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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **TOM.COM LIMITED**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**TOM.COM LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**VERY SUBSTANTIAL ACQUISITION  
INVOLVING THE ISSUE OF NEW SHARES**

**Proposed acquisition of approximately 64.07% of the issued share capital of  
China Entertainment Television Broadcast Limited**

**and**

**MAJOR TRANSACTION**

**Proposed grant of call options to  
Turner Broadcasting System Asia Pacific, Inc.**

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A notice convening an extraordinary general meeting of TOM.COM LIMITED to be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 11 September 2003 at 11:00 a.m. is set out on pages 345 to 350 of this circular. Whether or not you are able to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of TOM.COM LIMITED at 48 Floor, The Center, 99 Queen's Road Central, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of TOM.COM LIMITED at [www.tomgroup.com](http://www.tomgroup.com).

26 August 2003

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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# CONTENTS

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*Page*

|  |    |
|--|----|
| <b>DEFINITIONS</b> .....   | 1  |
| <b>LETTER FROM THE BOARD</b>                                     |    |
| A. INTRODUCTION .....  | 11 |
| B. SHARE PURCHASE AGREEMENT                                      |    |
| 1. Date .....  | 13 |
| 2. Parties .....   | 13 |
| 3. Assets to be acquired .....                                   | 13 |
| 4. Consideration .....   | 13 |
| 5. Payment terms .....   | 14 |
| 6. Shareholding chart of CETV before Completion .....            | 14 |
| 7. Shareholding chart of CETV immediately after Completion ..... | 14 |
| 8. Conditions precedent .....                                    | 15 |
| 9. Moratorium and trading restrictions .....                     | 16 |
| C. THE SHAREHOLDERS DEED   |    |
| 1. Date .....  | 16 |
| 2. Parties .....   | 16 |
| 3. Management .....  | 17 |
| 4. Funding .....   | 17 |
| 5. Repayment priority .....                                      | 21 |
| 6. Distribution policy .....                                     | 21 |
| 7. Transfer of CETV Shares .....                                 | 22 |
| 8. Other major terms .....                                       | 26 |

---

# CONTENTS

---

*Page*

## D. THE OPTION DEED

|     |   |    |
|-----|---|----|
| 1.  | Date .....                                  | 29 |
| 2.  | Parties .....                               | 30 |
| 3.  | Assets to be disposed of .....              | 30 |
| 4.  | Options .....                               | 30 |
| 5.  | Exercise price .....                        | 31 |
| 6.  | Determination of exercise price .....       | 34 |
| 7.  | Exercise and withdrawal of options .....    | 35 |
| 8.  | Put option .....                            | 36 |
| 9.  | Lapse of options .....                      | 36 |
| 10. | Compliance with the GEM Listing Rules ..... | 36 |
| 11. | Event of default .....                      | 38 |

## E. OTHER VSA DOCUMENTS, THE OPTION DEED AND ANCILLARY DOCUMENTS

|    |                                      |    |
|----|--------------------------------------|----|
| 1. | Sub-Lease .....                      | 39 |
| 2. | Services Agreement .....             | 39 |
| 3. | Program Management Agreement .....   | 39 |
| 4. | Asset Purchase Agreement .....       | 39 |
| 5. | Tax Deed and Other Indemnities ..... | 40 |

## F. INFORMATION ON CETV

|    |   |    |
|----|---|----|
| 1. | Principal activities .....                        | 40 |
| 2. | Business review .....                             | 41 |
| 3. | Indebtedness .....                                | 44 |
| 4. | Reasons for and benefits of the Acquisition ..... | 44 |
| 5. | Future plans and prospects .....                  | 45 |

---

# CONTENTS

---

|   | <i>Page</i> |
|---|-------------|
| G. INFORMATION ON THE TBS GROUP .....   | 45          |
| H. REASONS FOR ACQUIRING THE SALE SHARES .....  | 46          |
| I. GENERAL INFORMATION .....  | 47          |
| J. EGM .....  | 48          |
| K. RECOMMENDATION .....   | 48          |
| L. ADDITIONAL INFORMATION .....   | 48          |
| <b>APPENDIX I – FINANCIAL INFORMATION ON TOM GROUP .....</b>  | <b>49</b>   |
| <b>APPENDIX II – ACCOUNTANTS’ REPORT ON TOM GROUP .....</b>   | <b>51</b>   |
| <b>APPENDIX III – ACCOUNTANTS’ REPORT ON CETV .....</b>   | <b>113</b>  |
| <b>APPENDIX IV – COMPILATION REPORT ON THE PRO FORMA COMBINED<br/>FINANCIAL INFORMATION OF ENLARGED TOM GROUP .....</b> | <b>138</b>  |
| <b>APPENDIX V – FINANCIAL INFORMATION ON ENLARGED TOM GROUP .....</b>   | <b>193</b>  |
| <b>APPENDIX VI – FINANCIAL INFORMATION OF ACQUISITIONS SINCE THE LATEST<br/>PUBLISHED AUDITED ACCOUNTS</b>              |             |
| A. Financial Information on PC Home .....   | 199         |
| B. Financial Information on Cité .....  | 227         |
| C. Financial Information on Business Weekly .....   | 255         |
| D. Financial Information on Sharp Point .....   | 280         |
| E. Acquired Businesses under Cité Publishing Holding Limited<br>(unaudited) .....                                       | 296         |
| <b>APPENDIX VII – GENERAL INFORMATION .....</b>   | <b>301</b>  |
| <b>NOTICE OF THE EGM .....</b>  | <b>345</b>  |

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

|                                 |   |
|---------------------------------|---|
| “10-day Average Price”          | the average closing price per Share for the 10 trading days immediately preceding the date of the Announcement as quoted on the Stock Exchange, being HK\$2.435 per Share   |
| “Acquisition”                   | the sale and purchase of the Sale Shares  |
| “Additional Shareholder’s Loan” | the aggregate principal amount of the shareholder’s loan advanced by TOM TV to CETV which is in addition to the Funding Amount  |
| “Aggregate Acquisition Cost”    | the aggregate cost of acquisition of all of the CETV Shares owned by the TOM Group (including but not limited to, where the consideration for acquisition of CETV Shares is satisfied by the issue of Shares, the value of such Shares, which will be equal to the average daily closing price per Share for the 10 trading days immediately preceding the date of issue of such Shares as quoted on the Stock Exchange multiplied by the aggregate number of such Shares, save and except that in respect of the Consideration Shares, the value of the Consideration Shares is the Consideration) |
| “Aggregate Funding Amount”      | the sum of (1) the aggregate Funding Amount advanced by TOM TV to CETV; (2) the aggregate principal amount of all Additional Shareholder’s Loan (if any); and (3) the aggregate amount of the TOM Repaid Third Party Loan (if any)  |
| “Aggregate Sale Proceeds”       | the aggregate proceeds of sale of CETV Shares by any member of the TOM Group (if any)   |
| “Ancillary Documents”           | <ol style="list-style-type: none"><li>1. the Sub-Lease</li><li>2. the Services Agreement</li><li>3. the Program Management Agreement</li><li>4. the Asset Purchase Agreement</li><li>5. the indemnities given by the Company in favour of TBSAP in respect of the Lark Transaction and the Chua Transaction</li></ol>   |
| “Announcement”                  | the announcement of the Company dated 2 July 2003   |
| “AOL Time Warner”               | AOL Time Warner, Inc., a company incorporated in the State of Delaware, the US, whose shares are listed on the New York Stock Exchange in the US  |

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## DEFINITIONS

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| “AsiaSat”                  | Asia Satellite Telecommunications Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Asia Satellite Telecommunications Holdings Limited, which is a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange and the New York Stock Exchange   |
| “Asset Purchase Agreement” | an agreement to be entered into on the Completion Date between TBSAP and CETV for the sale of certain office equipment by TBSAP to CETV   |
| “associates”               | has the same meaning as ascribed to it under the GEM Listing Rules  |
| “Board”                    | the board of Directors  |
| “Broadcasting Authority”   | the Broadcasting Authority in Hong Kong established under section 3 of the Broadcasting Ordinance   |
| “Broadcasting Ordinance”   | the Broadcasting Ordinance (Chapter 562 of the Laws of Hong Kong)   |
| “Business Day”             | a day (other than a Saturday or Sunday) on which banks are generally open for normal business in Hong Kong, London and Atlanta, excluding any day during which typhoon signal number 8 (or higher) or the black rainstorm warning is hoisted (and is not lowered by 09:00 (Hong Kong time)) in Hong Kong  |
| “CCTV-9 Service”           | the 24-hour, English language, news and general programming service broadcast on Channel 9 of the China Central Television in the PRC, which is owned by the PRC government. Under the Co-operation Agreement, TBSAP will cause the CCTV-9 Service to be broadcast through certain designated systems in certain designated cities in the US in return for the right to broadcast the CETV Service through certain designated systems in certain designated cities in the PRC |
| “CETV”                     | China Entertainment Television Broadcast Limited, a company incorporated in Hong Kong with limited liability, the issued share capital of which is owned as to 80% by TBSAP, 16% by Lark and 4% by Mr. Chua as at the Latest Practicable Date   |
| “CETV Board”               | the board of directors of CETV  |
| “CETV Service”             | the free-to-air, 24-hour, Mandarin language, PRC targeted, general entertainment service currently known as “CETV” or “China Entertainment Television”  |

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## DEFINITIONS

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|----------------------------------|---|
| “CETV Shareholder(s)”            | the holder(s) of CETV Shares  |
| “CETV Share(s)”                  | the ordinary shares of HK\$0.30 each in the capital of CETV   |
| “China Equity Return Percentage” | such percentage which is equivalent to a target equity rate of return typically expected from a private equity investment in the PRC, provided however that the yearly compounded internal rate of return applied to determine such target equity rate of return shall not be less than 20% nor greater than 30%, which will be determined by TBSAP (or its permitted transferee(s)) and TOM TV (or its permitted transferee(s)) on arm’s length basis at the time of exercise of the Fixed Call Option |
| “Chua Agreement”                 | a letter dated 20 June 2003 from TBSAP to Mr. Chua and Mrs. Chua, the terms of which have been accepted and agreed by Mr. Chua and Mrs. Chua  |
| “Chua Transaction”               | the proposed acquisition by TBSAP from Mr. Chua of 1,200 CETV Shares  |
| “CITVC”                          | China International Television Corporation (中國國際電視總公司), a company established under the laws of the PRC and whose registered office is at Jingmen Mansion, 9 Yangfangdianlu, Haidan District, Beijing, 100038, the PRC  |
| “CKH”                            | Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange   |
| “Company”                        | TOM.COM LIMITED, a company incorporated in Cayman Islands with limited liability, whose shares are listed on GEM  |
| “Completion”                     | completion of the sale and purchase of the Sale Shares pursuant to the Share Purchase Agreement   |
| “Completion Date”                | the date of Completion, being the 3rd* Business Day after the date of fulfilment (or waiver) of the last of the Conditions (or such other date as the parties to the Share Purchase Agreement may agree in writing prior to Completion)   |
|                                  | * The Announcement said “the 5th Business Day”, which was a typographical error.  |
| “Conditions”                     | the conditions precedent to Completion set out in the Share Purchase Agreement  |



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## DEFINITIONS

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|--------------------------|---|
| “Consideration”          | HK\$53,868,750, which will be satisfied by the allotment and issue of the Consideration Shares  |
| “Consideration Shares”   | 21,250,000 Shares   |
| “Co-operation Agreement” | the co-operation agreement dated 22 October 2001 entered into between CITVC, TBSAP and Guangdong Cable TV Networks Company Limited (廣東有線電視網絡公司) (as supplemented by the terms of permission to add advertisements to the CETV Service dated 22 October 2001 entered into between TBSAP and Guangdong Cable TV Networks Company Limited) |
| “Director(s)”            | the director(s) of the Company  |
| “Easterhouse”            | Easterhouse Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of HWL, which owns 952,683,363 Shares (representing approximately 24.90% of the issued share capital of the Company) as at the Latest Practicable Date   |
| “EGM”                    | the extraordinary general meeting of the Shareholders to be convened by the Board for considering and, if appropriate, approving the transactions contemplated under the VSA Documents and the Option Deed and, if required, the transactions contemplated under the Ancillary Documents  |
| “Enlarged Capital”       | the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that no further Shares (other than the Consideration Shares) will be issued on or before Completion)   |
| “Enlarged TOM Group”     | the TOM Group and CETV  |
| “Existing Capital”       | 3,825,703,450 Shares in issue as at the Latest Practicable Date   |
| “Extension Announcement” | the announcement of the Company dated 8 April 2003 regarding, among other things, the extension granted by the Stock Exchange of the applicable period for the modified ratio calculations and its application to the notifiable transactions of the Company  |
| “Fair Market Value”      | the equity value of the relevant CETV Shares being acquired under the First Call Option or the Fixed Call Option (as the case may be) determined after taking into consideration the Fair Market Value Factors  |

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## DEFINITIONS

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| “Fair Market Value Factors” | such factors which any person may consider appropriate or necessary to take into account in determining the Fair Market Value, including, without limitation, the following factors:<br><br><ol style="list-style-type: none"><li>(1) a sale between a willing buyer and a willing seller in an arm’s length transaction;</li><li>(2) neither seller nor purchaser being under any immediate obligation or need to buy or sell;</li><li>(3) the past, present and future earnings of CETV;</li><li>(4) comparable market valuations;</li><li>(5) any premium for control; and</li><li>(6) the contractual commitments of CETV</li></ol> |
| “First Call Option”         | the irrevocable and exclusive option to be granted by TOM TV to TBSAP pursuant to the Option Deed, under which TBSAP has the right to acquire from TOM TV all or part of the CETV Shares then held by TOM TV during the First Call Period   |
| “First Call Option Shares”  | has the meaning ascribed to it in section D5 of “Letter from the Board” in this circular  |
| “First Call Period”         | has the meaning ascribed to it in section D4 of “Letter from the Board” in this circular  |
| “Fixed Call Option”         | the irrevocable and exclusive option to be granted by TOM TV to TBSAP pursuant to the Option Deed, under which TBSAP has the right to acquire from TOM TV all or part of the CETV Shares then held by TOM TV on each of the Fixed Dates   |
| “Fixed Call Option Shares”  | has the meaning ascribed to it in section D5 of “Letter from the Board” in this circular  |
| “Fixed Dates”               | has the meaning ascribed to it in section D4 of “Letter from the Board” in this circular  |
| “Funding Amount”            | the aggregate amount of funding provided by TOM TV under the Funding Obligation   |
| “Funding Longstop Date”     | has the meaning ascribed to it in section C4 of “Letter from the Board” in this circular  |

