TechTarget Inc
Form 10-Q/A
March 27, 2008

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

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended September 30, 2007

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

For the transition period from _____ to _____

Commission File Number: 1-33472

TECHTARGET, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3483216 (I.R.S. Employer Identification No.)

117 Kendrick Street, Suite 800
Needham, Massachusetts 02494
(Address of principal executive offices) (zip code)

(781) 657-1000
(Registrant’s telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report): Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer £	Accelerated Filer £	Non-Accelerated Filer R (Do not check if a smaller reporting company)	Smaller Reporting Company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

As of September 30, 2007, there were outstanding 40,406,753 shares of the registrant's common stock, par value $0.001.

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EXPLANATORY NOTE

Pursuant to Rule 12b-15 of the Rules and Regulations under the Securities Exchange Act of 1934, this Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q of TechTarget, Inc. (the "Company") for the quarter ended September 30, 2007 is being filed to amend and restate our financial statements as of and for the three and nine months ended September 30, 2007. The restatement is to correct errors in the amounts of our prepaid expenses, non-current deferred tax assets and related provision for income taxes. The restatement for the error resulted in a decrease to the provision for income taxes and a corresponding increase to net income of $290,000 and $824,000 for the three and nine months ended September 30, 2007, respectively. The restatement for the error also resulted in an increase to total assets of $824,000 at September 30, 2007. This Amendment No. 1 amends Part I, Items 1 and 2, and Part II, Item 6 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. This Amendment No. 1 continues to reflect circumstances as of the date of the original filing of the Quarterly Report on Form 10-Q, and the Company has not updated the disclosures contained therein to reflect events that occurred at a later date, except for the items relating to the restatement, as further described in Note 2 to the consolidated financial statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TECHTARGET, INC.
Consolidated Balance Sheets
(In thousands, except share and per share data)

Assets	September 30, 2007 (restated) (unaudited)	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 20,769	$ 30,830
Short-term investments	87,901	-
Accounts receivable, net of allowance for doubtful accounts of $510 and $580 as of September 30, 2007 and December 31, 2006, respectively.	12,419	12,096
Prepaid expenses and other current assets	3,340	952
Deferred tax assets	735	1,784
Total current assets	125,164	45,662
Property and equipment, net	3,769	2,520
Goodwill	43,225	36,190
Intangible assets, net of accumulated amortization	12,087	6,066
Other assets	105	854
Deferred tax assets	2,777	1,355
Total assets	$ 187,127	$ 92,647
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of bank term loan payable	$ 3,000	$ 3,000
Accounts payable	3,121	2,928
Income taxes payable	-	1,854
Accrued expenses and other current liabilities	1,559	1,904
Accrued compensation expenses	1,779	2,322
Deferred revenue	5,590	2,544
Total current liabilities	15,049	14,552
Long-term liabilities:		
Other liabilities	458	555
Bank term loan payable, net of current portion	3,750	6,000
Total liabilities	19,257	21,107
Commitments (Note 8)	-	-
Redeemable convertible preferred stock:		
Series A redeemable convertible preferred stock - $0.001 par value; 36,009,488 shares authorized; 35,879,971 shares issued and outstanding, liquidation preference of $30,656 at December 31, 2006	-	30,468

Series B redeemable convertible preferred stock - $0.001 par value; 51,470,588 shares authorized; 51,470,588 shares issued and outstanding, liquidation preference of $88,296 at December 31, 2006	-	88,260
Series C redeemable convertible preferred stock - $0.001 par value; 10,141,302 shares authorized; 10,141,302 shares issued and outstanding, liquidation preference of $18,058 at December 31, 2006	-	18,038
Total redeemable convertible preferred stock	-	136,766
Stockholders' equity (deficit):		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, $0.001 par value per share, 100,000,000 shares authorized; 40,406,753 and 7,969,830 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	41	32
Additional paid-in capital	199,689	-
Warrants	55	105
Accumulated other comprehensive loss	(70)	(56)
Accumulated deficit	(31,845)	(65,307)
Total stockholders' equity (deficit)	167,870	(65,226)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$ 187,127	$ 92,647

See accompanying notes.

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TECHTARGET, INC.
Consolidated Statements of Operations
(In thousands, except share and per share data)

	Three Months Ended September 30, 2007 (restated)	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007 (restated)	Nine Months Ended September 30, 2006
	(unaudited)			
Revenues:				
Online	$ 14,687	$ 12,565	$ 44,726	$ 35,752
Events	6,912	5,893	16,201	13,962
Print	1,702	1,809	5,323	6,181
Total revenues	23,301	20,267	66,250	55,895
Cost of revenues:				
Online (1)	3,769	3,644	11,194	9,257
Events (1)	2,283	1,632	6,065	4,641
Print (1)	862	1,385	2,990	4,215
Total cost of revenues	6,914	6,661	20,249	18,113
Gross profit	16,387	13,606	46,001	37,782
Operating expenses:				
Selling and marketing (1)	7,271	4,932	19,811	14,555
Product development (1)	1,677	1,617	5,021	4,740
General and administrative (1)	3,364	2,126	8,917	6,001
Depreciation	401	241	1,095	697
Amortization of intangible assets	1,171	1,378	2,971	3,886
Total operating expenses	13,884	10,294	37,815	29,879
Operating income	2,503	3,312	8,186	7,903
Interest income (expense):				
Interest income	1,043	369	2,058	1,224
Interest expense	(146)	(385)	(851)	(1,103)
Total interest income (expense)	897	(16)	1,207	121
Income before provision for income taxes	3,400	3,296	9,393	8,024
Provision for income taxes	1,568	1,709	3,996	3,623
Net income	$ 1,832	$ 1,587	$ 5,397	$ 4,401
Net income (loss) per common share:				
Basic	$ 0.05	$ (0.16)	$ 0.06	$ (0.47)
Diluted	$ 0.04	$ (0.16)	$ 0.05	$ (0.47)
Weighted average common shares outstanding:				
Basic	40,354,796	7,909,485	24,282,474	7,788,440

Diluted	43,336,498	7,909,485	27,184,670	7,788,440
(1) Amounts include share-based compensation expense as follows:				
Cost of online revenue	$ 16	$ 9	$ 156	$ 14
Cost of events revenue	20	3	43	5
Cost of print revenue	(1)	1	18	2
Selling and marketing	930	49	2,054	69
Product development	84	10	230	16
General and administrative	604	19	1,421	50

See accompanying notes.

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TECHTARGET, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended September 30,	
	2007 (restated)	2006
	(unaudited)	
Operating Activities		
Net income	$ 5,397	$ 4,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,066	4,583
Provision for bad debt	117	215
Stock-based compensation	3,922	156
Non-cash interest expense	310	91
Deferred tax provision	(373)	-
Excess tax benefit - stock options	(2,518)	-
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(441)	(3,283)
Prepaid expenses and other current assets	193	(604)
Other assets	745	(18)
Accounts payable	193	(541)
Income taxes payable	(1,854)	-
Accrued expenses and other current liabilities	(344)	22
Accrued compensation expenses	(543)	(233)
Deferred revenue	3,046	3,049
Other liabilities	(110)	(41)
Net cash provided by operating activities	11,806	7,797
Investing activities		
Purchases of property and equipment, and other assets	(2,344)	(969)
Purchases of short-term investments	(284,247)	-
Sales of short-term investments	196,346	-
Acquisition of assets	(1,013)	-
Acquisition of businesses, net of cash acquired	(15,015)	(15,017)
Net cash used in investing activities	(106,273)	(15,986)
Financing activities		
Proceeds from revolving credit facility	12,000	-
Payments made on revolving credit facility	(12,000)	-
Proceeds from bank term loan payable	-	10,000
Payments on bank term loan payable	(2,250)	(22,000)
Proceeds from initial public offering, net of stock issuance costs	83,161	-
Excess tax benefit - stock options	2,518	-
Proceeds from exercise of warrants and stock options	977	779
Net cash provided by (used in) financing activities	84,406	(11,221)
Net decrease in cash and cash equivalents	(10,061)	(19,410)
Cash and cash equivalents at beginning of period	30,830	46,879

Cash and cash equivalents at end of period	$	20,769	$	27,469
Cash paid for interest	$	489	$	1,076
Cash paid for taxes	$	4,437	$	4,165

See accompanying notes.

TECHTARGET, INC.
Notes to Restated Consolidated Financial Statements
(In thousands, except share and per share data)

1. Organization and Operations

The Company

TechTarget, Inc. (the Company) is a leading provider of specialized online content that brings together buyers and sellers of corporate information technology, or IT, products. The Company sells customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. TechTarget, Inc. is a Delaware corporation that was incorporated on September 14, 1999.

