	2,681	3,610	$ 14.97		
Granted	(2,100)	2,100	$ 23.90		
Exercised	N/A	(896)	$ 11.14		
Cancelled/expired/forfeited	722	(722)	$ 11.84		
December 31, 2006	**1,303**	**4,092**	**$ 20.95**	**6.14**	**$ 32,668**
Vested and expected to vest as of December 31, 2006		**3,898**	**$ 20.82**	**6.16**	**$ 31,658**
Exercisable as of December 31, 2006		**1,882**	**$ 18.56**	**6.38**	**$ 20,015**

13. SHAREHOLDER'S EQUITY (Continued)

General Stock Option Information (Continued)

The weighted average estimated fair value of options granted during fiscal 2006, 2005 and 2004 was $13.57, $10.25 and $12.88, respectively. The total intrinsic value of options exercised during fiscal 2006 was $14.1 million. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares.

As of December 31, 2006, there was $23.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards granted to the Company's employees. This cost is expected to be recognized over a weighted-average period of 1.8 years. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures.

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2006 was $32.7 million and $20.0 million, respectively. The intrinsic value is calculated as the difference between the market value as of December 31, 2006 and the exercise price of the shares.

Information regarding the stock options outstanding at December 31, 2006 is summarized below:

(in thousands, except per share amount) Range of Exercise prices	Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.16 – $1.88	**215**	**4.81**	**$ 1.58**	**215**	**$ 1.58**
$1.89 – $12.98	**510**	**5.69**	**$ 11.05**	**425**	**$ 10.67**
$12.99 – $20.86	**745**	**7.04**	**$ 19.90**	**407**	**$ 19.43**
$20.87 – $36.40	**2,622**	**6.08**	**$ 24.75**	**835**	**$ 26.54**
	4,092	**6.14**	**$ 20.95**	**1,882**	**$ 18.56**

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 the Company's ordinary shares under the Purchase Plan. The Purchase Plan includes an 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 plan became effective on the date of the Company's initial public offering and was terminated as of August 1, 2005.

14. SEGMENT INFORMATION

Based on the criteria established by SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," the Company currently operates in three principal business segments globally—advertising, MVAS and other non-advertising. Information regarding the business segments provided to the Company's chief operating decision maker ("CODM") are usually at the revenue or gross margin level. The Company currently does not allocate operating costs or assets to its segments, as its CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

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

(In thousands, except percentages)	Years ended December 31,		
	2006	**2005**	**2004**
Net revenues:			
Advertising	**$ 120,067**	$ 84,999	$ 65,417
MVAS	**86,257**	98,070	123,954
Others	**6,530**	10,483	10,616
	$ 212,854	$ 193,552	$ 199,987
Costs of revenues:			
Advertising	**$ 42,529**	$ 27,627	$ 22,187
MVAS	**34,255**	33,814	38,277
Others	**2,626**	1,666	1,147
	$ 79,410	$ 63,107	$ 61,611
Gross profit margins:			
Advertising	**65%**	67%	66%
MVAS	**60%**	66%	69%
Others	**60%**	84%	89%
Overall	**63%**	67%	69%

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

(In thousands)	China	U.S.	Hong Kong	Taiwan	Total
Year ended and as of December 31, 2006:					
Revenues	**$ 209,200**	**$ 1,942**	**$ 1,395**	**$ 317**	**$ 212,854**
Long-lived assets	**25,726**	**157**	**1,147**	**71**	**27,101**
Year ended and as of December 31, 2005:					
Revenues	$ 189,207	$ 2,060	$ 1,775	$ 510	$ 193,552
Long-lived assets	21,746	143	175	143	22,207
Year ended and as of December 31, 2004:					
Revenues	$ 194,921	$ 2,281	$ 1,807	$ 978	$ 199,987
Long-lived assets	15,468	59	179	446	16,152

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

15. 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., the PRC, Hong Kong and Taiwan that management believes are of high credit quality. The Company usually invests in marketable debt securities with A ratings or above.

The Company has approximately $246.7 million in cash and bank deposits, such as time deposits and bank notes, with five different banks in China, which constitute about 68% of its total cash, cash equivalent and short-term investments as of December 31, 2006. The terms or these deposits are, in general, up to twelve months. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors' interests. However, China promulgated a new Bankruptcy Law in August 2006, which will come into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the new Bankruptcy Law, a Chinese bank may go bankrupt. In addition, since China's concession to WTO, foreign banks have been gradually permitted to operate in China and have been severe competitors against Chinese banks in many aspects, especially since the opening of renminbi business to foreign banks in late 2006. Therefore, the risk of bankruptcy of those banks in which that the Company has deposits has increased. In the event of bankruptcy of one of the banks which holds the Company's deposits, it is unlikely to claim its deposits back in full since it is unlikely to be classified as a secured creditor based on PRC laws.