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## DEFINITIONS

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| “Funding Obligation”     | TOM TV’s obligation to provide CETV with funding of such amount up to the Funding Longstop Date under the Shareholders Deed (please see section C4 of “Letter from the Board” in this circular)  |
| “GEM”                    | the Growth Enterprise Market of the Stock Exchange   |
| “GEM Listing Rules”      | the Rules Governing the Listing of Securities on the GEM   |
| “HIBOR”                  | the Hong Kong interbank offered rate   |
| “HK\$”                   | Hong Kong dollars, the lawful currency of Hong Kong. For the purpose of this circular, the conversion rate between US\$ and HK\$ is US\$1 = HK\$7.8  |
| “HKGAAP”                 | the generally accepted accounting principles in Hong Kong  |
| “Hong Kong”              | the Hong Kong Special Administrative Region of the PRC   |
| “HWL”                    | Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange   |
| “Indemnity Deeds”        | <ol style="list-style-type: none"><li>(1) a deed of indemnity dated 2 July 2003 executed by the Company in favour of TBSAP in respect of the Lark Transaction; and</li><li>(2) a deed of indemnity dated 2 July 2003 executed by the Company in favour of TBSAP in respect of the Chua Transaction</li></ol>   |
| “Initial Business Plan”  | the business plan of CETV to be agreed by TOM TV and TBSAP, which covers a period of 60 months commencing from the Completion Date   |
| “Interim Funding Period” | the period commencing on the date on which the Funding Amount reaches US\$20 million and ending on the Funding Longstop Date   |
| “Lark”                   | Lark International Multimedia Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Lark International Holdings Limited, which owns 4,800 CETV Shares (representing 16% of the issued share capital of CETV) as at the Latest Practicable Date. Lark International Holdings Limited is owned by The Lark Foundation, a trust established by the family and friends of the late Mr. Ira Dan Kaye’s in memory of Mr. Kaye |

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## DEFINITIONS

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| “Lark Agreement”               | a letter dated 17 June 2003 from TBSAP to Lark, the terms of which have been accepted and agreed by Lark   |
| “Lark Transaction”             | the proposed acquisition by TBSAP from Lark of 4,800 CETV Shares   |
| “Latest Practicable Date”      | 22 August 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular   |
| “Malevolent Broadcasting”      | twice or more occurrence of Reckless Broadcasting in CETV Service within any single month; or after CITVC and/or Guangdong Cable TV Networks Company Limited has notified TBS that certain content of the CETV Service constitute Reckless Broadcasting as determined by the relevant authorities and CETV continues to broadcast such content |
| “Market Price”                 | the closing price of HK\$2.45 per Share as quoted on the Stock Exchange on 2 July 2003   |
| “Mr. Chua”                     | Mr. CHUA Wah Peng, Robert, who owns 1,200 CETV Shares (representing 4% of the issued share capital of CETV) as at the Latest Practicable Date and is the spouse of Mrs. Chua   |
| “Mrs. Chua”                    | Mrs. CHUA Jen Ping Ping, Peggy, who is the spouse of Mr. Chua  |
| “Options”                      | the First Call Option and the Fixed Call Option  |
| “Option Deed”                  | the option deed to be entered into between TOM TV, TBSAP, the Company and TBS on the Completion Date   |
| “Option Shares”                | the First Call Option Shares or the Fixed Call Option Shares (as the case may be)  |
| “PRC”                          | the People’s Republic of China   |
| “Pre-IPO Share Option Plan”    | means the Pre-IPO Share Option Plan adopted by the Company on 11 February 2000 (as described in Appendix IV of the Company’s prospectus dated 18 February 2000)  |
| “Program Management Agreement” | an agreement to be entered into on the Completion Date between TBSAP, TOM TV and CETV relating to the operation of programming services of CETV by TBSAP after Completion  |

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## DEFINITIONS

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| “Reckless Broadcasting”    | the inclusion of content that, among other things, denigrates, distortionally reports current affairs; advocates pornography, violence; infringes third party rights; defaming persons and violating relevant laws  |
| “Romefield”                | Romefield Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CKH, which owns 476,341,182 Shares (representing approximately 12.45% of the issued share capital of the Company) as at the Latest Practicable Date |
| “Sale Shares”              | 19,222 CETV Shares to be bought and sold pursuant to the Share Purchase Agreement   |
| “SARFT”                    | the State Administration of Radio, Film and Television of the PRC (中國國家廣播電影電視總局), being the governmental authority currently in charge of media regulations in the PRC, or any authority of the PRC succeeding such current government authority in the PRC                                   |
| “Services Agreement”       | a master agreement to be entered into on the Completion Date between TBSAP, CETV and the Company relating to the provision of certain services by members of the TBS Group to CETV  |
| “SFC”                      | the Securities and Futures Commission in Hong Kong  |
| “SFO”                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “Share(s)”                 | share(s) of HK\$0.10 each in the capital of the Company   |
| “Share Option Scheme”      | the share option scheme adopted by the Company on 11 February 2000 (as amended)   |
| “Share Purchase Agreement” | the share purchase agreement dated 2 July 2003 entered into between TBSAP, TOM TV, TBS and the Company  |
| “Shareholder(s)”           | the shareholder(s) of the Company   |
| “Shareholders Deed”        | the shareholders deed to be entered into between TOM TV, TBSAP, CETV, the Company and TBS on the Completion Date  |
| “Stock Exchange”           | The Stock Exchange of Hong Kong Limited   |

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## DEFINITIONS

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| “Sub-Lease”                          | a sublease agreement to be entered into between TBS and CETV on the Completion Date in relation to the Transponder Agreement for the supply of AsiaSat 3S satellite transponder capacity by AsiaSat to CETV  |
| “Tax Deed”                           | a deed of indemnity in respect of taxation to be executed by TBSAP in favour of CETV on the Completion Date  |
| “TBS”                                | Turner Broadcasting System, Inc., a company incorporated in the State of Georgia, the US and a wholly-owned subsidiary of AOL Time Warner  |
| “TBS Group”                          | TBS and its subsidiaries (excluding CETV)  |
| “TBSAP”                              | Turner Broadcasting System Asia Pacific, Inc., a company incorporated in the State of Georgia, the US and a wholly-owned subsidiary of TBS. TBSAP owns 24,000 CETV Shares (representing 80% of the issued capital of CETV) as at the Latest Practicable Date   |
| “TBSAP Bank”                         | the investment bank of TBSAP’s choice appointed in the manner set out in section D6 of “Letter from the Board” in this circular  |
| “TBSAP Investment Cost”              | the sum of: (1) US\$3,462,500; (2) the TBSAP Loan; (3) the aggregate outstanding principal amount of all third party borrowings secured (by way of mortgage, charge, guarantee, etc.) by TBSAP (and all interest accrued thereon but not yet paid) as at the date of the TOM Subsequent Third Party Offer (as defined in section C7 of “Letter from the Board” in this circular); and (4) the aggregate amount of all costs of subscription by TBSAP of equity securities of CETV as at the date of the TOM Subsequent Third Party Offer |
| “TBSAP Loan”                         | the aggregate outstanding principal amount of all shareholders’ loan advanced by TBSAP to CETV (and all interest accrued thereon but not yet paid) as at the Completion Date   |
| “TBSAP Subsequent Third Party Offer” | a bona fide offer from an independent third party received by TBSAP within a period of 6 months from the date of the TBSAP Offer (as defined in section C7 of “Letter from the Board” in this circular)  |
| “TOM Group”                          | the Company and its subsidiaries   |

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## DEFINITIONS

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|-------------------------------|--|
| “TOM Investment Cost”         | the Funding Amount as at the date of the TBSAP Subsequent Third Party Offer and any interest accrued thereon as at that date less any amount paid or repaid by CETV as at the date of the TBSAP Subsequent Third Party Offer   |
| “TOM Repaid Third Party Loan” | all or such part of any secured or unsecured loans extended or advanced to CETV on commercial and arm’s length basis which is in addition to the Funding Amount and the principal amount of which has been repaid and/or the interest accrued on which has been paid by the TOM Group on behalf of CETV as at the date of the relevant transfer of all or part of TOM TV’s CETV Shares |
| “TOM TV”                      | TOM Television Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company   |
| “Transponder Agreement”       | the transponder utilisation agreement dated 1 December 1999 entered into between TBS and AsiaSat   |
| “US”                          | the United States of America   |
| “US\$”                        | United States dollars, the lawful currency of the US   |
| “VSA Documents”               | the Share Purchase Agreement, the Shareholders Deed, the Indemnity Deeds and the Tax Deed  |



## TOM.COM LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

*Directors:*

Frank Sixt\* (*Chairman*)  
Sing Wang (*Chief Executive Officer*)  
Tommei Tong  
Lee Pui Ling, Angelina#  
Cheong Ying Chew, Henry#  
Debbie Chang\*  
Susan Chow\*  
Edmond Ip\*  
Holger Kluge\*  
James Sha\*  
Wang Lei Lei\*

\* *Non-executive Directors*

# *Independent non-executive Directors*

*Registered office:*

P.O. Box 309  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Head office and principal*

*place of business:*

48th Floor, The Center  
99 Queen's Road Central  
Central  
Hong Kong

26 August 2003

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION  
INVOLVING THE ISSUE OF NEW SHARES**

**Proposed acquisition of approximately 64.07% of the issued share capital of  
China Entertainment Television Broadcast Limited**

**and**

**MAJOR TRANSACTION**

**Proposed grant of call options to  
Turner Broadcasting System Asia Pacific, Inc.**

**A. INTRODUCTION**

On 2 July 2003, the Company, TOM TV, TBS and TBSAP entered into the Share Purchase Agreement, under which, among other things, TOM TV agreed to acquire the Sale Shares (representing



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## LETTER FROM THE BOARD

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approximately 64.07% of the issued share capital of CETV) at the Consideration (being HK\$53,868,750), which will be satisfied by the allotment and issue of the Consideration Shares (being 21,250,000 Shares, representing approximately 0.56% and approximately 0.55% of the Existing Capital and the Enlarged Capital, respectively) at an issue price of HK\$2.535 per Share, representing a premium of approximately 3.469% of the Market Price and a premium of approximately 4.107% to the 10-day Average Price) upon the terms and subject to the conditions set out in the Share Purchase Agreement. Based on the Market Price as at the date of the Share Purchase Agreement, the Consideration is approximately HK\$52,062,500.

Based on the latest adjusted net assets of the TOM Group and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement, the transactions contemplated under the VSA Documents constitute a very substantial acquisition of the Company involving the issue of Shares under Chapter 19 of the GEM Listing Rules, the transactions contemplated under the VSA Documents are therefore conditional on, among other things, the approval by the Shareholders at the EGM. In relation to the transactions contemplated under the VSA Documents (1) Easterhouse and Romefield (and their respective associates) which together are the controlling Shareholders; and (2) any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM. In relation to the transactions contemplated under the Ancillary Documents, any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM.

At Completion:

- (a) the Company, TBS, TBSAP, TOM TV and CETV will enter into the Shareholders Deed, under which, among other things, TOM TV will provide CETV with funding (for working capital purposes of CETV as determined by the CETV Board from time to time) of such amount up to the Funding Longstop Date; and
- (b) TOM TV will grant to TBSAP, among other things, a call option over all of the CETV Shares held by TOM TV as at the date of exercise of such option upon the terms and subject to the conditions set out in the Option Deed.

Based on:

1. the latest adjusted net assets of the TOM Group and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement; and
2. the assumptions that by the First Call Exercise Date or the Fixed Call Exercise Date (as the case may be): (a) TOM TV has fully satisfied the Funding Obligation; (b) the TOM Group has not acquired any CETV Shares other than the Sale Shares; and (c) TOM TV has not disposed of any of its CETV Shares,

the granting of the First Call Option and the Fixed Call Option (which is classified as if the First Call Option and the Fixed Call Option had been exercised) constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules and is therefore conditional on, among other things, the approval by the Shareholders (other than any Shareholder who is interested in the proposed granting of the First Call Option and the Fixed Call Option, which interested Shareholders (if any) will abstain from voting on the relevant resolution(s)) at the EGM.

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## LETTER FROM THE BOARD

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The purpose of this circular is (1) to provide the Shareholders with further information relating to the transactions contemplated under the VSA Documents, the Option Deed and the Ancillary Documents; (2) to give notice of the EGM at which ordinary resolutions will be proposed with respect to the transactions contemplated under the VSA Documents, the Option Deed and the Ancillary Documents; and (3) to seek approval from the Shareholders at the EGM with respect to the transactions contemplated under the VSA Documents, the Option Deed and the Ancillary Documents. This circular also contains information in compliance with the GEM Listing Rules.

### **B. SHARE PURCHASE AGREEMENT**

**1. Date:** 2 July 2003

**2. Parties:**

Purchaser: TOM TV, which is a wholly-owned subsidiary of the Company

Vendor: TBSAP, which is independent of, and not connected with, any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates

Purchaser Guarantor: The Company

Vendor Guarantor: TBS, which is independent of, and not connected with, any of the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates

**3. Assets to be acquired**

The Sale Shares, being 19,222 CETV Shares, representing approximately 64.07% of the issued share capital of CETV as at the date of the Latest Practicable Date and at Completion.

**4. Consideration**

HK\$53,868,750, which will be satisfied by the allotment and issue of the Consideration Shares, being 21,250,000 Shares, at an issue price of HK\$2.535 per Share. The allotment and issuance of the Consideration Shares will not result in a change of control of the Company.

The Consideration Shares represent approximately 0.56% and approximately 0.55% of the Existing Capital and the Enlarged Capital, respectively. Based on the Market Price, the Consideration is approximately HK\$52,062,500.