The Company's integrated content platform consists of a network of 42 websites that are complemented with targeted in-person events and three specialized IT magazines. Throughout all stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high return on investment, or ROI. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across eleven distinct media groups: Application Development; Channel; CIO and IT Management; Data Center; Enterprise Applications; Laptops and Mobile Technology; Networking; Security; Storage; Vertical Software; and Windows and Distributed Computing.

On November 6, 2007, the Company acquired KnowledgeStorm, Inc. (KnowledgeStorm), a privately-held company based in Alpharetta, GA for an aggregate purchase price of approximately $58 million, consisting of approximately $52 million in cash and 359,820 shares of the Company's common stock.   KnowledgeStorm is a leading online search resource providing vendor generated content targeted toward corporate IT professionals. KnowledgeStorm offers IT marketers products with a lead generation and branding focus to reach these corporate IT professionals throughout the purchasing decision process. The financial results of KnowledgeStorm will be included in the Company’s consolidated results of operations from the date of acquisition.

Stock Offering

In May 2007, the Company completed its initial public offering (IPO) of 8,855,000 shares of its common stock, of which 7,072,097 shares were sold by the Company and 1,782,903 shares were sold by certain of the Company’s existing shareholders at a price to the public of $13.00 per share. The Company raised a total of $91,937 in gross proceeds from the offering, or $83,161 in net proceeds after deducting underwriting discounts and commissions of $6,436 and other offering costs of approximately $2,340. Upon the closing of the offering, all shares of the Company’s redeemable convertible preferred stock automatically converted into 24,372,953 shares of common stock.

Reverse Stock Split

On April 26, 2007, the Company's board of directors approved a 1-for-4 reverse stock split of the Company's outstanding common stock. The reverse stock split became effective immediately and all common share and per share amounts in the accompanying consolidated financial statements and notes to the consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split.

2. Restatement of Previously Issued Financial Statements

The Company determined that it had improperly classified a portion of its stock-based compensation expense in its income tax provision as a permanent tax difference when such portion should have been classified as a temporary tax

difference. This resulted in an overstatement of the income tax provision for the third quarter of 2007. These restatements have no impact on the Company's previously reported revenues, cash flows from operations or total cash and cash equivalents shown in the consolidated financial statements for the three and nine months ended September 30, 2007. The Company has restated its financial statements as of and for the three and nine months ended September 30, 2007 in accordance with SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3. The restatement is to correct errors in its prepaid expenses, non-current deferred tax assets and related provision for income taxes. The restatement for the error resulted in a decrease to the provision for income taxes and a corresponding increase to net income of $290 and $824 for the three and nine months ended September 30, 2007, respectively. The restatement for the error also resulted in an increase to total assets of $824 at September 30, 2007.

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Consolidated Balance Sheet Adjustments

The following is a summary of the adjustments to our previously issued unaudited consolidated balance sheet as of September 30, 2007.

	September 30, 2007		
	As Originally Reported	Adjustments	As restated
Assets			
Current assets:			
Cash and cash equivalents	$ 20,769		$ 20,769
Short-term investments	87,901		87,901
Accounts receivable, net of allowance for doubtful accounts	12,419		12,419
Prepaid expenses and other current assets	3,459	(119)	3,340
Deferred tax asset	735		735
Total current assets	125,283	(119)	125,164
Property and equipment, net	3,769		3,769
Goodwill	43,225		43,225
Intangible assets, net of accumulated amortization	12,087		12,087
Other assets	105		105
Deferred tax asset	1,834	943	2,777
Total assets	$ 186,303	$ 824	$ 187,127
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Current portion of bank term loan payable	3,000		3,000
Accounts payable	3,121		3,121
Income taxes payable	-		-
Accrued expenses and other current liabilities	1,559		1,559
Accrued compensation expenses	1,779		1,779
Deferred revenue	5,590		5,590
Total current liabilities	15,049		15,049
Long-term liabilities:			
Other liabilities	458		458
Bank term loan payable, net of current portion	3,750		3,750
Total liabilities	19,257		19,257
Commitments (Note 8)	-		-
Stockholders' equity (deficit):			
Common stock	41		41
Additional paid-in capital	199,689		199,689
Warrants	55		55
Accumulated other comprehensive loss	(70)		(70)
Accumulated deficit	(32,669)	824	(31,845)

Total stockholders' equity (deficit)	167,046		824	167,870
Total liabilities and stockholders' equity (deficit)	$ 186,303	$	824	$ 187,127

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Consolidated Statements of Operations Adjustments

The following is a summary of the adjustments to our previously issued unaudited consolidated statements of operations for the three and nine months ended September 30, 2007.

	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	As Originally Reported	Adjustments	As Restated	As Originally Reported	Adjustments	As Restated
Revenues:						
Online	$ 14,687		$ 14,687	$ 44,726		$ 44,726
Events	6,912		6,912	16,201		16,201
Print	1,702		1,702	5,323		5,323
Total revenues	23,301		23,301	66,250		66,250
Cost of revenues:						
Online	3,769		3,769	11,194		11,194
Events	2,283		2,283	6,065		6,065
Print	862		862	2,990		2,990
Total cost of revenues	6,914		6,914	20,249		20,249
Gross profit	16,387		16,387	46,001		46,001
Operating expenses:						
Selling and marketing	7,271		7,271	19,811		19,811
Product development	1,677		1,677	5,021		5,021
General and administrative	3,364		3,364	8,917		8,917
Depreciation	401		401	1,095		1,095
Amortization of intangible assets	1,171		1,171	2,971		2,971
Total operating expenses	13,884		13,884	37,815		37,815
Operating income	2,503		2,503	8,186		8,186
Interest income (expense):						
Interest income	1,043		1,043	2,058		2,058
Interest expense	(146)		(146)	(851)		(851)
Total interest income (expense)	897		897	1,207		1,207
Income before provision for income taxes	3,400		3,400	9,393		9,393
Provision for income taxes	1,858	$ (290)	1,568	4,820	$ (824)	3,996
Net income	$ 1,542	$ 290	$ 1,832	$ 4,573	$ 824	$ 5,397
Net income (loss) per common share:						
Basic	$ 0.04	$ 0.01	$ 0.05	$ 0.03	$ 0.03	$ 0.06

Diluted	$	0.04	$	-	$	0.04	$	0.02	$	0.03	$	0.05

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Consolidated Statements of Cash Flow Adjustments

The following is a summary of the adjustments to our previously issued unaudited consolidated statement of cash flows for the nine months ended September 30, 2007.

	Nine Months Ended September 30, 2007		
	As Originally Reported	Adjustments	As Restated
Operating Activities			
Net income	$ 4,573	$ 824	$ 5,397
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,066		4,066
Provision for bad debt	117		117
Stock-based compensation	3,922		3,922
Non-cash interest expense	310		310
Deferred tax benefit (provision)	570	(943)	(373)
Excess tax benefit - stock options	(2,518)		(2,518)
Changes in operating assets and liabilities, net of businesses acquired:			
Accounts receivable	(441)		(441)
Prepaid expenses and other current assets	74	119	193
Other assets	745		745
Accounts payable	193		193
Income taxes payable	(1,854)		(1,854)
Accrued expenses and other current liabilities	(344)		(344)
Accrued compensation expenses	(543)		(543)
Deferred revenue	3,046		3,046
Other liabilities	(110)		(110)
Net cash provided by operating activities	11,806	-	11,806
Investing activities			
Purchases of property and equipment, and other assets	(2,344)		(2,344)
Purchases of short-term investments	(284,247)		(284,247)
Sales of short-term investments	196,346		196,346
Acquisition of assets	(1,013)		(1,013)
Acquisition of businesses, net of cash acquired	(15,015)		(15,015)
Net cash used in investing activities	(106,273)	-	(106,273)
Financing activities			
Proceeds from revolving credit facility	12,000		12,000
Payments made on revolving credit facility	(12,000)		(12,000)
Payments on bank term loan payable	(2,250)		(2,250)
Proceeds from initial public offering, net of stock issuance costs	83,161		83,161
Excess tax benefit - stock options	2,518		2,518
Proceeds from exercise of warrants and stock options	977		977
Net cash provided by (used in) financing activities	84,406	-	84,406
Net increase (decrease) in cash and cash equivalents	(10,061)		(10,061)

Cash and cash equivalents at beginning of period	30,830		30,830
Cash and cash equivalents at end of period	$ 20,769	$ -	$ 20,769

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3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bitpipe, Inc., TechTarget Securities Corporation and TechTarget, Ltd. Bitpipe, Inc. is a leading provider of in-depth IT content including white papers, product literature, and case studies from IT vendors. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget, Ltd. is a subsidiary doing business principally in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with management’s discussion and analysis of financial condition and results of operations, contained in the Company’s Registration Statement on Form S-1 (File No. 333-140503), which is on file with the Securities and Exchange Commission (SEC).