15. CERTAIN RISKS AND CONCENTRATIONS (Continued)

Accounts receivable consist primarily of advertising agencies, direct advertising customers and third-party mobile operators. As of December 31, 2006 and 2005, respectively, approximately 98% and 97% of the net accounts receivable were derived from the Company's operations in the PRC. Regarding its advertising operations, no individual advertising customer accounted for more than 10% of total net revenues for the years ended December 31, 2006, 2005 and 2004. Also, no individual advertising customer accounted for more than 10% of accounts receivables as of December 31, 2006 and 2005.

With regard to the MVAS operations, the Company mainly contracts with China Mobile, China Unicom and their subsidiaries, and, to a small degree, telecom operators, for utilizing their transmission gateways for message delivery and billing systems to collect subscription or usage fees from its subscribers. MVAS fees charged to users via these operators accounted for 41%, 51% and 62% of the Company's net revenues for the years ended December 31, 2006, 2005 and 2004, respectively. Below is a summary of the significant mobile operators and product lines and accounts receivables from significant mobile operators:

	Years ended December 31,		
As a percentage of total net revenues	**2006**	**2005**	**2004**
MVAS revenues billed via China Mobile	**30%**	46%	54%
Revenues from SMS product line	**26%**	37%	52%

	December 31,	
As a percentage of total accounts receivables	**2006**	**2005**
Receivables from China Mobile	**25%**	26%

Accounts receivable from third-party mobile operators represent MVAS fees collected on behalf of the Company after deducting their billing services and transmission charges. The Company maintains allowances for potential credit losses. Historically, the Company has not had any significant direct write off of bad debts.

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

The majority of the Company's net income was derived from China. The operations in China are carried out by the subsidiaries and VIEs. The Company depends on dividend payments from its subsidiaries in China for its revenues after these subsidiaries receive payments from VIEs in China under various services and other arrangements. In addition, under Chinese law, its subsidiaries are only allowed to pay dividends to the Company out of their accumulated profits, if any, as determined in accordance with Chinese accounting standards and regulations. Moreover, these Chinese subsidiaries are required to set aside at least 10% of their respective accumulated profits, if any, up to 50% of their registered capital to fund certain mandated reserve funds that are not payable or distributable as cash dividends. The appropriation to mandated reserve funds are assessed annually. As of December 31, 2006, the Company is subject to a maximum appropriation of $14.1 million to these non-distributable reserve funds. The Company's subsidiaries and VIEs in China are subject to different tax rates. See Note 9 — Income Taxes.

The majority of the Company's revenues derived and expenses incurred were in Chinese renminbi as of December 31, 2006. The Company's cash, cash equivalents and short-term investments balance denominated in Chinese renminbi was approximately $243.2 million, which accounted for approximately 67% of its total cash, cash equivalents and short-term investments balance as of December 31, 2006. The Company's accounts receivable balance denominated in Chinese renminbi was approximately $44.1 million, which accounted for approximately 98% of its total accounts receivable balance. The Company's liabilities balance denominated in Chinese renminbi was approximately $48.7 million, which accounted for approximately 32% of its total liabilities balance as of December 31, 2006. Accordingly, the Company may experience economic losses and negative impacts on earnings and equity as a result of exchange rate fluctuations in the currency of the PRC. Moreover, the Chinese government imposes controls on the convertibility of renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Company may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency.

The Company performed a test on the restricted net assets of consolidated subsidiaries and VIEs (the "restricted net assets") in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), "General Notes to Financial Statements" and concluded that the restricted net assets did not exceed 25% of the consolidated net assets of the Company as of December 31, 2006.

16. CONVERTIBLE DEBT

As of December 31, 2006, the Company has $100 million of zero coupon convertible subordinated notes (the "Notes") due 2023. The Notes were issued at par and bear no interest. The Notes will be convertible into SINA ordinary shares, upon satisfaction of certain conditions, at an initial conversion price of $25.79 per share, subject to adjustments for certain events. One of the conditions for conversion of the Notes to SINA ordinary shares is conversion upon satisfaction of market price condition, when the sale price (defined as closing per share sales price) of SINA ordinary shares reaches a specified threshold for a defined period of time. The specified thresholds are i) during the period from issuance to July 15, 2022, if the sale price of SINA ordinary shares, for each of any five consecutive trading days in the immediately preceding fiscal quarter, exceeds 115% of the conversion price per ordinary share, and ii) during the period from July 15, 2022 to July 15, 2023, if the sale price of SINA ordinary shares on the previous trading day is more than 115% of the conversion price per ordinary share. For the quarter ended December 31, 2006, the sale price of SINA ordinary shares did not exceed the threshold set forth in item i) above for the required period of time; therefore, the Notes are therefore not convertible into SINA ordinary shares pursuant to the threshold set forth in item i) above during the quarter ending March 31, 2007.