The issue price of HK\$2.535 per Share represents:

- (a) the average closing price of the Shares for the 5 trading days from 9 June 2003 to 13 June 2003 (both dates inclusive);
- (b) a premium of approximately 3.469% to the Market Price; and

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## LETTER FROM THE BOARD

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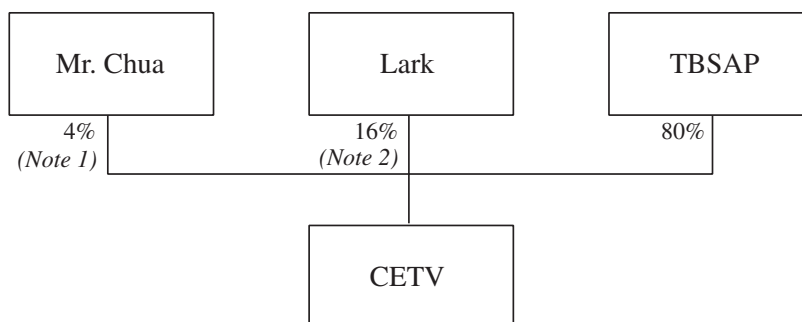
(c) a premium of approximately 4.107% to the 10-day Average Price.

The Consideration was arrived at after arm's length negotiations between TBSAP and TOM TV and being a price acceptable to TBSAP and TOM TV with reference to the past, present and future financial performance and the strategic value of CETV.

### 5. Payment terms

All of the Consideration Shares will be allotted and issued to TBSAP (or its nominee) at Completion.

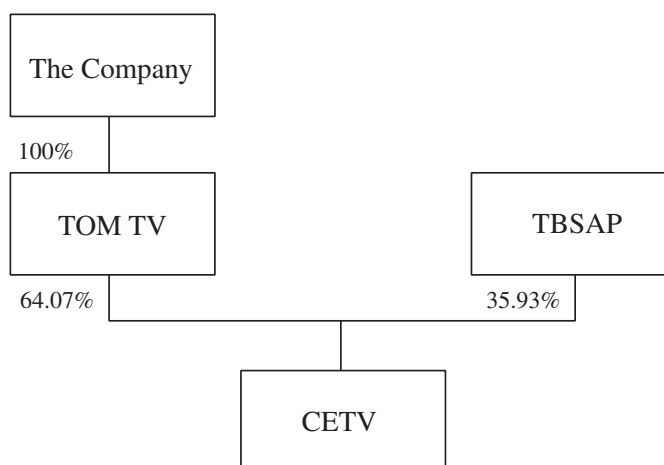
### 6. Shareholding chart of CETV before Completion



*Notes:*

1. Pursuant to the Chua Agreement, TBSAP will acquire from Mr. Chua 1,200 CETV Shares. Completion of the Chua Transaction will take place simultaneously with completion of the Lark Transaction and Completion. Mr. Chua is independent of and not connected with any of the directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates.
2. Pursuant to the Lark Agreement, TBSAP will acquire from Lark 4,800 CETV Shares. Completion of the Lark Transaction will take place simultaneously with completion of the Chua Transaction and Completion. Each of Lark, its shareholders and directors is independent of and is not connected with any of the directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates.

### 7. Shareholding chart of CETV immediately after Completion



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## LETTER FROM THE BOARD

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### 8. Conditions precedent

Completion of the Acquisition is conditional upon, among other things, the following conditions being fulfilled on or before 28 August 2003 (or such other date as TOM TV and TBSAP may agree in writing) (“Longstop Date”):

- (a) approval by the Shareholders of the transactions contemplated under the VSA Documents and the Option Deed and, if required, the transactions contemplated under the Ancillary Documents (please see the section headed “Other VSA Documents, the Option Deed and Ancillary Documents” below);
- (b) the Listing Committee of the GEM granting approval to the listing of, and permission to deal in, the Consideration Shares, and such approval not having subsequently been revoked prior to Completion;
- (c) the release and/or payment in full by TBSAP of all shareholder and third party loans and borrowings owed by CETV as at the Completion Date;
- (d) TBSAP, TOM TV and/or CETV having received a waiver or an approval, if required, from the Broadcasting Authority relating to the sale and purchase of the Sale Shares;
- (e) based on a letter dated 25 June 2003 setting out information on the transactions contemplated under the Share Purchase Agreement and discussions between SARFT and TBSAP in respect thereof, TOM TV being reasonably satisfied that neither SARFT nor any authority having administrative jurisdiction over SARFT in the PRC has objected or will object to the transactions contemplated under the Share Purchase Agreement and, if applicable, the other VSA Documents, the Option Deed and the Ancillary Documents;
- (f) the termination by CETV of the service agreements entered into between CETV and each of Mr. Chua and Mrs. Chua dated 31 May 2000 and 1 June 2000, respectively;
- (g) AsiaSat having granted its consent to the sublease by TBS to CETV of AsiaSat 3S satellite transponder capacity supplied by AsiaSat to TBS under the Transponder Agreement and having approved the Sub-Lease to be entered into between TBS and CETV;
- (h) the Chua Transaction becoming unconditional (except in respect of the condition precedent set out in the Chua Agreement relating to the sale and purchase of the Sale Shares becoming unconditional); and
- (i) the Lark Transaction becoming unconditional (except in respect of the condition precedent set out in the Lark Agreement relating to the sale and purchase of the Sale Shares becoming unconditional).

**As the EGM will be held on 11 September 2003, TOM TV is negotiating with TBSAP to defer the Longstop Date. If TOM TV and TBSAP fail to agree to defer the Longstop Date on or before 28 August 2003, the transactions contemplated under the VSA Documents, the Option Deed and the Ancillary Documents may not proceed.**

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## LETTER FROM THE BOARD

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In the event that TOM TV and TBSAP agree, or fail to agree, to defer the Longstop Date as mentioned above, the Company will make an announcement in respect thereof on or before 28 August 2003 in accordance with the relevant requirements under Chapter 16 of the GEM Listing Rules.

### **9. Moratorium and trading restrictions**

Except with the prior consent of TOM TV:

- (a) none of the Consideration Shares may be sold during a period of 6 months after the Completion Date.
- (b)
  - (i) up to 50% of the Consideration Shares (i.e., 10,625,000 Shares) may be sold after the expiry of a period of 6 months after the Completion Date; and
  - (ii) all the Consideration Shares may be sold after the expiry of a period of 12 months after the Completion Date,

provided that not more than 312,500 Shares may be sold on any one trading day.

TOM TV has consented to the proposed transfer of the Consideration Shares by TBSAP to Lark and Mr. Chua at completion of the Lark Transaction and the Chua Transaction pursuant to the Lark Agreement and the Chua Agreement, respectively, provided that each of Lark and Mr. Chua agrees to be bound by the trading restrictions mentioned above. Of the Consideration Shares, 17,000,000 Shares will be transferred to Lark and 4,250,000 Shares will be transferred to Mr. Chua by TBSAP.

### **C. THE SHAREHOLDERS DEED**

#### **1. Date**

The Completion Date. The form and substance of the Shareholders Deed have been agreed by the parties thereto. None of the provisions of the Shareholders Deed may be amended without the consent of all of the parties thereto.

#### **2. Parties**

- (a) TBSAP;
- (b) TOM TV;
- (c) CETV;
- (d) TBS; and
- (e) the Company.

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## LETTER FROM THE BOARD

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### 3. Management

Upon Completion, the CETV Board will comprise 9 directors, of which 6 will be nominated by TOM TV and 3 will be nominated by TBSAP.

### 4. Funding

- (a) After Completion, TOM TV will provide CETV with funding in accordance with the Initial Business Plan (by way of shareholder's loan (which will bear interest at a rate of 2% above HIBOR), equity injection and third party borrowings secured (by way of mortgage, charge, guarantee, etc.) and/or procured by TOM TV) of such amount at the time when the Funding Obligation ceases as described in paragraph 4(b) below for working capital purposes of CETV as determined by the CETV Board from time to time. The Funding Amount will be funded by internal resources of the TOM Group and/or third party borrowings secured or procured by the TOM Group. It is not envisaged that the Funding Obligation will have a material adverse financial impact on the TOM Group taken as a whole.
- (b) The Funding Obligation will cease on the earlier of the following dates ("Funding Longstop Date"):
  - (i) the later of:
    - (1) the date on which the Funding Amount reaches US\$30 million; and
    - (2) the date falling on the last day of 30th month after the Completion Date;
  - (ii) the last day of the second consecutive month in which CETV achieves net profit after tax as shown in the management accounts of CETV;
  - (iii) the date of termination of the Co-operation Agreement; and
  - (iv) the date of transfer of the last CETV Share held by any member of the TOM Group to TBSAP pursuant to the Shareholders Deed and/or the Option Deed.
- (c) Prior to the Funding Amount reaching US\$20 million:
  - (i) TBSAP is under no obligation to provide any funding to CETV; and
  - (ii) TBSAP's shareholding in CETV will not be diluted at all.

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## LETTER FROM THE BOARD

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- (d) If, prior to the Funding Longstop Date, the Funding Amount has reached US\$20 million, the CETV Board may request the CETV Shareholders to provide funds to CETV on a pro rata basis based upon their then respective shareholdings in CETV. In the event that:
- (i) if by then, TBSAP and TOM TV are the only CETV Shareholders and TBSAP fails to provide CETV with its share of such funding request:
- (1) such shortfall in funding will be topped up by TOM TV; and
  - (2) at the option of TOM TV:
    - a. CETV will issue at par such number of additional CETV Shares to TOM TV so that, immediately after such issue, TBSAP's shareholding in CETV is reduced/diluted by 1% for every US\$1 million not funded by TBSAP; or
    - b. TBSAP will transfer such number of CETV Shares to TOM TV at nominal consideration so that, immediately after such transfer, TBSAP's shareholding in CETV is reduced/diluted by 1% for every US\$1 million not funded by TBSAP; or
- (ii) if by then, TBSAP and TOM TV are not the only CETV Shareholders and TBSAP fails to provide CETV with its share of such funding request:
- (1) such shortfall in funding will be topped up by TOM TV and such other CETV Shareholder(s) who has/have acquired CETV Shares from TOM TV ("TOM Funding Shareholder(s)"); and
  - (2) at the option of the TOM Funding Shareholder(s):
    - a. CETV will issue at par such number of additional CETV Shares to the TOM Funding Shareholder(s) so that, immediately after such issue, the shareholding of TBSAP in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders provided that such reduction/dilution rate will not be more than 1% for every US\$1 million not funded by TBSAP; or
    - b. TBSAP will transfer such number of CETV Shares to the TOM Funding Shareholder(s) at nominal consideration so that, immediately after such transfer, the shareholding of TBSAP in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders provided that such reduction/dilution rate will not be more than 1% for every US\$1 million not funded by TBSAP;

provided that, prior to the Funding Longstop Date, TBSAP's shareholding in CETV immediately following such issue or transfer (as the case may be) will not be reduced below 26% without the prior written consent of TBSAP.

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## LETTER FROM THE BOARD

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- (e) If, after the Funding Longstop Date, the CETV Board determines that CETV requires additional funding, such additional funding may be provided in the following manner and in the following order of preference:
- (i) financing from banks and/or financial institutions, in which event, none of the CETV Shareholders will be required to provide a guarantee or other forms of security with respect to such financing;
  - (ii) additional shareholders' loans from the CETV Shareholders in proportion to their then respective shareholdings in CETV as at the date of advancement of such shareholders' loan. Such shareholder's loan will:
    - (1) be unsecured;
    - (2) bear interest at a rate of 2% above HIBOR as at the date of advancement of such shareholders' loan;
    - (3) be repaid in whole or in part at such time or times as the CETV Shareholders and the CETV Board may agree; and
    - (4) rank pari passu with each other and be repaid simultaneously to the CETV Shareholders on a pro-rata basis in proportion to the respective amounts advanced by such CETV Shareholders;
  - (iii) issue of new equity securities by CETV. The right to subscribe for any such issue of new equity securities will first be offered to the CETV Shareholders on a pro-rata basis. Any unsubscribed equity securities will first be offered to the other CETV Shareholders who have fully subscribed for their share of the equity securities. In the event that not all of such unsubscribed equity securities are subscribed for by the CETV Shareholders, CETV may offer such unsubscribed equity securities to independent third party investors upon the same terms and subject to conditions; and
  - (iv) such other means as determined by the CETV Board to be appropriate in the circumstances.
- (f) In the event that, after the Funding Longstop Date, any of the CETV Shareholders fails to provide CETV with its share of any funding request made by the CETV Board:
- (i) if by then, TBSAP and TOM TV are the only CETV Shareholders and either of them fails to provide CETV with its share of such funding request ("Non-Funding Shareholder"):
    - (1) such shortfall in funding may be topped up by the other CETV Shareholder ("Funding Shareholder"); and
    - (2) at the option of the Funding Shareholder:



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## LETTER FROM THE BOARD

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- a. CETV will issue at par such number of additional CETV Shares to the Funding Shareholder so that, immediately after such issue, the Non-Funding Shareholder's shareholding in CETV is reduced/diluted by 1% for every US\$1 million not funded by the Non-Funding Shareholder; or
  - b. the Non-Funding Shareholder will transfer such number of CETV Shares to the Funding Shareholder at nominal consideration so that, immediately after such transfer, the Non-Funding Shareholder's shareholding in CETV is reduced/diluted by 1% for every US\$1 million not funded by the Non-Funding Shareholder; or
- (ii) if by then, TBSAP and TOM TV are not the only CETV Shareholders and any of the CETV Shareholders fails to fully provide CETV with its share of such funding request:
- (1) such shortfall in funding may be topped up by the Funding Shareholder(s); and
  - (2) a. if only one of TOM TV and TBSAP is the Funding Shareholder, at the option of the Funding Shareholder(s):
    - i. CETV will issue at par such number of additional CETV Shares to the Funding Shareholder(s) so that, immediately after such issue, the shareholding of the Non-Funding Shareholder(s) in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders provided that such reduction/dilution rate will not be more than 1% for every US\$1 million not funded by the Non-Funding Shareholder(s); and
    - ii. the Non-Funding Shareholder(s) will transfer such number of CETV Shares to the Funding Shareholder(s) at nominal consideration so that, immediately after such transfer, the shareholding of the Non-Funding Shareholder(s) in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders provided that such reduction/dilution rate will not be more than 1% for every US\$1 million not funded by the Non-Funding Shareholder(s).
  - b. if neither TOM TV nor TBSAP is the Funding Shareholder, at the option of the Funding Shareholder(s):
    - i. CETV will issue at par such number of additional CETV Shares to the Funding Shareholder(s) so that, immediately after such issue, the shareholding of the Non-Funding Shareholder(s) in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders (which rate will be based on the then valuation of CETV); and

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## LETTER FROM THE BOARD

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- ii. the Non-Funding Shareholder(s) will transfer such number of CETV Shares to the Funding Shareholder(s) at nominal consideration so that, immediately after such transfer, the shareholding of the Non-Funding Shareholder(s) in CETV is reduced/diluted on a pro-rata basis at such rate to be agreed by the CETV Shareholders (which rate will be based on the then valuation of CETV).