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations.   In the opinion of management, the unaudited interim consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements in the Company’s Registration Statement on Form S-1 (File No. 333-140503), and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company's financial position at September 30, 2007, results of operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

Use of Estimates

The preparation of financial statements in conformity with U.S. accounting principles generally accepted requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company generates substantially all of its revenue from the sale of targeted advertising campaigns that are delivered via its network of websites, events and print publications. Revenue is recognized in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, and Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements With Multiple Deliverables. Revenue is recognized only when the service has been provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is reasonably assured.

Online media. Revenue for online media offerings is recognized for specific online media offerings as follows:

- White Papers. White paper revenue is recognized ratably over the period in which the white paper is available on the Company's websites.

- Webcasts and Podcasts. Webcast revenue is recognized in the period in which the webcast occurs. Podcast revenue is recognized in the period in which it is first posted and becomes available on the Company's websites.

- Software Package Comparisons. Software package comparison revenue is recognized ratably over the period in which the software information is available on the Company's websites.

- Dedicated E-mails, E-mail Newsletters. Dedicated e-mail and e-newsletter revenue is recognized in the period in which the e-mail or e-newsletter is sent to registered members.

- List Rentals. List rental revenue is recognized in the period in which the e-mails are sent to the list of registered members.

- Banners. Banner revenue is recognized in the period in which the banner impressions occur.

While each online media offering can be sold separately, most of the Company's online media sales involve multiple online offerings. At inception of the arrangement, the Company evaluates the deliverables to determine whether they represent separate units of accounting under EITF Issue No. 00-21. Deliverables are deemed to be separate units of accounting if all of the following criteria are met: the delivered item has value to the customer on a standalone basis; there is objective and reliable evidence of the fair value of the item(s); and delivery or performance of the item(s) is considered probable and substantially in the Company's control. The Company allocates revenue to each unit of accounting in a transaction based upon its fair value as determined by vendor objective evidence. Vendor objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those online media offerings when sold to other similar customers. If vendor objective evidence of fair value has not been established for all items under the arrangement, no allocation can be made, and the Company recognizes revenue on all online media offerings over the term of the arrangement.

The Company offers customers the ability to purchase integrated ROI program offerings, which can include any of its online media offerings packaged together to address the particular customer's specific advertising requirements. As part of these offerings, the Company will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. Throughout the advertising campaign, revenue is recognized as individual offerings are delivered, and the lead guarantee commitments are closely monitored to assess campaign performance. If the minimum number of qualified sales leads is not met by the scheduled completion date of the advertising campaign, the campaign is extended and the Company will extend the period over which it recognizes revenue. In accordance with EITF Issue No. 00-21, revenue is deferred for any undelivered offerings equal to a pro-rata amount of the fair value of the additional media offerings as compared to the total combined value of the original contract and the fair value of the additional media offerings. The fair value of the additional media offerings is determined based on

standard rate card pricing for each of the additional media offerings. The Company estimates the additional media offerings to be delivered during the extended period based on historical lead generation performance for each of the offerings. The Company has managed and completed over 1,000 integrated ROI program offerings since 2004, which it feels provides a reasonable basis to establish these estimates. During the twelve months ended September 30, 2007, lead shortfalls for integrated ROI program offerings were satisfied within an average extended period of 38 days.

As of September 30, 2007, substantially all of the integrated ROI program offerings that had a guaranteed minimum number of qualified sales leads had been delivered within the original contractual term. Standard contractual terms and conditions for integrated ROI program offerings allow for the Company to extend advertising campaigns in order to satisfy lead shortfalls. When lead shortfalls are unable to be satisfied within a mutually agreed-upon extended period, the Company recognizes revenue equal to, and the customer is only responsible for paying, a pro rata amount based on the actual number of leads delivered compared to the number of leads originally guaranteed. Historically, lead guarantees associated with integrated ROI program offerings have not required the Company to refund or extend payment terms to customers, nor have they resulted in deferral of a material amount of revenue outside of the original contractual term of the advertising campaign.

Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Event sponsorships. Sponsorship revenues from events are recognized upon completion of the event in the period that the event occurs. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue. The majority of the Company’s events are free to qualified attendees, however certain of the Company’s events are based on a paid attendee model. Revenue is recognized for paid attendee events upon completion of the event and receipt of payment from the attendee. Deferred revenue relates to collection of the attendance fees in advance of the event.

Print publications. Advertising revenues from print publications are recognized at the time the applicable publication is distributed. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, a term loan payable and an interest rate swap. The carrying value of these instruments approximates their estimated fair values.

Long-lived Assets

Long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from acquisitions and are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In accordance with this statement, a specifically identified intangible asset must be recorded as a separate asset from goodwill if either of the following two criteria is met: (1) the intangible asset acquired arises from contractual or other legal rights; or (2) the intangible asset is separable. Accordingly, intangible assets consist of specifically identified intangible assets. Goodwill is the excess of any purchase price over the estimated fair market value of net tangible assets acquired not allocated to specific intangible assets.

As required by SFAS No. 142, goodwill and indefinite-lived intangible assets are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their useful lives using the straight-line method over periods generally ranging from one to six years, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company performs its annual test of impairment of goodwill on December 31st of each year, and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Based on this evaluation, the Company believes that, as of each of the balance sheet dates presented, none of the Company’s goodwill or other long-lived assets was impaired.

Internal Use Software and Website Development Costs

The Company accounts for website development costs according to the guidance in the EITF Issue No. 00-2, Accounting for Web Site Development Costs, which requires that costs incurred during the development of website applications and infrastructure involving developing software to operate a website be capitalized. Additionally, all costs relating to internal use software are accounted for under Statement of Position (SOP) 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of $191 and $272 for the three months ended September 30, 2007 and 2006, respectively, and $889 and $452 for the nine months ended September 30, 2007 and 2006, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which is the asset and liability method for accounting and reporting for income taxes. Under SFAS No. 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, SFAS No. 109 requires a valuation allowance against net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition and measurement method of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted the provisions of FIN 48 effective January 1, 2007. In accordance with FIN 48, the Company recognizes any interest

and penalties related to unrecognized tax benefits in income tax expense.

Stock-Based Compensation

At September 30, 2007, the Company had two stock-based employee compensation plans which are more fully described in Note 9. Through December 31, 2005, the Company accounted for its stock-based awards to employees using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Under the intrinsic value method, compensation expense is measured on the date of the grant as the difference between the deemed fair value of our common stock and the exercise or purchase price multiplied by the number of shares subject to stock options or the number of shares of restricted stock awards granted.

Through December 31, 2005, the Company accounted for stock-based compensation expense for non-employees using the fair value method prescribed by SFAS, No. 123 and the Black-Scholes option-pricing model, and recorded the fair value of non-employee stock options as an expense over the vesting term of the option.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. The Company adopted SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) requires nonpublic companies that used the minimum value method under SFAS No. 123 for either recognition or pro forma disclosures to apply SFAS No. 123(R) using the prospective-transition method. As such, the Company will continue to apply APB Opinion No. 25 in future periods to equity awards outstanding at the date of adoption of SFAS No. 123(R) that were measured using the minimum value method. In accordance with SFAS No. 123(R), the Company will recognize the compensation cost of employee stock-based awards in the statement of operations using the straight line method over the vesting period of the award. Effective with the adoption of SFAS No. 123(R), the Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted.

Net Income (Loss) Per Share

As of May 16, 2007, the effective date of the Company's IPO, the Company transitioned from having two classes of equity securities outstanding, common and preferred stock, to a single class of equity securities outstanding, common stock, upon automatic conversion of shares of redeemable convertible preferred stock into shares of common stock. For the period prior to May 16, 2007, the Company calculated net income (loss) per share in accordance with SFAS No. 128, Earnings Per Share, as clarified by EITF Issue No. 03-6, Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share. EITF Issue No. 03-6 clarifies the use of the “two-class” method of calculating earnings per share as originally prescribed in SFAS No. 128. Under the two-class method, basic net income (loss) per share is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income (loss) per share is computed using the more dilutive of (a) the two-class method, or (b) the if-converted method. The Company allocates net income first to preferred stockholders based on dividend rights under the Company’s charter and then to preferred and common stockholders based on ownership interests. Net losses are not allocated to preferred stockholders.