Upon a purchaser's election to convert the Notes in the future, 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. In accordance with SFAS 78 "Classification of Obligations That Are Callable by the Creditor," the Notes are classified as current liabilities as of December 31, 2006. Under SFAS 78, obligations such as the Notes are considered current liabilities if they are or will be callable within one year from the balance sheet date, even though liquidation may not be expected within that period.

17. COMMITMENTS AND CONTINGENCIES

Operating lease commitments include the commitments under the lease agreements for the Company's office premises. The Company leases office facilities under non-cancelable operating leases with various expiration dates through 2009. For the years ended December 31, 2006, 2005 and 2004, rental expenses were $3.6 million, $3.1 million and $3.0 million, respectively. Based on the current rental lease agreements, future minimum rental payments required as of December 31, 2006 were as follows:

(In thousands)	Total	Less than one year	One to three years	Three to five years	More than five years
Operating lease commitments	$ 1,637	$ 900	$ 737	$ –	$ –

Purchase commitments mainly include minimum commitments for Internet connection fees associated with web sites production, content fees associated with web sites production and MVAS, advertising serving services and marketing activities. Purchase commitments as of December 31, 2006 were as follows:

(In thousands)	Total	Less than one year	One to three years	Three to five years	More than five years
Purchase commitments	$ 22,350	$ 15,754	$ 6,185	$ 201	$ 210

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 such restrictions currently in place, but in addition regulations are unclear as to in which specific segments of these industries companies with foreign investors, including us, 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 its financial position, results of operations and cash flows.

From time to time, the Company may also be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of copyrights and other intellectual property rights in connection with the content published on its web sites.

Supplementary Financial Data (unaudited)

QUARTERLY FINANCIAL RESULT

The following table reflects the Company's unaudited quarterly condensed 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 per share.

(In thousands, except per share amounts)	**Quarterly results for the year ended December 31, 2006**			
	Dec. 31, 2006	**Sept. 30, 2006**	**June 30, 2006**	**March 31, 2006**
Net revenues	**$ 56,405**	**$ 56,059**	**$ 53,678**	**$ 46,712**
Gross profit	**$ 34,748**	**$ 36,011**	**$ 34,018**	**$ 28,667**
Net income	**$ 11,722**	**$ 10,719**	**$ 10,439**	**$ 7,036**
Basic net income per share	**$ 0.22**	**$ 0.20**	**$ 0.19**	**$ 0.13**
Shares used in computing basic net income per share	**54,103**	**53,690**	**53,554**	**53,438**
Diluted net income per share	**$ 0.20**	**$ 0.19**	**$ 0.18**	**$ 0.12**
Shares used in computing diluted net income per share	**58,780**	**58,419**	**58,444**	**58,617**

(In thousands, except per share amounts)	**Quarterly results for the year ended December 31, 2005**			
	Dec. 31, 2005	**Sept. 30, 2005**	**June 30, 2005**	**March 31, 2005**
Net revenues	$ 51,950	$ 49,624	$ 46,130	$ 45,848
Gross profit	$ 34,192	$ 33,544	$ 31,795	$ 30,914
Net income	$ 13,759	$ 9,093	$ 9,953	$ 10,310
Basic net income per share	$ 0.26	$ 0.17	$ 0.19	$ 0.20
Shares used in computing basic net income per share	53,208	53,099	52,111	51,431
Diluted net income per share	$ 0.24	$ 0.16	$ 0.17	$ 0.18
Shares used in computing diluted net income per share	58,814	58,774	58,783	58,502

Company Information

BOARD OF DIRECTORS:

Yongji Duan
Chairman, SINA and Chairman, Stone Group Corporation

Yan Wang
Vice Chairman, SINA

Charles Chao
President and Chief Executive Officer, SINA

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

Xiaotao Chen
Chief Executive Officer, China Cable Media Group

Hurst Lin
General Partner, Doll Capital Management

Lip-Bu Tan
Chairman, Walden International

Ter Fung Tsao
Chairman, Standard Foods Corporation

Songyi Zhang
Advisory Director, Morgan Stanley Hong Kong

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

CORPORATE OFFICERS:

Charles Chao
President and Chief Executive Officer

Herman Yu
Acting Chief Financial Officer

Tong Chen
Executive Vice President and Chief Editor

Hong Du
Senior Vice President, Sales and Marketing

Bin Wang
Senior Vice President and General Manager, SINA Mobile

CORPORATE GOVERNANCE:

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

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

Share Administration Committee:
Charles Chao and Yan Wang

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