### 5. Repayment priority

To the extent legally permissible and permitted under the relevant financing documents to which CETV is a party, CETV will make payments in the following order of priority:

- (a) all shareholder's loans advanced by TOM TV (and/or permitted transferee(s) of TOM TV's CETV Shares (if any)) to CETV ("TOM Shareholder's Loans") prior to the commencement of the Interim Funding Period (and all interest accrued thereon);
- (b) all third party borrowings secured by the TOM Group (and/or permitted transferee(s) of TOM TV's CETV Shares (if any)) ("TOM Secured Borrowings") and advanced to CETV prior to the commencement of the Interim Funding Period (and all interest accrued thereon);
- (c) all TOM Shareholders' Loans advanced during the Interim Funding Period, all shareholder's loans advanced by TBSAP (and/or permitted transferee(s) of TBSAP's CETV Shares (if any)) to CETV ("TBSAP Shareholder's Loans") during the Interim Funding Period (and all interest accrued thereon), all TOM Secured Borrowings advanced to CETV during the Interim Funding Period and all third party borrowings of CETV secured by the TBS Group ("TBSAP Secured Borrowings") and advanced during the Interim Funding Period (and all interest accrued thereon) on a pro-rata basis;
- (d) all shareholders' loans advanced to CETV after the Funding Longstop Date (and all interest accrued thereon) on a pro-rata basis;
- (e) all third party borrowings of CETV secured by the CETV Shareholder(s) and advanced to CETV after the Funding Longstop Date (and all interest accrued thereon) on a pro-rata basis; and
- (f) all unsecured third party borrowings of CETV advanced to CETV after the Funding Longstop Date (and all interest accrued thereon) on a pro-rata basis.

### 6. Distribution policy

All CETV Shares will rank *pari passu* in all respects, including, without limitation, the distribution of dividend by CETV.

CETV will not make any distribution, by way of dividend or otherwise, at any time prior to the full repayment of all sums set out in the section headed "Repayment priority" above.

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## LETTER FROM THE BOARD

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### 7. Transfer of CETV Shares

No CETV Shareholder may sell, transfer, assign or otherwise dispose of any interest in all or any part of its CETV Shares (collectively, “transfer”) unless in accordance with the following provisions:

(a) *TBSAP’s right of first offer and right of first refusal*

- (i) In the event that: (i) TOM TV wishes to transfer; or (ii) TOM TV receives a bona fide offer from a third party (“TOM Initial Third Party Offer”) for the transfer of all or part of its CETV Shares (“TOM Sale Shares”) and TOM TV wishes to accept such Offer, TOM TV will first offer the TOM Sale Shares to TBSAP on the same terms and subject to the same conditions as TOM TV is willing to transfer the TOM Sale Shares to an independent third party purchaser (“TOM Offer”), and TOM TV will be bound to transfer the TOM Sale Shares to TBSAP if TBSAP accepts the TOM Offer.
- (ii) If TBSAP does not accept the TOM Offer, TOM TV will be entitled to:
  - (1) in the case where TOM TV has not received a TOM Initial Third Party Offer, seek to dispose of the TOM Sale Shares to an independent third party in a bona fide arm’s length sale within a period of 6 months from the date of the TOM Offer (“TOM Six-Month Period”) provided that TOM TV will keep TBSAP informed of all third party offers received by TOM TV in respect of the TOM Sale Shares during the TOM Six-Month Period; or
  - (2) in the case where TOM TV has received a TOM Initial Third Party Offer, transfer the TOM Sale Shares to the offeror of the TOM Initial Third Party Offer.

(b) *TBSAP’s tag-along right*

In the event that TOM TV receives a bona fide offer from an independent third party for all or part of its CETV Shares (“TOM Third Party Offer”) and TOM TV wishes to accept such TOM Third Party Offer, TBSAP will be entitled to dispose of:

- (i) all or part of its CETV Shares on a pro-rata basis to the offeror of such TOM Third Party Offer on the same terms and subject to conditions under such TOM Third Party Offer; or
- (ii) if, at the time of the TOM Third Party Offer, TBSAP:
  - (1) holds less than 10% of the issued share capital of CETV; or
  - (2) TOM TV is not the single largest CETV Shareholder, or will cease to be the single largest CETV Shareholder after completion of the transfer of CETV Share pursuant to the TOM Third Party Offer,

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## LETTER FROM THE BOARD

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subject to the maximum number of CETV Shares the offeror of such TOM Third Party Offer is willing to purchase, TBSAP will be entitled to dispose of all of its CETV Shares to the offeror of such TOM Third Party Offer.

(c) *TBSAP's second right of first refusal*

(i) In the event that TOM TV receives a bona fide offer from an independent third party for the TOM Sale Shares (“TOM Subsequent Third Party Offer”) within the TOM Six-Month Period and:

(1) the price per TOM Sale Share offered under such TOM Subsequent Third Party Offer is below the price per TOM Sale Share offered under the TOM Offer; and

(2) TOM TV wishes to accept such TOM Subsequent Third Party Offer,

TBSAP will be entitled to exercise its tag-along rights as described in the section headed “TBSAP’s tag-along right” above or acquire the TOM Sale Shares on the same terms and subject to conditions under such TOM Subsequent Third Party Offer.

(ii) If TBSAP does not wish to acquire the TOM Sale Shares, TOM TV will be entitled to transfer the TOM Sale Shares to the offeror of such TOM Subsequent Third Party Offer.

(d) *TBSAP's matching right*

In the event that TOM TV receives a TOM Subsequent Third Party Offer within the TOM Six-Month Period and:

(i) the price per TOM Sale Share offered under such TOM Subsequent Third Party Offer is equal to or below the TBSAP Investment Cost per CETV Share then held by the TBS Group; and

(ii) TOM TV wishes to accept such TOM Subsequent Third Party Offer,

TBSAP will be entitled to acquire the TOM Sale Shares (or sell its CETV Shares to the offeror of such TOM Subsequent Third Party Offer in accordance with the provisions set out in the section headed “TBSAP’s tag-along right” above) on the same terms and subject to conditions under such TOM Subsequent Third Party Offer.

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## LETTER FROM THE BOARD

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(e) *TOM TV's right of first offer and right of first refusal*

- (i) In the event that: (1) TBSAP wishes to transfer; or (2) TBSAP receives a bona fide offer from a third party (“TBSAP Initial Third Party Offer”) for the transfer of all or part of its CETV Shares (“TBSAP Sale Shares”) and TBSAP wishes to take up such Offer, TBSAP will first offer the TBSAP Sale Shares to TOM TV on the same terms and subject to the same conditions as TBSAP is willing to transfer the TBSAP Sale Shares to an independent third party purchaser (“TBSAP Offer”), and TBSAP will be bound to transfer the TBSAP Sale Shares to TOM TV if TOM TV accepts the TBSAP Offer.
- (ii) If TOM TV does not accept the TBSAP Offer, TBSAP will be entitled to:
  - (1) in the case where TBSAP has not received a TBSAP Initial Third Party Offer, seek to dispose of the TBSAP Sale Shares to an independent third party in a bona fide arm’s length sale within a period of 6 months from the date of the TBSAP Offer (“TBSAP Six-Month Period”) provided that TBSAP will keep TOM TV informed of all third party offers received by TBSAP in respect of the TBSAP Sale Shares during the TBSAP Six-Month Period; or
  - (2) in the case where TBSAP has received a TBSAP Initial Third Party Offer, transfer the TBSAP Sale Shares to the offeror of the TBSAP Initial Third Party Offer.

(f) *TOM TV's second right of first refusal*

- (i) In the event that TBSAP receives a bona fide offer from an independent third party for the TBSAP Sale Shares (“TBSAP Subsequent Third Party Offer”) within the TBSAP Six-Month Period and:
  - (1) the price per TBSAP Sale Share offered under such TBSAP Subsequent Third Party Offer is below:
    - a. the price per TBSAP Sale Share\* offered under the TBSAP Offer; or
    - b. the sum of: (1) the Aggregate Funding Amount; and (2) the Aggregate Acquisition Cost, divided by the number of the CETV Shares then held by the TOM Group; and
  - \* The Announcement said “the TOM Sale Shares”, which was a typographical error.
  - (2) TBSAP wishes to accept such TBSAP Subsequent Third Party Offer,

TOM TV will be entitled to acquire the TBSAP Sale Shares on the same terms and subject to the same conditions under such TBSAP Subsequent Third Party Offer.

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## LETTER FROM THE BOARD

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- (ii) If TOM TV does not wish to acquire the TBSAP Sale Shares, TBSAP will be entitled to transfer the TBSAP Sale Shares to the offeror of such TBSAP Subsequent Third Party Offer.

(g) *TOM TV's last matching right*

In the event that TBSAP receives a bona fide offer from an independent third party for all or part of its CETV Shares ("TBSAP Third Party Offer") and TBSAP wishes to accept such TBSAP Third Party Offer, TOM TV will be entitled to acquire from TBSAP the same number of CETV Shares under the TBSAP Third Party Offer on the same terms and subject to the same conditions under such TBSAP Third Party Offer.

(h) *Other relevant provisions*

- (i) If:

- (1) TOM TV receives a bona fide offer from a third party to acquire all or part of its CETV Shares after the expiry of the TOM Six-Month Period; or
- (2) TBSAP receives a bona fide offer from a third party to acquire all or part of its CETV Shares after the expiry of the TBSAP Six-Month Period,

such offer will be subject to the provisions set out in paragraphs (a) to (g) in this section.

- (ii) Prior to the Funding Longstop Date, it is a condition to any transfer of CETV Shares by TOM TV to any prospective purchaser that such prospective purchaser shall adhere to the Shareholders Deed (including the assumption of any outstanding Funding Obligation) and the Option Deed and TBSAP shall be entitled to disapprove the identity of such prospective purchaser on the ground that such proposed purchaser does not have the same financial standing as, or a better financial standing than, that of the Company and hence such prospective purchaser may not be able to fulfil the outstanding Funding Obligation.

- (iii) Upon any transfer of CETV Shares between TOM TV and TBSAP, the transferor will:

- (1) waive or, at the option of the transferee, assign to the transferee all of the transferor's rights in respect of such part (which is proportionate to the number of CETV Shares being transferred) of all outstanding shareholders' loans (and all interest accrued thereon which has not yet been paid by CETV) which have been advanced by the transferor to CETV;
- (2) repay or, at the option of the transferor, procure the release of CETV from its obligations to repay such part (which is proportionate to the number of CETV Shares being transferred) of all outstanding third party borrowings (and all interest accrued thereon which has not yet been paid by CETV) which have been secured by the transferor; and

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## LETTER FROM THE BOARD

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- (3) a. where TOM TV is the transferor, waive or, at the option of TBSAP, assign to TBSAP all of the TOM Group's rights in respect of such part (which is proportionate to the number of CETV Shares being transferred) of the TOM Repaid Third Party Loan; or
- b. where TBSAP is the transferor, waive or, at the option of TOM TV, assign to TOM TV all of TBSAP's rights in respect of such part (which is proportionate to the number of CETV Shares being transferred) of all third party borrowings, the principal amount of which has been repaid or the interest accrued on which has been paid by TBSAP for and on behalf of CETV.

(i) *Compliance with the GEM Listing Rules*

**Upon the acquisition or disposal of any CETV Share by TOM TV pursuant to the provisions relating to the transfer of CETV Shares set out in the Shareholders Deed, the Company will comply with the relevant requirements under Chapters 16, 19 and, if applicable, 20 of the GEM Listing Rules accordingly.**

### 8. Other major terms

(a) *Transponder arrangement*

In the event that: (1) liquidation proceedings are commenced by or against CETV; (2) the CETV Shareholders otherwise determine to wind-up CETV; or (3) CETV otherwise ceases operations ("Liquidation Proceedings"), CETV and TBS will terminate the Sub-Lease and TOM TV will pay to TBSAP an amount ("Transponder Amount") equal to the lower of:

- (i) 50% of the present value of the liabilities of TBS\* under the Transponder Agreement as at the date of commencement of the Liquidation Proceedings using a discount rate of 12%;
- (ii) 50% of the present value of the balance of the transponder fees payable by TBS\* under the Transponder Agreement as at the date of commencement of the Liquidation Proceedings using a discount rate of 12%; and
- (iii) US\$6.7 million.

\* The Announcement said "TBSAP", which was a typographical error.

The above amounts were agreed by the parties to the Shareholders Deed on arm's length basis without any reference to the shareholding percentages of TOM TV and TBSAP in CETV.

At TOM TV's sole and absolute discretion, the Transponder Amount may be paid in cash or satisfied by the issue of Shares by the Company ("Transponder Shares") at an issue price per Share equals to the average closing price of the Shares for the 20 consecutive trading days immediately preceding the date of the commencement of the Liquidation Proceedings.

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## LETTER FROM THE BOARD

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For information only: assuming that: (1) the Transponder Amount is US\$6.7 million; and (2) the issue price per Transponder Share is the Market Price, the total number of the Transponder Shares will be approximately 21,330,612 Shares, representing approximately 0.56% of the Existing Capital and approximately 0.55% of the Enlarged Capital as enlarged by the issue of the Transponder Shares (assuming that no further Shares (other than the Consideration Shares and the Transponder Shares) will be issued on or before the date of issue of the Transponder Shares).

If TOM TV elects to satisfy the Transponder Amount by the issue of the Transponder Shares by the Company and if the issue of the Transponder Shares constitutes a notifiable transaction under the GEM Listing Rules, the Company will: (1) comply with the relevant requirements under Chapters 16, 19 and, if applicable, 20 of the GEM Listing Rules accordingly (including, without limitation, the publication of an announcement); and (2) apply to the Listing Committee of the GEM for its approval to the listing of, and permission to deal in, the Transponder Shares.

None of the Transponder Shares may be sold during the first 30 days after the date of issue of such Transponder Shares and after such 30-day lock-up period, not more than 1% of the total number of the Transponder Shares may be sold on any one trading day provided that the above selling restriction does not apply in the event of a transfer of the Transponder Shares to any member of the TBS Group or a private sale to an international institutional purchaser/investor (and/or its affiliated funds) that is registered, qualified or otherwise recognised under the laws of a jurisdiction which has a reputable securities market.