For the period subsequent to May 16, 2007, the Company has followed SFAS No. 128, Earnings Per Share, which requires that basic EPS be calculated by dividing earnings available to common shareholders for the period by the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted EPS, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, under SFAS No. 123(R), the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options that are in-the-money. This results in the “assumed” buyback of additional shares, thereby reducing the dilutive impact of stock options.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 in 2008 will have a material impact on its results of operations or financial position.

In February 2007, the FASB released SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and is effective for fiscal years beginning after November 15, 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is currently analyzing the effect, if any, SFAS No. 159 will have on its consolidated financial position and results of operations.

4. Acquisitions

TechnologyGuide.com

On April 26, 2007, the Company acquired substantially all of the assets of TechnologyGuide.com from TechnologyGuide, Inc., which was a privately-held company based in Cincinnati, OH, for $15,000 in cash, plus $15 in acquisition related transaction costs. TechnologyGuide.com is a website business consisting of a portfolio of five websites; Notebookreview.com, Brighthand.com, TabletPCReview.com, DigitalCameraReview.com and SpotStop.com. The websites offer independent product reviews, price comparisons, and forum-based discussions for selected technology products. The acquisition provides the Company with opportunities for growth within the laptop/notebook PC and "smart phone" markets in which it currently does not have a significant presence.

The Company applied the guidance included in EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or a Business, to conclude that the acquisition of TechnologyGuide.com constituted the acquisition of a business. In connection with this acquisition, the Company recorded $7,035 of goodwill and $7,980 of intangible assets related to developed websites, customer relationships, and non-compete agreements with estimated useful lives ranging from 36 to 72 months.

The estimated fair value of $7,980 of acquired intangible assets is assigned as follows:

	Useful Life	Estimated Fair Value
Developed websites intangible asset	72 months	$ 5,400
Customer relationship intangible asset	60 months	1,790
Non-compete agreements intangible asset	36 months	790
Total intangible assets		$ 7,980

Management engaged a third party valuation specialist to assist in determining the fair value of the acquired assets of TechnologyGuide.com. To value the websites and customer relationship intangible assets, an income approach was used, specifically a variation of the discounted cash-flow method. For the websites intangible asset, expenses and income taxes were deducted from estimated revenues attributable to the existing websites. For the customer relationship intangible asset, expenses and income taxes were deducted from estimated revenues attributable to the existing customers. The projected net cash flows for each were then tax affected using an effective rate of 41% and then discounted using a discount rate of 22.3% to determine the value of the intangible assets, respectively. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the intangible assets, respectively. To value the non-compete agreements a comparative business valuation method was used. Based on non-compete terms of 36 months, management projected net cash flows for the Company with and without the non-compete agreements in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreements in place was calculated, based on a discount rate of 22.3%.

Results of operations for TechnologyGuide.com have been included in the Company's results of operations since the acquisition date of April 26, 2007.

2020Software.com

On May 3, 2006, the Company acquired substantially all of the assets associated with 2020Software.com from 20/20 Software, Inc., which was a privately-held company based in Los Angeles, California, for $15,000 in cash, plus $17 in acquisition related transaction costs. The acquisition provides the Company with an opportunity for growth within markets in which it currently does not have a significant presence, primarily vertical software applications and enterprise markets. At the time of acquisition, 2020Software.com was a website business focused on providing detailed feature-comparison information and access to trial software for businesses seeking trial versions of accounting, customer relationship management and other business software. Since the acquisition of 2020Software.com, the Company has expanded into additional vertical markets including the retail, manufacturing, construction and medical software markets.

The Company applied the guidance included in EITF Issue No. 98-3 to conclude that the acquisition of 2020Software.com constituted the acquisition of a business. In connection with this acquisition, the Company purchased $397 of accounts receivable, recorded $9,440 of goodwill and recorded $5,180 of intangible assets related to customer relationships, customer order backlog and a non-compete agreement, with estimated useful lives ranging from 12 to 60 months.

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The estimated fair value of $5,180 of acquired intangible assets is assigned as follows:

	Useful Life	Estimated Fair Value
Customer relationship intangible asset	60 months	$ 4,170
Non-compete agreement intangible asset	36 months	550
Customer order backlog intangible asset	12 months	460
Total intangible assets		$ 5,180

The Company engaged a third party valuation specialist to assist management in determining the fair value of the acquired assets of 2020Software.com. To value the customer relationship and backlog intangible assets, an income approach was used, specifically a variation of the discounted cash-flow method. The projected net cash flows for 2020Software.com were tax affected using an effective rate of 40% and then discounted using a discount rate of 20.1% to calculate the value of the customer relationship and backlog intangible assets. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship and backlog intangible assets. To value the non-compete agreement a comparative business valuation method was used. Based on a non-compete term of 36 months, management projected net cash flows for the Company with and without the non-compete agreement in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreement in place was calculated, based on a discount rate of 20.1%.

Results of operations for 2020Software.com have been included in the Company's results of operations since the acquisition date of May 3, 2006.

Pro Forma Results of Operations

The following pro forma results of operations for the three and nine months ended September 30, 2007 and 2006 have been prepared as though the acquisitions of TechnologyGuide.com and 2020Software.com had occurred as of January 1, 2006. This pro forma financial information is not indicative of the results of operations that may occur in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (restated)	2006	2007 (restated)	2006
	(unaudited)			
Pro forma revenues	$ 23,301	$ 20,778	$ 67,109	$ 58,694
Pro forma net income	$ 1,430	$ 1,547	$ 4,493	$ 3,391
Pro forma net income (loss) per common share:				
Basic	$ 0.04	$ (0.16)	$ 0.02	$ (0.59)
Diluted	$ 0.03	$ (0.16)	$ 0.02	$ (0.59)

Pro forma net income increased from $1,229 and $3,863 as originally reported to $1,430 and $4,493 as restated for the three and nine months ended September 30, 2007, respectively. Pro forma basic net income per common share increased from $0.03 and $0.00 as originally reported to $0.04 and $0.02 as restated for the three and nine months ended September 30, 2007, respectively. Pro forma diluted net income per common share increased

from $0.00 as originally reported to $0.02 as restated for the nine months ended September 30, 2007.

5. Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at date of purchase. Cash equivalents are carried at cost, which approximates their fair market value. Cash and cash equivalents consisted of the following:

	September 30, 2007 (unaudited)	December 31, 2006
Cash	$ 2,772	$ 3,262
Money market funds	13,815	5,935
Municipal bonds	1,000	-
Commercial paper corporate debt securities	3,182	21,633
Total cash and cash equivalents	$ 20,769	$ 30,830

As of September 30, 2007, short-term investments consist of commercial paper corporate debt securities, municipal bonds, auction rate securities and variable rate demand notes. Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities in excess of 90 days. Interest rates on these securities typically reset through a modified Dutch auction at predetermined short-term intervals, usually every 1, 7, 28 or 35 days. Variable rate demand notes are long-term, taxable, or tax-exempt bonds issued on a variable rate basis that can be tendered by the Company for purchase at par whenever interest rates reset, usually every 7 days. Despite the long-term nature of the stated contractual maturities of these variable rate demand notes, the Company has the intent and ability to quickly liquidate these securities. Auction rate securities and variable rate demand notes are recorded at fair market value, which approximates cost because of their short-term interest rates. Commercial paper corporate debt securities and municipal bonds are securities issued by various highly rated municipalities that have maturities between three and twelve months at date of purchase.

The Company's short-term investments are accounted for as available for sale securities under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. These investments are recorded at cost, which approximates fair market value, therefore the Company has no unrealized gains or losses from these investments.

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Short-term investments consisted of the following:

	September 30, 2007 (unaudited)	December 31, 2006
Commercial paper corporate debt securities	$ 4,800	$ -
Municipal bonds	29,801	-
Auction rate securities	39,950	-
Variable rate demand notes	13,350	-
Total short-term investments	$ 87,901	$ -

All income generated from these short-term investments is recorded as interest income.

6. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 and for the year ended December 31, 2006 are as follows:

	Total
Balance as of December 31, 2005	$ 26,535
Acquisitions during the period	9,440
Other adjustments	215
Balance as of December 31, 2006	36,190
Acquisitions during the period	7,035
Balance as of September 30, 2007	$ 43,225

Intangible assets subject to amortization as of September 30, 2007 and December 31, 2006 consist of the following:

	As of September 30, 2007 (unaudited)		
	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	$ 13,367	$ (8,020)	$ 5,347
Developed websites, technology and patents	5,976	(919)	5,057
Trademark, trade name and domain name	894	(451)	443
Non-compete agreements	1,675	(435)	1,240
Total intangible assets	$ 21,912	$ (9,825)	$ 12,087

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	$ 11,025	$ (6,010)	$ 5,015

Developed websites, technology and patents		576		(400)	176
Trademark, trade name and domain name		768		(321)	447
Non-compete agreements		550		(122)	428
Total intangible assets	$	12,919	$	(6,853)	$ 6,066

Intangible assets are amortized over their estimated useful lives, which range from 12 to 72 months, using the straight-line method of amortization, which approximates the estimated pattern of economic use. Amortization expense was $1,172 and $1,378 for the three months ended September 30, 2007 and 2006 respectively, and $2,972 and $3,886 for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, the remaining amortization expense will be recognized over a weighted-average period of approximately 2.65 years.

The Company expects amortization expense of intangible assets to be as follows:

		Total
2007 (October 1st - December 31st)	$	1,020
2008		2,967
2009		2,831
2010		2,361
2011		1,584
2012		1,024
Thereafter		300
Total amortization expense	$	12,087

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7. Net Income (Loss) Per Share

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income (loss) per common share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (restated)	2006	2007 (restated)	2006
		(unaudited)		
Numerator:				
Net income	$ 1,832	$ 1,587	$ 5,397	$ 4,401
Allocation of net income to periods (1):				
Net income allocable to period during which two classes of equity securities were outstanding	-	1,587	1,959	4,401
Net income allocable to period during which one class of equity securities was outstanding	1,832	-	3,438	-
Net income	$ 1,832	$ 1,587	$ 5,397	$ 4,401
Net income allocable to two class period	$ -	$ 1,587	$ 1,959	$ 4,401
Accretion of preferred stock dividends	-	2,824	3,948	8,091
Net income applicable to preferred stockholders for two class period	-	2,824	3,948	8,091
Net loss applicable to common stockholders for two class period	-	(1,237)	(1,989)	(3,690)
Net income allocable to one class period	1,832	-	3,438	-
Net income (loss) applicable to common stockholders	$ 1,832	$ (1,237)	$ 1,449	$ (3,690)
Denominator:				
Basic:				
Weighted average shares of common stock outstanding	40,354,796	7,909,485	24,282,474	7,788,440
Diluted:				
Weighted average shares of common stock outstanding	40,354,796	7,909,485	24,282,474	7,788,440
Effect of potentially dilutive shares	2,981,702	-	2,902,196	-
Total weighted average shares of common stock outstanding	43,336,498	7,909,485	27,184,670	7,788,440
Calculation of Net Income Per Common Share:				
Basic:				
Net income (loss) applicable to common stockholders	$ 1,832	$ (1,237)	$ 1,449	$ (3,690)
Weighted average shares of stock outstanding	40,354,796	7,909,485	24,282,474	7,788,440
Net income (loss) per common share	$ 0.05	$ (0.16)	$ 0.06	$ (0.47)
Diluted:				
Net income (loss) applicable to common stockholders	$ 1,832	$ (1,237)	$ 1,449	$ (3,690)
Weighted average shares of stock outstanding	43,336,498	7,909,485	27,184,670	7,788,440
Net income (loss) per common share	$ 0.04	$ (0.16)	$ 0.05	$ (0.47)

(1) As of May 16, 2007, the effective date of the Company's IPO, the Company transitioned from having two classes of equity securities outstanding, common and preferred stock, to a single class of equity securities outstanding, common stock, upon automatic conversion of shares of redeemable convertible preferred stock into shares of common stock.

8. Bank Term Loan Payable

In August 2006, the Company entered into a credit agreement (Credit Agreement) with Citizens Bank of Massachusetts, which included a $10,000 term loan (Term Loan) and a $20,000 revolving credit facility (Revolving Credit Facility). The Revolving Credit Facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At the Company's option, the Revolving Credit Facility bears interest at either the Prime Rate less 1.00% or the LIBOR plus the applicable LIBOR margin. The Company is also required to pay an unused line fee on the daily unused amount of its Revolving Credit Facility at a per annum rate of 0.375%. The Company borrowed $12,000 against its Revolving Credit Facility in conjunction with the acquisition of TechnologyGuide.com in April 2007. The entire outstanding balance of $12,000 was repaid in May 2007 with proceeds from the Company's IPO. As of September 30, 2007, unused availability under the Revolving Credit Facility totaled $20,000.

In August 2007, the Company entered into an amendment to the Credit Agreement. The amendment changes the applicable LIBOR margin from 1.50% to a sliding scale based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2007, the applicable LIBOR margin was 1.25%.

The Term Loan requires 39 consecutive monthly principal payments of $250, plus interest, beginning on September 30, 2006 through December 30, 2009. As of September 30, 2007, the outstanding balance due under the Term Loan was $6,750. There was no accrued interest on the Term Loan at September 30, 2007.

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In September 2006, the Company entered into an interest rate swap agreement with a commercial bank to mitigate the interest rate fluctuations on the Term Loan. With this interest rate swap agreement in place, the Company has fixed the annual interest rate at 5.48% plus the applicable LIBOR margin for the Term Loan. The interest rate swap agreement terminates in December 2009. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, the interest rate swap agreement is deemed to be a cash flow hedge and qualifies for special accounting using the shortcut method. Accordingly, changes in the fair value of the interest rate swap agreement are recorded in "accumulated other comprehensive loss" on the consolidated statements of redeemable convertible preferred stock and stockholders' deficit. As of September 30, 2007, the fair value of the cash flow hedge was $70 and is recorded in other liabilities.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement require the maintenance of certain financial ratios. The Company was in compliance with all financial covenants as of September 30, 2007.

The future maturities of the Term Loan agreement at September 30, 2007 are as follows:

Year Ending December 31,		As of September 30, 2007 (unaudited)
2007 (October 1st - December 31st)	$	750
2008		3,000
2009		3,000
		6,750
Less current portion		(3,000)
	$	3,750

9. Comprehensive Income (Loss)

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and displaying comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) is defined to include all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and nine months ended September 30, 2007 comprehensive income is the sum of net income and the change in the fair value of the Company's cash flow hedge, as follows:

		Three Months Ended September 30, 2007 (restated)		Nine Months Ended September 30, 2007 (restated)
		(unaudited)		
Net income	$	1,832	$	5,397
Other comprehensive income:				
Change in fair value of cash flow hedge		(47)		(14)
Total comprehensive income	$	1,785	$	5,383

10. Commitments and Contingencies

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At September 30, 2007 and December 31, 2006, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

11. Stock-Based Compensation

Stock Option Plans

In September 1999, the Company approved a stock option plan (the 1999 Plan) that provides for the issuance of up to 12,384,646 shares of common stock incentives. The 1999 Plan provides for the granting of incentive stock options (ISOs), nonqualified stock options (NSOs), and stock grants. These incentives may be offered to the Company's employees, officers, directors, consultants, and advisors, as defined. ISOs may be granted at no less than fair market value on the date of grant, as determined by the Company's Board of Directors (the Board) (no less than 110% of fair market value on the date of grant for 10% or greater stockholders), subject to limitations, as defined. Each option shall be exercisable at such times and subject to such terms as determined by the Board, generally four years, and shall expire within ten years of issuance.

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards will be made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan will remain in effect and will continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and all options generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by our compensation committee. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of September 30, 2007 a total of 2,780,433 shares were available for grant under the 2007 Plan.

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Accounting for Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The Company calculated the fair values of the options granted using the following estimated weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Risk-free interest rate	*	4.68%-5.05%	4.61%-5.04%	4.68%-5.05%
Expected volatility	*	58%-59%	49%-50%	58%-63%
Expected life	*	6.25 years	6.25 years	6.25 years
Dividend yield	*	-%	-%	-%
Weighted-average grant date fair value per share	*	$ 4.47	$ 7.71	$ 4.48

* The Company did not grant any stock options during the three months ended September 30, 2007.

As there was no public market for the Company's common stock prior to the Company's IPO in May 2007, and limited historical information on the volatility of its common stock since the date of the Company's IPO, the Company determined the volatility for options granted in the three and nine months ended September 30, 2007 and 2006 based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies for a period equal to the expected life of the option. The expected life of options has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin No. 107, Share-Based Payment. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. In addition, SFAS No. 123(R) requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas SFAS No. 123 permitted companies to record forfeitures based on actual forfeitures, which was the Company's historical policy under SFAS No. 123. As a result, the Company applied an estimated forfeiture rate, based on its historical forfeiture experience during the previous six years, of 8.40% in determining the expense recorded in the three and nine months ended September 30, 2006. In September 2007, the Company changed the estimated forfeiture rate from 8.40% to 4.00% based on a decrease in its historical forfeiture experience during the previous two years. The Company applied the new forfeiture rate of 4.00% in determining the expense recorded in the three and nine months ended September 30, 2007.