*(b) Co-operation agreement*

- (i) TBSAP will indemnify CETV against any cost, liability or damage suffered by CETV as a result of, among other things:
  - (1) the early termination of the Co-operation Agreement where such termination arises as a result of a breach by TBSAP or any cable television systems controlled by it (“Affiliated Cable Television Systems”) (other than termination or a breach resulting from Malevolent Broadcasting or Reckless Broadcasting on the CETV Service);
  - (2) the breach of or the failure to perform any act, obligation and/or covenant under the Co-operation Agreement by TBSAP or its Affiliated Cable Television Systems (other than termination or a breach resulting from Malevolent Broadcasting or Reckless Broadcasting on the CETV Service); and
  - (3) TBS and/or any of the Affiliated Cable Television Systems taking or omitting to take any action that causes a material breach of the Co-operation Agreement by TBSAP.
- (ii) TOM TV will indemnify TBSAP and CETV against any cost, liability or damage suffered by CETV as a result of, among other things:
  - (1) the failure by TOM TV to comply with the Funding Obligation;



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## LETTER FROM THE BOARD

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- (2) the failure by CETV to pay the rent under the Sub-Lease; and
- (3) the failure by TOM TV or other members of the TOM Group\* to pay the Transponder Amount.

\* The Announcement only mentioned "TOM TV", which was a typographical error.

- (iii) In the event that none of the members of the TBS Group holds any CETV Shares ("Reimbursement Event"):

- (1) CETV will reimburse TBSAP within 60 days from the date of the occurrence of the Reimbursement Event ("Due Date") such amount not exceeding US\$400,000 per annum provided that the CCTV-9 Service is broadcast in Los Angeles, New York and Houston, the US pursuant to the Co-operation Agreement ("Reimbursement Amount"). The Reimbursement Amount will be adjusted annually based on normal commercial rates but in any event shall not be more than 10% per annum and in the event that in addition to the 3 cities in the US mentioned above, the CCTV-9 Service is broadcast in other cities in the US, the Reimbursement Amount will be increased at a rate of US\$400,000 for every 3 additional cities in the US where the CCTV-9 Service are broadcast;
- (2) if CETV fails to pay the Reimbursement Amount by the Due Date, default interest at a rate of 2% above HIBOR will be charged on the unpaid Reimbursement Amount from the Due Date to the date of actual payment of the Reimbursement Amount by CETV;
- (3) if CETV fails to pay the Reimbursement Amount within 60 days\* from the Due Date, TBSAP will be entitled to terminate the Co-operation Agreement; and

\* The Announcement said "4 months", which was a typographical error.

- (4) CETV will indemnify TBSAP against any cost, liability or damage suffered by TBSAP as a result of CETV's failure to pay the Reimbursement Amount.

### (c) *Non-competition*

Each of TOM TV and TBSAP agrees that it will not, and will procure that, in the case of TOM TV, no member of the TOM Group and, in the case of TBSAP, no member of the TBS Group will, for so long as, in the case of TOM TV, members of the TOM Group and, in the case of TBSAP, members of the TBS Group, are collectively beneficially interested in not less than 15% of the issued share capital of CETV, either on its own account, or in conjunction with or on behalf of any person, carry on or invest in any interest which constitutes an effective controlling interest in any business similar in all material respects to the CETV Service without the prior written consent of the other CETV Shareholder(s).

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## LETTER FROM THE BOARD

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*(d) Guarantee by TBS*

TBS will guarantee the performance by TBSAP of the following obligations under the Shareholders Deed:

- (i) payment of the exercise price of the First Call Option (as defined in the section headed “Options” below) and/or the Fixed Call Option (as defined in the section headed “Options” below) by TBSAP under the Option Deed;
- (ii) payment of consideration by TBSAP for any transfer of CETV Shares from TOM TV to TBSAP under the Shareholders Deed;
- (iii) compliance with the restrictions on transfer of CETV Shares set out in the section headed “Transfer of CETV Shares” above; and
- (iv) compliance with the non-compete undertakings set out in paragraph (c) in this section.

*(e) Guarantee by the Company*

The Company will guarantee the performance by TOM TV of, among other things, the following obligations under the Shareholders Deed:

- (i) TOM TV’s outstanding Funding Obligation;
- (ii) payment of the Transponder Amount;
- (iii) payment of rent by CETV under the Sub-Lease;
- (iv) payment of consideration by TOM TV for any transfer of CETV Shares from TBSAP to TOM TV under the Shareholders Deed;
- (v) compliance with the restrictions on transfer of CETV Shares set out in the section headed “Transfer of CETV Shares” above; and
- (vi) compliance with the non-compete undertakings set out in paragraph (c) in this section.

### **D. THE OPTION DEED**

#### **1. Date**

The Completion Date. The form and substance of the Option Deed have been agreed by the parties thereto. None of the provisions of the Option Deed may be amended without the consent of all of the parties thereto.

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## LETTER FROM THE BOARD

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### 2. Parties

- (a) TBSAP;
- (b) TOM TV;
- (c) TBS; and
- (d) the Company.

### 3. Assets to be disposed of

All or part of the CETV Shares held by TOM TV.

### 4. Options

- (a) (i) TOM TV will grant to TBSAP the First Call Option, under which TBSAP has an irrevocable and exclusive right to acquire from TOM TV all or part of the CETV Shares held by it during a period commencing on and from the first day immediately following the expiry of the thirty month after the Completion Date and ending on 30 June 2007 (“First Call Period”) upon the terms and subject to the conditions set out in the Option Deed.
- (ii) Unless withdrawn in accordance with the terms of the Option Deed (please see the section headed “Exercise and withdrawal of options” below), the First Call Option may only be exercised once.
- (b) (i) TOM TV will grant to TBSAP the Fixed Call Option, under which TBSAP has an irrevocable and exclusive right to acquire from TOM TV all or part of the CETV Shares held by it as at the following dates (each, a “Fixed Date”), and if any of such dates is not a Business Day, the next Business Day immediately following such date:
  - (1) 1 July 2007;
  - (2) 1 July 2008;
  - (3) 1 July 2009; and
  - (4) 1 July 2010,upon the terms and subject to the conditions set out in the Option Deed.
- (ii) The Fixed Call Option may only be exercised on the Fixed Dates.

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## LETTER FROM THE BOARD

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### 5. Exercise price

- (a) The exercise price of the First Call Option will be the higher of:
- (i) the Fair Market Value of such number of CETV Shares being acquired by TBSAP pursuant to its exercise of the First Call Option (“First Call Option Shares”); and
  - (ii) the First Call IRR Value, which will be an amount equal to the sum of: (1) the Aggregate Funding Amount; and (2) the Aggregate Acquisition Cost less the Aggregate Sale Proceeds and calculated in accordance with the following formula:

$$V = \left\{ \sum_{i=0}^N C_i * (1+r)^{(x-T_{Ci})} + \sum_{i=0}^N A_i * (1+r)^{(x-T_{Ai})} - \sum_{i=0}^N P_i * (1+r)^{(x-T_{Pi})} \right\} * Y / Z$$

Where:

V = the First Call IRR Value

Y = the number of First Call Option Shares being acquired by TBSAP pursuant to its exercise of the First Call Option

Z = the aggregate number of CETV Shares held by TOM TV as at the date of exercise of the First Call Option (“First Call Exercise Date”)

- (1) in relation to the Aggregate Funding Amount:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Funding Amount between zero to N (where N ranges from zero to infinity)

$C_i$  = the amount of the  $i^{\text{th}}$  Funding Amount, the  $i^{\text{th}}$  Additional Shareholder’s Loan or the  $i^{\text{th}}$  TOM Repaid Third Party Loan (as the case may be)

r = 50%

x = a fraction, of which the numerator is the number of days from the Completion Date to the First Call Exercise Date (exclusive of the Completion Date but inclusive of the First Call Exercise Date) and the denominator is 365

$T_{Ci}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of advance by the TOM Group of  $C_i$  (exclusive of the Completion Date but inclusive of the date of advance) and the denominator is 365

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## LETTER FROM THE BOARD

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- (2) in relation to the Aggregate Acquisition Cost:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Acquisition Cost between zero to  $N$  (where  $N$  ranges from zero to infinity)

$A_i$  = the cost of the  $i^{\text{th}}$  acquisition of CETV Shares by the TOM Group

$r$  = 50%

$x$  = a fraction, of which the numerator is the number of days from the Completion Date to the First Call Exercise Date (exclusive of the Completion Date but inclusive of the First Call Exercise Date) and the denominator is 365

$T_{A_i}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of payment of  $A_i$  by the TOM Group or the date of issue of Shares the Company to satisfy  $A_i$  (as the case may be) (exclusive of the Completion Date but inclusive of the date of payment or the date of issue by Shares (as the case may be)) and the denominator is 365

- (3) in relation to the Aggregate Sale Proceeds:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Sale Proceeds between zero to  $N$  (where  $N$  ranges from zero to infinity)

$P_i$  = the proceeds of the  $i^{\text{th}}$  sale of CETV Shares by TOM TV

$r$  = 50%

$x$  = a fraction, of which the numerator is the number of days from the Completion Date to the First Call Exercise Date (exclusive of the Completion Date but inclusive of the First Call Exercise Date) and the denominator is 365

$T_{P_i}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of receipt by the TOM Group of  $P_i$  (exclusive of the Completion Date but inclusive of the date of receipt) and the denominator is 365

**As mentioned above, the exercise price of the First Call Option will at least be an amount representing an internal rate of return of 50%. In view of the current economic climate in the Asia Pacific region, the Board is of the opinion that the First Call Option, if exercised, will be beneficial to and in the interest of the TOM Group as a whole.**

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## LETTER FROM THE BOARD

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- (b) The exercise price of the Fixed Call Option will be the higher of:
- (i) the Fair Market Value of such number of CETV Shares being acquired by TBSAP pursuant to the Fixed Call Option (“Fixed Call Option Shares”); and
  - (ii) the Fixed Call IRR Value, which will be an amount equal to the sum of: (1) the Aggregate Funding Amount; and (2) the Aggregate Acquisition Cost *less* the Aggregate Sale Proceeds and calculated in accordance with the following formula:

$$V = \left\{ \sum_{i=0}^N C_i * (1+r)^{(x-T_{Ci})} + \sum_{i=0}^N A_i * (1+r)^{(x-T_{Ai})} - \sum_{i=0}^N P_i * (1+r)^{(x-T_{Pi})} \right\} * Y / Z$$

Where:

V = the Fixed Call IRR Value

Y = the number of Fixed Call Option Shares that TBSAP wishes to purchase

Z = the aggregate number of Shares owned by TOM TV as at the date of exercise of the Fixed Call Option (“Fixed Call Exercise Date”)

- (1) in relation to the Aggregate Funding Amount:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Funding Amount between zero to  $N$  (where  $N$  ranges from zero to infinity)

$C_i$  = the amount of the  $i^{\text{th}}$  Funding Amount, the  $i^{\text{th}}$  Additional Shareholder’s Loan or the  $i^{\text{th}}$  TOM Repaid Third Party Loan (as the case may be)

$r$  = the China Equity Return Percentage

$x$  = a fraction, of which the numerator is the number of days from the Completion Date to the Fixed Call Exercise Date (exclusive of the Completion Date but inclusive of the Fixed Call Exercise Date) and the denominator is 365

$T_{Ci}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of advance by the TOM Group of  $C_i$  (exclusive of the Completion Date but inclusive of the date of advance) and the denominator is 365

- (2) in relation to the Aggregate Acquisition Cost:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Acquisition Cost between zero to  $N$  (where  $N$  ranges from zero to infinity)

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## LETTER FROM THE BOARD

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$A_i$  = the cost of the  $i^{\text{th}}$  acquisition of CETV Shares by the TOM Group

$r$  = the China Equity Return Percentage

$x$  = a fraction, of which the numerator is the number of days from the Completion Date to the Fixed Call Exercise Date (exclusive of the Completion Date but inclusive of the Fixed Call Exercise Date) and the denominator is 365

$T_{A_i}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of payment of  $A_i$  by the TOM Group or the date of issue of Shares by the Company to satisfy  $A_i$  (as the case may be) (exclusive of the Completion Date but inclusive of the date of payment or the date of issue by Shares (as the case may be)) and the denominator is 365

(3) in relation to the Aggregate Sale Proceeds:

$\sum_{i=0}^N$  = the summation in respect of the Aggregate Sale Proceeds between zero to  $N$  (where  $N$  ranges from zero to infinity)

$P_i$  = the proceeds of the  $i^{\text{th}}$  sale of CETV Shares by TOM TV

$r$  = the China Equity Return Percentage

$x$  = a fraction, of which the numerator is the number of days from the Completion Date to the Fixed Call Exercise Date (exclusive of the Completion Date but inclusive of the Fixed Call Exercise Date) and the denominator is 365

$T_{P_i}$  = a fraction, of which the numerator is the number of days from the Completion Date to the date of receipt by the TOM Group of  $P_i$  (exclusive of the Completion Date but inclusive of the date of receipt) and the denominator is 365

**As mentioned above, the exercise price of the Fixed Call Option will at least be an amount representing an internal rate of return of 20%. In view of the current economic climate in the Asia Pacific region, the Board is of the opinion that the Fixed Call Option, if exercised, will be beneficial to and in the interest of the TOM Group as a whole.**

### 6. Determination of exercise price

- (a) TBSAP will specify in an exercise notice for the exercise of the First Call Option or the Fixed Call Option (as the case may be) specifying the exercise price of the First Call Option or the Fixed Call Option (as the case may be) determined by it (“TBSAP Exercise Price”).