A summary of the activity under the Company's stock option plan as of September 30, 2007 and changes during the three and nine month periods then ended is presented below:

Quarter-to-Date Activity	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
		(unaudited)		
Options outstanding at June 30, 2007 (unaudited)	7,214,168	$ 5.74		
Options granted	-	-		

Options exercised	(69,649)		2.93		
Options forfeited	(10,016)		7.27		
Options canceled	(733)		7.36		
Options outstanding at September 30, 2007 (unaudited)	7,133,770	$	5.77	7.4	$ 79,425
Options exercisable at September 30, 2007 (unaudited)	3,536,762	$	3.88	5.9	$ 46,048
Options vested or expected to vest at September 30, 2007 (1) (unaudited)	6,989,890	$	5.73	7.4	$ 78,090

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

Year-to-Date Activity	Options Outstanding		Weighted-Average Exercise Price Per Share
	(unaudited)		
Options outstanding at December 31, 2006	7,922,323	$	4.96
Options granted	224,500		14.16
Options exercised	(954,248)		1.03
Options forfeited	(57,447)		5.76
Options canceled	(1,358)		5.65
Options outstanding at September 30, 2007 (unaudited)	7,133,770	$	5.77

During the three and nine months ended September 30, 2007, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was $677 and $11,424, respectively, and the total amount of cash received from exercise of these options was $204 and $984, respectively. The total grant-date fair value of stock options granted after the adoption of SFAS No. 123(R) on January 1, 2006 that vested during the three and nine months ended September 30, 2007 was $4,455 and $4,627, respectively.

During the three and nine months ended September 30, 2006, the total intrinsic value of options exercised was $82 and $1,917, respectively, and the total amount of cash received from exercise of these options was $49 and $441, respectively. None of the options granted after the adoption of SFAS No. 123(R) on January 1, 2006 vested during the three and nine months ended September 30, 2006.

Unrecognized stock-based compensation expense of non-vested stock options of $15,074 is expected to be recognized using the straight line method over a weighted-average period of 1.59 years.

12. Stockholders' Equity

In April 2007, the Board of Directors approved an amendment and restatement of the Company's Certificate of Incorporation to increase the authorized number of shares of common stock from 44,344,656 to 100,000,000, to authorize 5,000,000 shares of undesignated preferred stock, par value $0.001 per share, and to eliminate all reference to the designated Series Preferred Stock.

Warrants

In connection with the Company's original Bank Term Loan agreement, in July 2001 the Company issued to the lender for the Bank Term Loan (the "Lender") a fully exercisable warrant to purchase up to 74,074 shares of series A redeemable convertible preferred stock at $0.5411 per share. In connection with an amendment to the Bank Term Loan agreement in April 2002 the Company issued to the Lender an additional fully exercisable warrant to purchase 55,443 shares of series A redeemable convertible preferred stock at a price of $0.5411 per share. Upon the closing of the Company's IPO in May 2007, these warrants outstanding converted into warrants to purchase an aggregate of 32,378 shares of the Company's common stock at an exercise price of $2.1644 per share. In August 2007, the Lender exercised their warrants to purchase 32,378 shares of common stock using the conversion rights in the warrants. As result of the exercise using the conversion rights, the Company issued 26,740 shares of common stock to the Lender and cancelled the 5,638 shares received in lieu of payment of the exercise price. In connection with an acquisition in May 2000, the Company issued to the seller a warrant to purchase 40,625 shares of common stock at a price of $2.36 per share. The warrant is exercisable immediately and expires on May 10, 2010. At September 30, 2007 and December 31, 2006, there were 40,625 and 73,003 shares, respectively, of the Company's common stock reserved for the exercise of all warrants.

Reserved Common Stock

As of September 30, 2007 the Company has reserved common stock for the following:

	Number of Shares (unaudited)
Options outstanding and available for grant under stock option plans	9,914,203
Warrants	40,625

9,954,828

13. Income Taxes

The Company adopted the provisions of FIN 48, an interpretation of SFAS No. 109, Accounting for Income Taxes, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At the adoption date and as of September 30, 2007, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties have been recognized by the Company to date.

Tax years 2003 through 2006 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

The Company recorded a provision for income taxes in 2007 based upon a 43% effective tax rate.

14. Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for reporting information about operating segments in annual financial statements and requires selected information of these segments be presented in interim financial reports to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision making group, as defined under SFAS No. 131, consists of the Company's chief executive officer, president and executive vice president. The Company views its operations and manages its business as one operating segment.

Geographic Data

Net sales to unaffiliated customers by geographic area were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
			(unaudited)	
United States and Canada	$ 22,952	$ 20,055	$ 65,058	$ 55,344
International	349	212	1,192	551
Total	$ 23,301	$ 20,267	$ (a)	the accompanying unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

Introduction to the unaudited pro forma financial information of the Combined Group

The accompanying unaudited pro forma financial information of the Combined Group has been prepared to illustrate the effect of the Company s proposed acquisition of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC (each individually referred to as a Target Company , and together with its subsidiary collectively referred to as the Target Group) at consideration of US$3,650 million (equivalent to approximately RMB30,210 million). The consideration will be satisfied by the payment of an initial consideration and a deferred consideration. The initial consideration of US$2,000 million (equivalent to approximately RMB16,554 million) will be satisfied by cash. The deferred consideration of US$1,650 million (equivalent to approximately RMB13,656 million), being the difference between the total consideration and the initial consideration, is interest bearing and repayable within fifteen years.

The accompanying unaudited pro forma income statement for the year ended 31 December 2003 of the Combined Group gives effect to the above transactions as if such transactions had taken place on 1 January 2003. The accompanying unaudited pro forma balance sheet of the Combined Group as at 31 December 2003 gives effect to the transactions described above as if they had been consummated on 31 December 2003.

In connection with the Acquisition, the fixed assets of the Target Group were revalued at 31 December 2003 as required by the relevant PRC rules and regulation. The Target Group expects that the revaluation of fixed assets will have a material impact on its overall results of operations. The accompanying unaudited pro forma income statement of the Combined Group has also been adjusted to give effect to the revaluation as if it had been consummated on 1 January 2003.

The accompanying unaudited pro forma financial information of the Combined Group is prepared based upon the historical financial information of the Target Group as set out in Appendix II Accountants Report to this circular and the consolidated financial statements of the Listed Group after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Combined Group; and (iii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Combined Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying unaudited pro forma financial information of the Combined Group, it may not give a true picture of the actual financial position or results of the Combined Group s operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Combined Group does not purport to predict the Combined Group s future financial position or results of operations.

The unaudited pro forma financial information of the Combined Group should be read in conjunction with the Accountants Report of the Target Group as set out in Appendix II, the financial information of the Listed Group as set out in Appendix III and other financial information included elsewhere in this circular.

Unaudited pro forma income statement of the Combined Group

For the year ended 31 December 2003

	Target Group historical	The Listed Group historical	Pro forma adjustments		Adjusted balance
	RMB million	*RMB million*	*RMB million*	*Note*	*RMB million*
Operating revenue (Turnover)					
Usage fees	14,675	111,027			125,702
Monthly fees	3,401	20,666			24,067
Other operating revenue	2,569	26,911	(181)	(a)	29,299
	20,645	158,604			179,068
Operating expenses					
Leased lines	(683)	(4,914)			(5,597)
Interconnection	(1,343)	(12,868)	145	(a)	(14,066)
Depreciation	(6,664)	(36,611)	633	(b)	(42,642)
Personnel	(2,021)	(7,700)			(9,721)
Other operating expenses	(7,416)	(43,308)	36	(a)	(50,688)
	(18,127)	(105,401)			(122,714)
Profit from operations	2,518	53,203			56,354
Deficit on revaluation of fixed assets	(3,470)				(3,470)
Amortisation of goodwill		(1,850)	(222)	(c)	(2,072)
Other net income	203	2,464			2,667
Non-operating net income	93	434			527
Interest income	53	807	(169)	(d)	691
Finance costs	(127)	(2,099)	(354)	(e)	(2,580)
(Loss)/profit from ordinary activities before taxation	(730)	52,959			52,117
Taxation	(628)	(17,412)	(89)	(f)	(18,129)
(Loss)/profit from ordinary activities after taxation	(1,358)	35,547			33,988
Minority interests		9			9
Net (loss)/profit	(1,358)	35,556			33,997

Unaudited pro forma balance sheet of the Combined Group

At 31 December 2003

	Target Group historical	The Listed Group historical	Pro forma adjustments		Adjusted balance
	RMB million	*RMB million*	*RMB million*	*Note*	*RMB million*
Non-current assets					
Fixed assets	33,996	171,604			205,600
Construction in progress	5,059	28,370			33,429
Goodwill		34,373	4,444	(g)	38,817
Interest in associates		16			16
Investment securities		77			77
Deferred tax assets	75	3,263			3,338
Deferred expenses		143			143
	39,130	237,846			281,420
Current assets					
Inventories	330	2,050			2,380
Amounts due from ultimate holding company	381	762			1,143
Accounts receivable	602	6,116			6,718
Other receivables	408	1,787			2,195
Prepayment and other current assets	502	2,128			2,630
Tax recoverable		258			258
Deposits with banks	125	17,227			17,352
Cash and cash equivalents	1,171	39,129	(16,554)	(h)	23,746
	3,519	69,457			56,422
Current liabilities					
Bank loans and other interest-bearing borrowings	(5,140)	(13,090)			(18,230)
Bills payable	(24)	(2,059)			(2,083)
Current instalments of obligations under finance leases	(10)	(68)			(78)
Current portion of deferred revenue	(712)	(9,476)			(10,188)
Amounts due to group companies	(3,073)	(1,399)			(4,472)
Accounts payable	(4,370)	(25,225)			(29,595)
Accrued expenses and other payables	(3,384)	(22,317)			(25,701)
Tax payable	(5)	(4,516)			(4,521)
	(16,718)	(78,150)			(94,868)
Net current liabilities	(13,199)	(8,693)			(38,446)
Total assets less current liabilities carried forward	25,931	229,153			242,974

Unaudited pro forma balance sheet of the Combined Group (continued)

At 31 December 2003

	Target Group historical	The Listed Group historical	Pro forma adjustments	Note	Adjusted balance
	RMB million	*RMB million*	*RMB million*	Note	*RMB million*
Total assets less current liabilities brought forward	25,931	229,153			242,974
Non-current liabilities					
Bank loans and other interest-bearing borrowings		(19,407)			(19,407)
Amount due to immediate holding company		(9,976)	(13,656)	(i)	(23,632)
Deferred revenue, excluding current portion	(165)	(688)			(853)
Deferred tax liabilities		(97)			(97)
	(165)	(30,168)			(43,989)
Minority interests		(182)			(182)
Net assets	25,766	198,803			198,803
Capital and reserves	25,766	198,803	(25,766)	(j)	198,803

Description of pro forma adjustments

(a) Elimination of the intercompany transactions between the Target Group and the Listed Group on a combined basis.

(b) In connection with the Acquisition, the Target Group s fixed assets were revalued as at 31 December 2003 as required by the relevant PRC rules and regulations, resulting in a net revaluation deficit recorded on such date. The adjustment represents the reduction in depreciation charges resulting from the revaluation of the fixed assets as if the revaluation result had been recorded on 1 January 2003.

(c) To record the amortisation of positive goodwill as a result of the acquisition of the Target Companies as if the acquisition had taken place on 1 January 2003. The amortisation is calculated to write off the cost of positive goodwill on a straight line basis over 20 years.

(d) To adjust for reduction in the interest income for the initial cash consideration to be taken from the internal resources of the Listed Group as if the transaction had taken place on 1 January 2003.

(e) To record the interest expense of the deferred consideration at 2.595% per annum as if the Acquisition had taken place on 1 January 2003. The interest expense is not deductible for taxation purposes.

(f) To record the tax effect of the pro forma adjustment described in note (b) and (d) above.

(g) To record positive goodwill as a result of the acquisition of the Target Companies as if the acquisition had taken place on 31 December 2003. Positive goodwill represents the excess of the total purchase consideration of US$3,650 million (equivalent to approximately RMB30,210 million) and the estimated fair value of the underlying net assets of the Target Group as at 31 December 2003.

(h) To record the initial cash consideration for the Target Group to be taken from the internal resources of the Listed Group as at 31 December 2003.

(i) To record the deferred consideration payable to CMBVI in connection with the Acquisition of the Target Group as at 31 December 2003.

(j) To eliminate the owners equity of the Target Group as at 31 December 2003.

2. WORKING CAPITAL

The Directors are of the opinion that the Combined Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements.

3. INDEBTEDNESS

At the close of the business on 31 March 2004, being the latest practicable date for the purpose of this indebtedness statement, the Combined Group had outstanding borrowings of approximately RMB45,449 million in aggregate. These borrowings comprise unsecured bank loans of approximately RMB1,997 million, other unsecured loans of approximately RMB18,494 million, bills payable of approximately RMB1,161 million, finance lease obligations of approximately RMB78 million, unsecured fixed rate notes of approximately RMB4,984 million, unsecured convertible notes of approximately RMB5,735 million and bonds of RMB13,000 million.

In respect of the above borrowings, approximately RMB93 million of the unsecured bank loans and approximately RMB68 million of finance lease obligations are guaranteed by third parties and the bonds of RMB13,000 million are guaranteed by CMCC.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Combined Group had outstanding at the close of business on 31 March 2004 any mortgages, charges or debentures, loan capital, bank overdrafts, loans and other similar indebtedness, hire purchase commitments, liabilities under acceptances, guarantees or other material contingent liabilities.

The forecast combined profit after taxation but before extraordinary items of the Target Group for the year ending 31 December 2004 is set out in the section headed Prospective Financial Information in the Letter from the Chairman.

(A) BASES AND ASSUMPTIONS

The management of the Company and the Target Companies have prepared the forecast combined profit after taxation but before extraordinary items of the Target Group for the year ending 31 December 2004. The management of the Company and the Target Companies are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2004. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Target Group as summarised in Appendix II and on the following principal assumptions:

(1) there will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in Hong Kong and the PRC;

(2) there will be no material changes in legislation or regulations governing the telecommunications industry in the PRC which would materially affect the business or operations of the Target Companies;

(3) inflation, interest rates and RMB exchange rates will not differ materially from those prevailing as at the date of this circular; and

(4) there will be no material changes in the bases or rates of taxation applicable to the Target Companies, except as otherwise disclosed in this circular.

(B) LETTERS

Set out below are the text of the letters received from the reporting accountants, KPMG, and from the Company s financial advisers in connection with the profit forecast and prepared for the purpose of inclusion in this circular.

(i) Letter from KPMG

8th Floor
Prince s Building
10 Chater Road
Hong Kong

3 May 2004

The Directors

China Mobile (Hong Kong) Limited

China International Capital Corporation (Hong Kong) Limited

Goldman Sachs (Asia) L.L.C.

UBS Investment Bank

Dear Sirs

We have reviewed the accounting policies and calculations adopted in arriving at the forecast (the Forecast) of the combined profit after taxation but before extraordinary items of Neimenggu Mobile Communication Company Limited, Jilin Mobile Communication Company Limited, Heilongjiang Mobile Communication Company Limited, Guizhou Mobile Communication Company Limited, Yunnan Mobile Communication Company Limited, Xizang Mobile Communication Company Limited, Gansu Mobile Communication Company Limited, Qinghai Mobile Communication Company Limited, Ningxia Mobile Communication Company Limited, Xinjiang Mobile Communication Company Limited, Beijing P&T Consulting & Design Institute Company Limited and China Mobile Communication Company Limited (together with its subsidiary collectively referred to as the Target Group) for the year ending 31 December 2004, for which the directors (the Directors) of China Mobile (Hong Kong) Limited (the Company) and the management of the Target Group (the Management) are solely responsible, as set out in the circular dated 3 May 2004 issued by the Company.