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## LETTER FROM THE BOARD

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- (b) If TOM TV disagrees with the TBSAP Exercise Price, TBSAP will appoint an investment bank of its choice (“TBSAP Bank”) to determine the exercise price of the First Call Option or the Fixed Call Option (as the case may be) (“TBSAP Bank Exercise Price”).
- (c) If TOM TV disagrees with the TBSAP Bank Exercise Price, TOM TV will appoint an investment bank of its choice to determine the exercise price of the First Call Option or the Fixed Call Option (as the case may be) (“TOM Bank Exercise Price”).
- (d) If the difference between the TBSAP Bank Exercise Price and the TOM Bank Exercise Price is less than 25% of the TBSAP Bank Exercise Price, TBSAP shall be entitled (but not obliged) to purchase the First Call Option Shares or the Fixed Call Option Shares (as the case may be) at an exercise price which is equal the average of the TBSAP Bank Exercise Price and the TOM Bank Exercise Price.
- (e) If TBSAP disagrees with the TOM Bank Exercise Price and, after negotiating with each other in good faith for 10 Business Days thereafter, TBSAP and TOM TV fail to agree on a mutually acceptable exercise price of the First Call Option or the Fixed Call Option (as the case may be), TOM TV and TBSAP will jointly appoint a third investment bank to determine the exercise price of the First Call Option or the Fixed Call Option (as the case may be) (“Final Exercise Price”). The Final Exercise Price is final and binding on TBSAP and TOM TV.

### **7. Exercise and withdrawal of options**

- (a) The First Call Option and/or the Fixed Call Option (as the case may be), once exercised, may only be withdrawn by TBSAP if it does not wish to proceed after: (i) TOM TV disagrees with the TBSAP Exercise Price; or (ii) TBSAP disagrees with the TOM Bank Exercise Price.
- (b) The First Call Option may only be exercised again during the First Call Period if TBSAP has withdrawn a previous exercise of the First Call Option.
- (c) If, at any time during the exercise period of the First Call Option, TOM TV receives a TOM Initial Third Party Offer or a TOM Subsequent Third Party Offer (as the case may be), TBSAP may, within 10 Business Days after the date of the relevant notification by TOM TV of such offer, serve a First Call Option exercise notice on TOM TV, and in such event, TOM TV and TBSAP will comply with the provisions of the Option Deed and TOM TV will suspend the proposed transfer pursuant to the TOM Initial Third Party Offer or the TOM Subsequent Third Party Offer (as the case may be) until the earlier of: (i) the date of withdrawal by TBSAP of such First Call Option exercise notice; and (ii) the date of completion of the transfer of the First Call Option Shares; otherwise, the right of TBSAP to exercise the First Call Option in respect of the TOM Sale Shares under the Option Deed will be suspended until the date of completion of the transfer of the TOM Sale Shares.



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## LETTER FROM THE BOARD

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- (d) The Fixed Call Option may only be exercised again on the next Fixed Date.
- (e) If TOM TV receives a Fixed Call Option exercise notice from TBSAP, TOM TV will suspend the proposed transfer pursuant to the TOM Initial Third Party Offer or the TOM Subsequent Third Party Offer (as the case may be), if any, until the earlier of: (i) the date of withdrawal by TBSAP of such Fixed Call Option exercise notice; and (ii) the date of completion of the transfer of the Fixed Call Option Shares.

### 8. Put option

In the event that TBSAP exercises the First Call Option or the Fixed Call Option (as the case may be) to acquire part (and not all) of the CETV Shares held by TOM TV, TOM TV has the right to require TBSAP to acquire all of its remaining CETV Shares (“Put Option”) at the same exercise price of the First Call Option or the Fixed Call Option (as the case may be) determined in accordance with the section headed “Determination of option price” above.

### 9. Lapse of options

Unless previously exercised:

- (a) the First Call Option will lapse at 5:30 p.m. (Hong Kong time) on 30 June 2007;
- (b) the Fixed Call Option will lapse at 5:30 p.m. on 1 July 2010 (or, if such date is not a Business Day, the next Business Day immediately following such date);
- (c) if TOM TV shall have sold all or part of the TOM Sale Shares to a bona fide third party purchaser (which is not a member of the TOM Group) pursuant to the Shareholders Deed:
  - (i) before the Funding Longstop Date, all Options in respect of such TOM Sale Shares will immediately lapse on the Funding Longstop Date; or
  - (ii) after the Funding Longstop Date, all Options in respect of such TOM Sale Shares will immediately lapse upon completion of the transfer of such TOM Sale Shares to the relevant bona fide third party purchaser; and
- (d) all Options will lapse upon the transfer of all CETV Shares held by TOM TV to TBSAP pursuant to the exercise of the Options by TBSAP and/or the Put Option by TOM TV or pursuant to the Shareholders Deed.

### 10. Compliance with the GEM Listing Rules

- (a) (i) Under Rule 19.61 of the GEM Listing Rules, upon the grant of the First Call Option or the Fixed Call Option (as the case may be), the transaction is being classified as if the First Call Option or the Fixed Call Option (as the case may be) had been exercised. The consideration (including the premium and the exercise price), the value of the

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## LETTER FROM THE BOARD

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underlying assets and the profits attributable to such assets is being used for the purpose of classification. Based on:

- (1) the latest adjusted net assets of the TOM Group and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement; and
- (2) the assumptions that by the First Call Exercise Date or the Fixed Call Exercise Date (as the case may be):
  - a. TOM TV has fully satisfied the Funding Obligation;
  - b. the TOM Group has not acquired any CETV Shares other than the Sale Shares; and
  - c. TOM TV has not disposed of any of its CETV Shares,

the granting of the First Call Option and the Fixed Call Option (which is being classified as if the First Call Option and the Fixed Call Option had been exercised) constitute a major transaction of the Company under Chapter 19 of the GEM Listing Rules and is therefore conditional on, among other things, the approval by the Shareholders (other than any Shareholder who is interested in the proposed granting of the First Call Option and the Fixed Call Option, which interested Shareholders (if any) will abstain from voting on the relevant resolution(s)) at the EGM.

- (ii) Upon the exercise, withdrawal of exercise, lapse of and/or transfer of rights under (as the case may be) the First Call Option or the Fixed Call Option (as the case may be), the Company will, as soon as reasonably practicable, announce details thereof in accordance with the relevant requirements under Chapter 16 and Rule 19.61 of the GEM Listing Rules accordingly. Under Rule 19.61 of the GEM Listing Rules, upon the exercise of the First Call Option or the Fixed Call Option (as the case may be), although such exercise will not be subject to any further approval by the Shareholders, such exercise must be announced pursuant to the requirements under Chapter 16 of the GEM Listing Rules as soon as reasonably practicable.
  - (iii) Upon the exercise of the First Call Option or the Fixed Call Option (as the case may be), the Stock Exchange may require the Company to issue a circular to provide the Shareholders with detailed information on the disposal by TOM TV of the relevant Option Shares and the impact of such disposal on the TOM Group. The content of such circular will depend on the relevant size of such disposal and the relevant requirements under the GEM Listing Rules then in place.
- (b) (i) Under Rule 19.62 of the GEM Listing Rules, upon the exercise of the Put Option (which will constitute a transaction under Chapter 19 of the GEM Listing Rules), the exercise price, the value of the underlying assets and the profits attributable to such assets will be used for the purposes of classification of the disposal by TOM TV of the then remaining CETV Shares owned by it pursuant to the exercise of the Put Option.

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## LETTER FROM THE BOARD

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- (ii) Upon the exercise, withdrawal of exercise, lapse of and/or transfer of rights under (as the case may be) the Put Option, the Company will comply with the relevant requirements under Chapter 16 and Rule 19.62 of the GEM Listing Rules accordingly.
- (iii) In the event that TBSAP exercises the First Call Option or the Fixed Call Option (as the case may be) to acquire part of the CETV Shares then held by TOM TV, the Company will make appropriate disclosures of the reason(s) for the exercise or non-exercise (as the case may be) of the Put Option by TOM TV and the benefits arising therefrom in an announcement and a circular.

### 11. Event of default

In the event that after the exercise of the First Call Option or the Fixed Call Option (as the case may be) (“Default Option”), the transfer of the relevant Option Shares thereunder (“Default Option Shares”) cannot be completed within 5 months from the date of determination of the exercise price of the First Call Option or the Fixed Call Option (as the case may be) (“Exercise Price”) due to the failure of the Company to comply with the relevant requirements under applicable laws or required by any competent regulatory body (including, without limitation, the Stock Exchange) (“Default Event”):

- (a) TBSAP will be entitled to request TOM TV to pay to TBSAP an amount calculated in accordance with the following formula (“Default Compensation”):

$$A = \frac{B}{C} \times D$$

where:

A = the Default Compensation

B = the Exercise Price

C = the number of the Default Option Shares

D = the aggregate number of CETV Shares owned by TBSAP as at the date of exercise of the Default Option

In the event that TBSAP elects to request the payment of the Default Compensation by TOM TV, TBSAP will transfer to TOM TV all of the CETV Shares then owned by TBSAP at a nominal consideration of HK\$10. The parties to the Option Deed have agreed that the amount of the Default Compensation will depend on the aggregate number of CETV Shares owned by TBSAP as at the date of exercise of the Default Option.

- (b) for a period of 90 days after the date of occurrence of the Default Event, TBSAP and CETV will negotiate in good faith the arrangements relating to the continuing performance of the obligations of TBSAP under the Co-operation Agreement and, in particular, the reciprocal rights for the carriage of the CETV Service in the PRC and the CCTV-9 Service in the US

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## LETTER FROM THE BOARD

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(“Co-operation Arrangements”). If, after such 90-day negotiation period, TBSAP and CETV fail to agree on any Co-operation Arrangements, the Co-operation Agreement will be terminated at the end of such 90-day negotiation period;

- (c) TOM TV will pay to TBSAP an amount equal to the present value of the outstanding amount of the utilisation fee payable by TBS under the Transponder Agreement as at the date of occurrence of the Default Event (“Default Utilisation Amount”). Upon the payment of the Default Utilisation Amount, CETV will no longer be required to pay TBS any rent under the Sub-Lease; and
- (d) TOM TV will reimburse TBSAP such reasonable fees charged by the TBSAP Bank appointed by TBSAP for the determination of the TBSAP Bank Exercise Price.

### **E. OTHER VSA DOCUMENTS, THE OPTION DEED AND ANCILLARY DOCUMENTS**

#### **1. Sub-Lease**

Under the Transponder Agreement, AsiaSat is supplying certain transponder capacity to TBS, which transponder capacity is being used exclusively for the CETV Service. As CETV will no longer be a subsidiary of TBS after Completion and as AsiaSat has indicated that it will not enter into any novation agreement with TBS and CETV in respect of such transponder capacity, in order to enable CETV to continue to utilise such transponder capacity, TBS and CETV will, with the prior consent of AsiaSat, enter into the Sub-Lease. It was mentioned in the Announcement that the Sub-Lease would be executed prior to Completion. The parties now intend to enter into the Sub-Lease at Completion. The amount of rent payable by CETV to TBS under the Sub-Lease will be an amount equal to the utilisation fee payable by TBS to AsiaSat under the Transponder Agreement.

#### **2. Services Agreement**

At Completion, TBSAP and CETV will enter into the Services Agreement, under which, at the request of CETV made from time to time, TBSAP will provide certain services (such as the production, broadcasting, operation, distribution and transmission of, and research relating to, the CETV Service) to CETV at such fee which is equal to the amount of the cost of provision of the relevant services incurred by TBSAP.

#### **3. Program Management Agreement**

At Completion, TBSAP and CETV will enter into the Program Management Agreement, under which TBSAP will provide certain programming management services to CETV at no fee.

#### **4. Asset Purchase Agreement**

At Completion, CETV will acquire from TBSAP certain office equipment currently used by CETV (such as computers and printers) at a consideration of HK\$1 upon the terms and subject to the conditions set out in the Asset Purchase Agreement.

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## LETTER FROM THE BOARD

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### 5. Tax Deed and other Indemnities

At Completion, TBSAP will execute the Tax Deed in favour of CETV. Under the Tax Deed, TBSAP will indemnify CETV against certain tax liabilities (such as profits tax, stamp duty and estate duty) incurred by CETV from 31 May 2000 to the Completion Date and which are not disclosed in the audited accounts of CETV for the years ended 31 December 2001 and 31 December 2002, respectively.

As TBSAP has entered into the Lark Agreement and the Chua Agreement on the basis of and in reliance upon the agreement by TOM TV to acquire from TBSAP an aggregate of 19,222 CETV Shares (i.e., the Sale Shares) upon the terms and subject to the conditions set out in the Share Purchase Agreement, the Company has therefore agreed to reimburse and indemnify TBSAP upon the terms, and subject to the conditions, set out in the Indemnity Deeds against any cost, liability or damage (“Losses”) suffered by TBSAP as a result of TOM TV’s failure to complete the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Share Purchase Agreement (including, without limitation, the Company’s failure to issue the Consideration Shares), which Losses would not have otherwise been suffered by TBSAP had TBSAP not entered into the Lark Agreement and the Chua Agreement.

As mentioned in the sub-section headed “Parties” under the section headed “The Share Purchase Agreement” above, neither TBS nor TBSAP is a connected person of the Company as at the Latest Practicable Date and, based on the provisions of Chapter 20 of the GEM Listing Rules as at the Latest Practicable Date, none of TBS, TBSAP or CETV will be a connected person of the Company at Completion.

### F. INFORMATION ON CETV

#### 1. Principal activities

CETV is a 24-hour, Mandarin-language entertainment television network based in Hong Kong dedicated to delivering high-quality world content to Chinese audience. The CETV channel can be viewed by viewers in, among others, Hong Kong, Guangdong and Shanghai, the PRC. CETV is principally engaged in the operations of satellite television channels and provision of content and television programmes to various platforms including satellite television and syndication networks. CETV is a private company incorporated in Hong Kong with limited liability and is licensed by the Broadcasting Authority to broadcast television programmes from Hong Kong to audience outside of Hong Kong.

In October 2001, CETV became the first foreign television channel to be granted special approval for cable carriage in the Guangdong Province, the PRC, through a reciprocal carriage agreement with China Central Television. By the end of 2002, CETV had a reach of more than 14 million TV households in the PRC. CETV can be received and viewed by 80 million households across Asia via the AsiaSat 3S satellite.

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## LETTER FROM THE BOARD

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### 2. Business review

The audited financial information on CETV prepared in accordance with HKGAAP for the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003, respectively, is as follows:

| HK\$'000             | For the year ended |         |         | For the six months |        |
|----------------------|--------------------|---------|---------|--------------------|--------|
|                      | 31 December        |         |         | ended 30 June      |        |
|                      | 2000               | 2001    | 2002    | 2002               | 2003   |
| Total Turnover       | — <sup>Note</sup>  | 9,012   | 3,510   | 1,027              | 5,351  |
| Loss before taxation | 57,402             | 132,568 | 150,774 | 71,650             | 73,273 |
| Net Loss             | 57,402             | 132,568 | 150,951 | 71,650             | 73,376 |

*Note:* There was no commercial activity during the year ended 31 December 2000 and therefore there was no turnover for that year.