In our opinion so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and the assumptions made by the Directors and the Management as set out in Part A of Appendix V to the above-mentioned circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Target Group as set out in our accountants report dated 3 May 2004, the text of which is set out in Appendix II to the said circular.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

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(ii) Letter from financial advisers

China International Capital Corporation (Hong Kong) Limited	**Goldman Sachs (Asia) L.L.C.**	**UBS Investment Bank**
Suite 2307, 23rd Floor	68th Floor	25th Floor
One International Finance Centre	Cheung Kong Center	One Exchange Square
1 Harbour View Street Central	2 Queen s Road Central	8 Connaught Place
Hong Kong	Hong Kong	Central
		Hong Kong

3 May 2004

The Directors

China Mobile (Hong Kong) Limited

60th Floor, The Center

99 Queen s Road Central

Hong Kong

Dear Sirs

We refer to the forecast of the combined profit after taxation but before extraordinary items of Neimenggu Mobile Communication Company Limited (Neimenggu Mobile), Jilin Mobile Communication Company Limited (Jilin Mobile), Heilongjiang Mobile Communication Company Limited (Heilongjiang Mobile), Guizhou Mobile Communication Company Limited (Guizhou Mobile), Yunnan Mobile Communication Company Limited (Yunnan Mobile), Xizang Mobile Communication Company Limited (Xizang Mobile), Gansu Mobile Communication Company Limited (Gansu Mobile), Qinghai Mobile Communication Company Limited (Qinghai Mobile), Ningxia Mobile Communication Company Limited (Ningxia Mobile), Xinjiang Mobile Communication Company Limited (Xinjiang Mobile), Beijing P&T Consulting & Design Institute Company Limited (Jingyi Design Institute) and China Mobile Communication Company Limited (CMC), for the year ending 31 December 2004 as set out in the circular issued by China Mobile (Hong Kong) Limited (the Company), dated 3 May 2004.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated 3 May 2004 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the assumptions made by the management of the Company and Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC, respectively, and on the bases of the accounting policies and calculations reviewed by KPMG, we are of the opinion that the profit forecast, for which the management of the Company and Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC are solely responsible, has been made after due and careful enquiry.

Yours faithfully,	Yours faithfully,	Yours faithfully,
For and on behalf of	For and on behalf of	For and on behalf of
CHINA INTERNATIONAL	**GOLDMAN SACHS (ASIA)**	**UBS INVESTMENT BANK**
CAPITAL CORPORATION	**L.L.C.**	**He Di**
(HONG KONG) LIMITED	**Wang Hsueh-Ming**	*Managing Director*
Bi Mingjian	*Managing Director*	
Managing Director		

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1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(i) As at the Latest Practicable Date, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register required kept under section 352 of the Securities and Futures Ordinance were as follows:

Name of Director	Personal Interest
Wang Xiaochu	500 American Depositary Shares [1]

(1) One American Depositary Share represents five Shares.

(ii) As at the Latest Practicable Date, options exercisable for an aggregate of 9,071,000 Shares had been granted to the following Directors under the Company s share option scheme:

Name of Directors	Number of Shares covered by options
Wang Xiaochu	4,520,000
Xue Taohai	200,000
He Ning	1,436,000
Li Gang	1,470,000
Xu Long	1,445,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which they are deemed or taken to have under the Securities and Futures Ordinance) or which are required, pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

None of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Combined Group taken as a whole.

Since 31 December 2003, the date of the latest published audited financial statements of the Company, none of the Directors nor any experts named in paragraph 8 of this Appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Combined Group, or are proposed to be acquired or disposed of by or leased to any member of the Combined Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following corporations were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of any member of the Combined Group:

	No. of Shares held		Percentage of total issued share capital of the Company
	directly	indirectly	
CMCC		14,890,116,842	75.69%
CMHKG		14,890,116,842	75.69%
CMBVI	14,890,116,842		75.69%

Note: In light of the fact that CMCC and CMHKG directly or indirectly control one-third or more of the voting rights at the shareholders meetings of CMBVI, in accordance with the Securities and Futures Ordinance, the interests of CMBVI are deemed to be, and have therefore been included in, the interests of CMCC and CMHKG.

Save as disclosed above, there is no person known to the Directors who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Combined Group, or any options in respect of such capital.

4. LITIGATION

There is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Combined Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Combined Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors of the Company will not be varied in consequence of the Acquisition.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Listed Group since 31 December 2003, being the date of the latest published audited financial statements of the Company.

7. CONSENT

CICC, Goldman Sachs, UBS, KPMG and Rothschild have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports and letters (if any), as the case may be, and references to their names in the form and context in which they respectively appear.

None of CICC, Goldman Sachs, UBS, KPMG and Rothschild is beneficially interested in the share capital of any member of the Listed Group and none of them has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Listed Group.

8. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
CICC	Registered investment adviser
Goldman Sachs	Registered investment adviser
UBS	Registered investment adviser
KPMG	Certified public accountants
Rothschild	Restricted licence bank and deemed registered institution

9. PROCEDURE TO DEMAND A POLL AT THE EXTRAORDINARY GENERAL MEETING

In accordance with the Listing Rules, any vote taken at the Extraordinary General Meeting to approve the Acquisition must be taken by poll. According to the Articles of Association of the Company, a poll may be demanded by:

(a) the chairman of the Extraordinary General Meeting; or

(b) at least three Shareholders present in person or by proxy and entitled to vote at the Extraordinary General Meeting; or

(c) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the Extraordinary General Meeting; or

(d) any Shareholder or Shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the Extraordinary General Meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

A poll shall be taken at such time (being not later than thirty days after the date of the demand) and in such manner as the chairman of the Extraordinary General Meeting may appoint. On a poll, every Shareholder present at the Extraordinary General Meeting shall be entitled to one vote for every fully paid-up Share of which he is the holder. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.

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10. MISCELLANEOUS

(a) The company secretary of the Company and the qualified accountant of the Company (as required under the Listing Rules) is Yung Shun Loy, Jacky (FCCA, FHKSA, CPA (Australia)).

(b) The registered office and head office of the Company is at 60th Floor, The Center, 99 Queen s Road Central, Hong Kong.

(c) Hong Kong Registrars Limited, the share registrar of the Company, is at Rooms 1901 5, 19th Floor Hopewell Centre, 183 Queen s Road East, Wanchai, Hong Kong.

(d) The English text of this circular and form of proxy shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any Business Day from the date of this circular until 17 May 2004:

(a) the Acquisition Agreement;

(b) the memorandum and articles of association of the Company;

(c) the consolidated audited financial statements of the Listed Group for the year ended 31 December 2003;

(d) the letters of consent referred to in this circular;

(e) the letter from Rothschild dated 3 May 2004, the text of which is set out on pages 23 to 40 of this circular;

(f) the accountants report from KPMG dated 3 May 2004, the text of which is set out in Appendix II to this circular;

(g) the report from KPMG on the unaudited pro forma financial information of the Combined Group dated 3 May 2004, the text of which is set out in Appendix IV to this circular; and

(h) the letters from KPMG and the Company s financial advisers both dated 3 May 2004, the texts of which are set out in Appendix V to this circular.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of China Mobile (Hong Kong) Limited (the Company) will be held at 3:30 p.m. (or as soon thereafter as the annual general meeting of the Company to be convened at 2:30 p.m. at the same place and date shall have been concluded or adjourned) on 16 June 2004, in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution as Ordinary Resolution:

Ordinary Resolution

1. **THAT** the conditional sale and purchase agreement dated 28 April 2004 (the Acquisition Agreement) between the Company, China Mobile Hong Kong (BVI) Limited (CMBVI) and China Mobile Communications Corporation, a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked A , pursuant to which, inter alia, CMBVI has agreed as legal and beneficial owner to sell, and the Company has agreed to purchase, the entire issued share capital of each of Neimenggu Mobile (BVI) Limited, Jilin Mobile (BVI) Limited, Heilongjiang Mobile (BVI) Limited, Guizhou Mobile (BVI) Limited, Yunnan Mobile (BVI) Limited, Xizang Mobile (BVI) Limited, Gansu Mobile (BVI) Limited, Qinghai Mobile (BVI) Limited, Ningxia Mobile (BVI) Limited, Xinjiang Mobile (BVI) Limited, Beijing P&T Consulting & Design Institute (BVI) Limited and China Mobile Communication (BVI) Limited, which holds 100% of each of Neimenggu Mobile Communication Company Limited, Jilin Mobile Communication Company Limited, Heilongjiang Mobile Communication Company Limited, Guizhou Mobile Communication Company Limited, Yunnan Mobile Communication Company Limited, Xizang Mobile Communication Company Limited, Gansu Mobile Communication Company Limited, Qinghai Mobile Communication Company Limited, Ningxia Mobile Communication Company Limited, Xinjiang Mobile Communication Company Limited, Beijing P&T Consulting & Design Institute Company Limited and China Mobile Communication Company Limited, respectively, at a consideration of US$3,650 million, comprising an initial consideration of US$2,000 million payable in cash to CMBVI and a deferred consideration of US$1,650 million payable within fifteen years after completion of the Acquisition Agreement, is hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Acquisition Agreement.

By Order of the Board
Yung Shun Loy, Jacky
Company Secretary

Hong Kong, 3 May 2004

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company s registered office at 60th Floor, The Center, 99 Queen s Road Central, Hong Kong, at least 36 hours before the time appointed for holding the Extraordinary General Meeting. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or at any adjourned meeting should a member so wish.