Total turnover represents revenue from advertising and subscription revenue from production of television programmes.

For the year ended 31 December 2000, there was no recorded revenue as CETV was undergoing the process of repackaging its television programmes after TBSAP acquired 80% of interests in CETV and thus there was no commercial activity during that year.

For the year ended 31 December 2001, the audited consolidated turnover and the net loss of CETV were approximately HK\$9.0 million and approximately HK\$132.6 million, respectively. Advertising revenue accounted for approximately 99% of CETV's total turnover. The loss is mainly attributable to the fact that the channel needed to rebuild the channel infrastructure and expand distribution network in CETV's first year of operation. Cost of sales comprising mainly tape duplication costs, dubbing expenses and other production costs was approximately HK\$46.8 million. Purchased program and film rights are stated at cost less amortisation. Cost of purchased program and film rights comprised direct expenditure on licensing the program and film rights. A major portion of the program and film rights costs are amortised upon the initial publicity in the first year with the remaining balance being evenly amortised over the remaining contract term. The cost of self-produced programs was expensed to the profit and loss account as incurred. In addition, owing to the increase in distribution efforts, the selling and marketing expenses also increased to approximately HK\$13.6 million. CETV's staff costs also increased significantly by approximately 133% to approximately HK\$31 million as a result of an increase in headcount from 47 to 93. CETV adopts a competitive and comprehensive remuneration scheme including basic salary, provident fund, medical and hospitalisation insurance. Overtime pay is provided to network operation staff. Advertising sales target bonus scheme is available to advertising sales staff. Discretionary bonus scheme is provided to senior management. AOL Time Warner share option scheme and discretionary TBS corporate bonus scheme are available to all staff.

For the year ended 31 December 2002, the audited consolidated turnover and the net loss of CETV were approximately HK\$3.5 million and approximately HK\$150.8 million, respectively. Advertising revenue accounted for approximately 96% of CETV's total turnover while subscription revenue accounted for the remainder of CETV's total revenue. The decrease in the total turnover in the year ended 31 December 2002 is attributable to non-recurring revenue from Legend Computer Systems Limited ("Legend") recorded in the year ended 31 December 2001, which was a bundled advertising sale by AOL Time Warner and its subsidiaries (such as CNN and CETV). Notwithstanding a reduction in turnover in

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## LETTER FROM THE BOARD

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2002, cost of sales remained at a similar level as cost of sales mainly represents tape duplication costs, dubbing expenses and other production costs. These expenses were incurred when programs were purchased and aired, irrespective of the amount of advertising revenue derived therefrom. The increase in net loss for that year was largely attributable to (i) an increase in finance costs to approximately HK\$13.4 million as a result of an increase in CETV's shareholder's loan; (ii) an increase in the aggregate staff remuneration to approximately HK\$36.1 million owing to an increase in the number of CETV's staff from 93 to 103 during the year; and (iii) an increase in film rights amortisation to approximately HK\$29.9 million for that year.

For the six months ended 30 June 2002, the audited total turnover and net loss of CETV was approximately HK\$1 million and HK\$71.7 million, respectively. Advertising revenue accounted for approximately 95% of its total turnover and subscription revenue accounted for the rest. For the six months ended 30 June 2003, revenue increased by more than 4 times to approximately HK\$5.4 million from approximately HK\$1 million during the corresponding period in 2002. The increase in turnover was mainly attributed by the improvement in advertising revenue during the period. Advertising revenue accounted for approximately 98% of CETV's total turnover in the first half of 2003. Notwithstanding an improvement in turnover, net loss for the period widened slightly to approximately HK\$73.4 million primarily due to a moderate increase in cost of sales, coupled with a higher selling and administrative expenses which were incurred as CETV developed and increased its distribution efforts. Taxation for an amount of approximately HK\$0.1 million was recorded during the six-month period ended 30 June 2003 as it represented deemed PRC enterprise income tax in respect of a representative office of CETV in the PRC.

The pro forma combined results of the Enlarged TOM Group prepared in accordance with HKGAAP for the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003, respectively, are as follows:

| <i>HK\$'000</i>      | <b>For the year ended</b> |                    |             | <b>For the six months</b> |             |
|----------------------|---------------------------|--------------------|-------------|---------------------------|-------------|
|                      |                           | <b>31 December</b> |             | <b>ended 30 June</b>      |             |
|                      | <b>2000</b>               | <b>2001</b>        | <b>2002</b> | <b>2002</b>               | <b>2003</b> |
| Total Turnover       | 89,223                    | 635,636            | 1,627,636   | 680,245                   | 872,293     |
| Loss before Taxation | 1,330,086                 | 742,578            | 502,718     | 169,964                   | 99,570      |
| Net Loss             | 1,322,687                 | 768,455            | 560,530     | 196,157                   | 106,050     |

The Enlarged TOM Group is principally engaged in four main business segments:

1. Internet Group – provision of telecom value-added services and online advertising.
2. Outdoor Media Group – advertising sales of outdoor media and provision of related media services.
3. Publishing Division – magazine and book circulation, sales of publication advertising and other related products.
4. Sports and Entertainment Division – event organisation, advertising and sponsorship sales, sports television programme production and syndication, home video products distribution and television channel operations.

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## LETTER FROM THE BOARD

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The Enlarged TOM Group's revenue for the year ended 31 December 2002 amounted to HK\$1,628 million, approximately 156% increase from HK\$636 million in the previous year. The Internet Group's revenue increased by approximately 78% to approximately HK\$256 million from approximately HK\$144 million. The Outdoor Media Group's, the Publishing Division's, and the Sports and Entertainment Division's (offline) revenues in aggregate almost tripled to approximately HK\$1,372 million. For the year ended 31 December 2000, the Enlarged TOM Group recorded a total turnover of approximately HK\$89 million. Net loss for the Enlarged TOM Group for the year ended 31 December 2000, 2001 and 2002 were approximately HK\$1.3 billion, HK\$768 million and HK\$561 million, respectively. The reduction in net loss was a result of the broadened revenue base and continued cost discipline.

Comparing overall financial performance to the same period last year, total turnover for the six months ended 30 June 2003 amounted to HK\$872 million, approximately 28% increase from HK\$680 million in the corresponding period of 2002. Comparing the same period, the Internet Group's revenues for the six months ended 30 June 2003 doubled to approximately HK\$219 million with a segment profit of approximately HK\$44 million, a favourable variance from the HK\$106 million loss in the six months ended 30 June 2002, primarily driven by the continued growth in wireless data revenues. The Outdoor Media Group's revenues grew by approximately 86% to approximately HK\$141 million with segment profit increasing 2.3 times to approximately HK\$16 million. The Publishing Division's revenues registered a slight decrease of approximately 2% to approximately HK\$360 million with segment profit also reported down from approximately HK\$28 million to approximately HK\$6 million, affected by the impact of the outbreak of the severe acute respiratory syndrome (SARS) on advertising and circulation incomes. Revenues from the Sports and Entertainment Division increased by approximately 19% to approximately HK\$152 million but reported a segment loss of approximately HK\$69 million, primarily as a result of the cancellation of many sporting events in the six months ended 30 June 2003 and additional depreciation and amortisation charges in the six months ended 30 June 2003.

For the six months ended 30 June 2002 and 2003, the net loss of the Enlarged TOM Group were approximately HK\$196 million and HK\$106 million, respectively.

**Owing to the nature of pro forma accounts, the Directors are of the view that the above financials may not give an indicative financial position or results of the Company in the future. In addition, the pro forma combined results does not take into account of any integration efforts related to the acquisition such as revenue enhancement and cost synergies arising from integrating CETV into the Company's existing operations.**

As at 30 June 2003, the unaudited pro forma combined net liabilities and net tangible liabilities of Enlarged TOM Group were approximately HK\$130.2 million and HK\$1.2 billion, respectively. As all outstanding shareholder's loans and third party loans and borrowings owed by CETV (and all interests accrued thereon) will be released and/or paid in full by TBSAP at Completion, it will enhance the asset position of the Enlarged TOM Group. Please refer to the "Compilation report on the pro forma combined financial information on the Enlarged TOM Group" set out in Appendix IV of this circular for more information.

As at 30 June 2003, the audited net liabilities and the net tangible liabilities of CETV were approximately HK\$463 million and HK\$473 million, respectively. Please refer to the accountants' report on CETV in Appendix III of this circular for more information.



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## LETTER FROM THE BOARD

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### 3. Indebtedness

There is a significant growth in the inter-company loans over the two years ended 31 December 2001 and 2002, respectively, as CETV is relying on shareholder's loans from TBSAP to meet its funding requirements. As at 31 December 2002, CETV recorded an aggregate of approximately HK\$377.3 million shareholders' loans and an aggregate of approximately HK\$7.5 million third party long term loans. CETV has no material contingent liabilities as at 31 December 2002. All outstanding shareholder's loans and third party loans and borrowings owed by CETV (and all interests accrued thereon) will be released and/or paid in full by TBSAP at Completion.

Based on the Initial Business Plan, it is expected that CETV's funding requirement from the Completion Date up to 31 December 2003 will range between HK\$45 million and HK\$65 million. For further details, please refer to the paragraph headed "Funding" under section C above.

### 4. Reasons for and benefits of the Acquisition

The Directors are of the view that extending the TOM Group's footprint to television sector in the PRC is desirable to the development of the TOM Group's media business in the long run. Owing to the fact that the broadcasting media sector in the PRC is still highly sensitive and strictly regulated and CETV is currently one of the only five foreign television channels officially licensed to broadcast its contents in the Guangdong Province, the PRC, the Directors believe there is considerable business potential for the TOM Group to invest in CETV. The Acquisition provides a unique opportunity for the TOM Group to form a strategic partnership with AOL Time Warner, which is one of the global media and entertainment leaders.

AOL Time Warner and TBSAP will bring a lot of value to CETV, including the proven know-how in programming and distribution.

Historically, CETV's revenue position was relatively weak as it was still in its development stage. The Directors believe that combining with the TOM Group's PRC management expertise, the TOM Group will be able to significantly improve CETV's revenue position through the following means:

- (a) CETV to leverage on the TOM Group's existing nationwide advertising sales and client network; and
- (b) CETV to leverage on the TOM Group's content and creative resources to implement additional programming initiatives.

Overall, the Directors are of the view that the terms of the Acquisition are fair and reasonable and in the interest of the Shareholders as a whole.

Upon Completion, CETV will become a subsidiary of the Company. The Company will undertake the overall management of CETV, including business development, programming and production, advertising sales & marketing, and operations.

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## LETTER FROM THE BOARD

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Save as disclosed in this circular and except for certain matters (such as any material alteration to the scope of business of CETV, any amendment to the memorandum and articles of association of CETV and any winding-up of CETV, etc.) which require the approval of CETV Shareholders holding at least 75% of the issued CETV Shares, there is no arrangement (including any acquisition agreement, option agreement, or any other side agreements or arrangements) which would have the effect of restricting the Company's control over, and/or management of, its interests in CETV.

### **5. Future plans and prospects**

CETV aims to be the pre-eminent mandarin-language general entertainment channel across the PRC and the Chinese-speaking world. To achieve these goals, CETV is committed to:

- (a) continuing its aggressive strategy of expanding its distribution network in the PRC;
- (b) increasing its programme ratings in the Guangdong Province, the PRC;
- (c) delivering quality programming either through content acquisitions or original production;
- (d) building its brand name and image; and
- (e) leveraging on the TOM Group's existing sales network and resources to improve the advertising revenue position.

The Company will continue to focus on revenue growth and cost synergies upon consolidating and integrating CETV into the TOM Group.

### **G. INFORMATION ON THE TBS GROUP**

TBS's principal business comprises the production, distribution and marketing of news and entertainment television programming worldwide.

In addition to the CETV Service, TBS (through its wholly-owned and/or non wholly-owned subsidiaries (including, without limitation TBSAP)) owns and operates the following television channels from within the Asia Pacific region:

#### **1. Cartoon Network**

Five feeds of the 24-hour television programming television service presently entitled "Cartoon Network" produced and broadcast from within the Asia Pacific region: (i) the CN Australia feed; (ii) the CN Taiwan feed; (iii) the CN South Asia feed; (iv) the CN South East Asia feed; and (v) the CN Philippines feed. In addition, the Cartoon Network Japan produced and broadcast in Japan by way of a joint venture between a TBS affiliate and a Japanese company.

### 2. TCM Turner Classic Movies

Two services presently produced and broadcast from within the Asia Pacific region: (i) the 24-hour television programming service presently entitled TCM Turner Classic Movies; and (ii) a 16-hour TCM Turner Classic Movies service comprised of an 8-hour simultaneous and an 8-hour delayed broadcast of TCM Turner Classic Movies programming targeted principally at Korea, which is combined in Korean with a further 8 hours of Korean classic movies to fill a 24-hour broadcast day.

TBSAP also: (i) distributes in the Asia-Pacific region two feeds (Asia Pacific feed and South Asia feed) of the 24-hour television programming service presently entitled “CNN International”; (ii) distributes in Japan the 24-hour television programming service presently entitled “CNN Japan”; and (iii) conducts CNN International’s and CNN Japan’s marketing and public relations activities in those territories.

### H. REASONS FOR ACQUIRING THE SALE SHARES

The Directors consider that the Acquisition is a strategic investment for the TOM Group as it will provide the Company with exciting new content and e-commerce opportunities. CETV can further strengthen the Company’s media platform and distribution channel for its content, including but not limited to its online and offline advertising content, broadband infotainment content syndication (such as music and movie) for the Company’s lifestyle for Chinese portals and sports event content. Such opportunities may allow the Company to further increase its advertising revenue streams.

By leveraging on CETV’s distribution channel and network, the Company is able to further distribute the content derived from its other media assets to a wider audience, in particular in the PRC. This is an important component to achieving a “total advertising solution” for the Company, which is one of the key elements in its development strategies.

The Directors further believe that the Acquisition is a strategic investment in that it will provide the Company with an extended form of content distribution channel, directly into the homes of consumers, particularly in the PRC. Such new media will create synergy for and assist the Company to fulfill its objectives in further distributing its content created by its online, publication or sports events business into the mass consumers. Such extended coverage is also crucial to the Company’s advertising businesses in that the advertising clients of the Company’s other media businesses will have an additional choice of placing their advertisements through another media (e.g., more coverage means more valuable an advertisement will be, and accordingly an advertisement may be sold at a higher cost) thus offering to its customers a total advertising solution.

CETV is well positioned to provide unique syndication of its various content and services and distributes such content in particular its music, entertainment, sports events and other related content through its television media.

Based on the above reasons, the Directors are of the view that the Acquisition is in line with its business objectives including the e-commerce and “Lifestyle for the Chinese” content syndication initiatives and increase of advertising revenues as disclosed in the Company’s prospectus dated 18 February 2000 and to become a leading provider of “total advertising solutions” as disclosed in its various annual reports.

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# LETTER FROM THE BOARD

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## I. GENERAL INFORMATION

Based on the latest adjusted net assets of the TOM Group and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement, the transactions contemplated under the VSA Documents constitute a very substantial acquisition of the Company involving the issue of new Shares under Chapter 19 of the GEM Listing Rules, the transactions contemplated under the VSA Documents are therefore conditional on, among other things, the approval by the Shareholders at the EGM. In relation to the transactions contemplated under the VSA Documents (1) Easterhouse and Romefield (and their respective associates) which together are the controlling Shareholders; and (2) any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM. In relation to the transactions contemplated under the Ancillary Documents, any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM.

Based on:

1. the latest adjusted net assets of the TOM Group and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement; and
2. the assumptions that by the First Call Exercise Date or the Fixed Call Exercise Date (as the case may be): (a) TOM TV has fully satisfied the Funding Obligation; (b) the TOM Group has not acquired any CETV Shares other than the Sale Shares; and (c) TOM TV has not disposed of any of its CETV Shares,

the granting of the First Call Option and the Fixed Call Option (which is classified as if the First Call Option and the Fixed Call Option had been exercised) constitutes a major transaction of the Company under Chapter 19 of the GEM Listing Rules and is therefore conditional on, among other things, the approval by the Shareholders (other than any Shareholder who is interested in the proposed granting of the First Call Option and the Fixed Call Option, which interested Shareholders (if any) will abstain from voting on the relevant resolution(s)) at the EGM.

As at the date of this circular, to the best of the knowledge of the Company, none of TBSAP, Lark and Mr. Chua is a shareholder of the Company. In the event that any of TBSAP, Lark and Mr. Chua becomes a shareholder of the Company before the EGM, such interested shareholder of the Company will abstain from voting on the relevant resolution(s) at the EGM.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be granted to the Directors by the Shareholders at the EGM.

The Company has made an application to the Listing Committee of GEM for the listing of, and permission to deal in, the Consideration Shares to be issued pursuant to the Share Purchase Agreement.

The business of the TOM Group includes the operation of cross-media and telecom value added services which include an internet portal delivering internet infotainment content and services, e-commerce propositions, development of software and computer network systems, provision for related services and event production, broadband content and service provision, sports-related content, event management and advertising, web-based e-mail service provision, outdoor media, online media businesses and publishing businesses.

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## LETTER FROM THE BOARD

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### J. EGM

A notice convening the EGM to be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 11 September 2003 at 11:00 a.m. is set out on pages 345 to 350 of this circular at which ordinary resolutions will be proposed and, if thought fit, passed to approve the transactions contemplated under the VSA Documents, the Option Deed and Ancillary Documents. In relation to the transactions contemplated under the VSA Documents (1) Easterhouse and Romefield (and their respective associates), which together are the controlling Shareholders; and (2) any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM. In relation to the transactions contemplated under the Option Deed and the Ancillary Documents, any Shareholder who is interested therein will abstain from voting on the relevant resolution(s) at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company at 48 Floor, The Center, 99 Queen's Road Central, Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting (as the case may be) should you so wish.

### K. RECOMMENDATION

The Directors consider that the VSA Documents, the Option Deed and the Ancillary Documents are entered or will be entered into on normal commercial terms in the ordinary and usual course of business of the TOM Group and that the terms of the VSA Documents, the Option Deed and the Ancillary Documents are fair and reasonable and in the interests of the TOM Group as a whole so far as the Shareholders are concerned. Therefore, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### L. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
By Order of the Board  
**TOM.COM LIMITED**  
**Sing Wang**  
*Chief Executive Officer*  
*and*  
*Executive Director*

## 1. SHARE CAPITAL

## (i) Shares

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following Completion are expected to be as follows:

|                      |        |                       |
|----------------------|--------|-----------------------|
| <i>Authorised:</i>   |        | <i>HK\$</i>           |
| <u>5,000,000,000</u> | Shares | <u>500,000,000.00</u> |

*Issued and to be issued as fully paid:*

|                      |  |                       |
|----------------------|--|-----------------------|
| <u>3,825,703,450</u> | Shares as at the Latest Practicable Date | <u>382,570,345.00</u> |
| <u>21,250,000</u>    | Shares to be issued at Completion        | <u>2,125,000.00</u>   |
| <u>3,846,953,450</u> | Shares                                   | <u>384,695,345.00</u> |

*Notes:*

- (1) Assuming no further issue of Shares from the Latest Practicable Date up to the date of issuance of the Consideration Shares.
- (2) In addition to the above, the TOM Group has entered into certain conditional sale and purchase agreements in relation to the following acquisitions, which involve issuance of new Shares and such Shares have not been issued as at the Latest Practicable Date.

| <b>Date of the agreement</b>     | <b>Transaction</b>   | <b>Number of new Shares may be issued (subject to adjustments)</b> |
|----------------------------------|--|--|
| 28 January 2002<br>(as amended)  | Acquisition of an aggregate of 70% of the equity interest in Qingdao Chunyu Advertising Chuanbo Company Limited        | 8,593,295  |
| 1 February 2002<br>(as amended)  | Acquisition of an aggregate of 60% of the equity interest in Shandong Qilu International Outdoor Media Company Limited | 2,887,104  |
| 28 February 2002<br>(as amended) | Acquisition of an aggregate of 60% of the equity interest in Liaoning New Star Guangming Media Assets Company Limited  | 2,492,643  |
| 5 March 2002                     | Acquisition of an aggregate of 50% of the equity interest in Hong Xiang New Co.  | 13,719,777   |

| <b>Date of the agreement</b>  | <b>Transaction</b>  | <b>Number of new Shares may be issued (subject to adjustments)</b> |
|-------------------------------|---|--|
| 13 March 2002<br>(as amended) | Acquisition of an aggregate of 50% of the equity interest in Henan New Tianming Advertising & Information Chuanbo Company Limited | 1,731,003  |
| 21 June 2002<br>(as amended)  | Acquisition of an aggregate of 60% of the equity interest in Shenyang Sano Global Media Company Limited                           | 3,612,976  |
| 26 June 2002<br>(as amended)  | Acquisition of an aggregate of 60% of the equity interest in Xiamen Bomei Lianhe Advertising Company Limited                      | 3,068,735  |
| 26 June 2002<br>(as amended)  | Acquisition of an aggregate of 70% of the equity interest in Fujian Seeout Guangming Media Advertising Company Limited            | 6,371,084  |
| 1 August 2002<br>(as amended) | Acquisition of an aggregate of 70% of the equity interest in Sichuan Southwest Outdoor Media Company Limited                      | 3,138,937  |

As at the Latest Practicable Date, all the existing Shares rank pari passu in all respects including as to dividends, voting and interests in capital. The Consideration Shares to be issued pursuant to the Share Purchase Agreement will, when issued, rank pari passu in all respects with the existing Shares, including as to dividends, voting and interests in capital.

## **(ii) Options**

As at the Latest Practicable Date, options to subscribe for an aggregate of 123,304,000 Shares granted pursuant to the Pre-IPO Share Option Plan and the Share Option Scheme were outstanding, details of which are set out in Appendix VII of this circular.

Save as disclosed herein, except for the options granted under the Pre-IPO Share Option Plan and the Share Option Scheme in issue, the Company has no outstanding securities convertible into Shares, and no other share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option.



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central  
Hong Kong

26 August 2003

The Directors  
TOM.COM LIMITED

Dear Sirs,

We set out below our report on the financial information relating to TOM.COM LIMITED (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003 (the “Relevant Periods”), for inclusion in the circular of the Company dated 26 August 2003 (the “Circular”) in connection with the proposed acquisition of a 64.07% equity interest in China Entertainment Television Broadcast Limited by the Company.

The Company was incorporated in the Cayman Islands on 5 October 1999 as a limited liability company under the Companies Law (2002 Revision) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1 March 2000.

As at the date of this report, the Company has direct and indirect interests in the principal subsidiaries, jointly controlled entities and associated companies set out in section V note 38 below, all of which are private companies.

All companies now comprising the Group, jointly controlled entities and associated companies have adopted 31 December as their financial year end date.

We acted as auditors of the Company for each of the three years ended 31 December 2000, 2001 and 2002. Details of the auditors of the Company’s subsidiaries, jointly controlled entities and associated companies are set out in section V note 38 below. No audited accounts have been prepared for some of these companies since their respective dates of incorporation as there is no statutory requirement for these entities to prepare audited accounts.

For the purpose of this report, we have examined the audited accounts or, where appropriate, the management accounts of the companies comprising the Group, jointly controlled entities and associated companies for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.



The financial information set out in sections I to V below (the “Financial Information”) has been prepared based on the audited accounts or, where appropriate, management accounts of the companies comprising the Group, jointly controlled entities and associated companies for the Relevant Periods, on the basis set out in section V note 1 below. The directors of the respective companies comprising the Group, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in section V note 1 below, gives a true and fair view of the consolidated state of affairs of the Group and the state of affairs of the Company as at 31 December 2000, 2001 and 2002 and 30 June 2003 and of the consolidated results and cash flows of the Group for the Relevant Periods.

## I. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

|  | Section V<br>Note | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|--|-------------------|------------------------|------------------|------------------|--------------------------|------------------|
|  |                   | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000         | 2003<br>HK\$'000 |
| Turnover   | 3                 | 89,223                 | 626,624          | 1,624,126        | 679,218                  | 866,942          |
| Cost of sales  |                   | 56,134                 | 479,292          | 1,008,400        | 436,878                  | 510,036          |
| Interest income                                      | 3                 | (80,634)               | (23,069)         | (5,867)          | (3,209)                  | (1,214)          |
| Selling and marketing expenses                       |                   | 124,041                | 86,890           | 170,205          | 85,838                   | 87,983           |
| Administrative expenses                              |                   | 131,727                | 127,186          | 235,174          | 101,668                  | 102,735          |
| Other operating expenses                             |                   | 241,291                | 186,917          | 322,406          | 130,636                  | 179,822          |
| Operating loss                                       | 4                 | 383,336                | 230,592          | 106,192          | 72,593                   | 12,420           |
| Finance costs  | 5                 | –                      | 1,395            | 19,079           | 8,248                    | 9,611            |
| Provision for impairment of goodwill                 | 6                 | 829,211                | 280,936          | 197,108          | –                        | –                |
| Provision for impairment of fixed assets             |                   | –                      | 49,540           | –                | –                        | –                |
| Restructuring costs                                  | 7                 | 37,717                 | 8,527            | –                | –                        | –                |
| Share of losses of jointly controlled entities       |                   | 16,190                 | 35,856           | 29,585           | 17,161                   | 4,998            |
| Share of profits less losses of associated companies |                   | 6,230                  | 3,164            | (20)             | 312                      | (732)            |
| Loss before taxation                                 |                   | 1,272,684              | 610,010          | 351,944          | 98,314                   | 26,297           |
| Taxation   | 8                 | 3,147                  | 18,692           | 29,080           | 23,963                   | 1,854            |
| Loss after taxation                                  |                   | 1,275,831              | 628,702          | 381,024          | 122,277                  | 28,151           |
| Minority interests                                   |                   | (10,546)               | 7,185            | 28,555           | 2,230                    | 4,523            |
| Loss attributable to shareholders                    | 9                 | 1,265,285              | 635,887          | 409,579          | 124,507                  | 32,674           |
| Loss per share – basic                               | 11                | HK43.82 cents          | HK19.78 cents    | HK12.41 cents    | HK3.78 cents             | HK0.98 cents     |

## II(A). CONSOLIDATED BALANCE SHEETS

|   | Section V<br><i>Note</i> | 2000<br><i>HK\$'000</i> | 31 December<br>2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 30 June<br>2003<br><i>HK\$'000</i> |
|---|--------------------------|-------------------------|--|-------------------------|------------------------------------|
| <b>ASSETS</b>                               |                          |                         |  |                         |                                    |
| Non-current assets                          |                          |                         |  |                         |                                    |
| Fixed assets                                | 14                       | 237,900                 | 190,630                                | 250,868                 | 251,845                            |
| Other non-current assets                    | 15                       | –                       | 27,024                                 | 98,781                  | 98,100                             |
| Goodwill                                    | 16                       | 293,823                 | 440,019                                | 953,899                 | 983,566                            |
| Interests in jointly<br>controlled entities | 18                       | 27,540                  | 125,632                                | 35,510                  | 16,407                             |
| Interests in associated<br>companies        | 19                       | 5,084                   | 3,741                                  | 4,601                   | 3,472                              |
| Investment securities                       | 20                       | 10,522                  | 37,005                                 | 126,406                 | 127,302                            |
|   |                          | <u>574,869</u>          | <u>824,051</u>                         | <u>1,470,065</u>        | <u>1,480,692</u>                   |
| Current assets                              |                          |                         |  |                         |                                    |
| Inventories                                 | 21                       | 1,407                   | 92,676                                 | 108,260                 | 98,647                             |
| Trade and other receivables                 | 22                       | 102,978                 | 516,831                                | 645,145                 | 756,692                            |
| Bank balances and cash                      | 34                       | 934,512                 | 233,885                                | 329,893                 | 341,862                            |
|   |                          | <u>1,038,897</u>        | <u>843,392</u>                         | <u>1,083,298</u>        | <u>1,197,201</u>                   |
| Current liabilities                         |                          |                         |  |                         |                                    |
| Consideration payables<br>– current         | 23                       | 517,279                 | 268,609                                | 431,478                 | 520,061                            |
| Trade and other payables                    | 24                       | 303,870                 | 472,081                                | 598,038                 | 633,426                            |
| Taxation payable                            |                          | 3,147                   | 64,376                                 | 68,417                  | 53,817                             |
| Long-term bank loans<br>– current           | 26(a)                    | –                       | 12,228                                 | 561                     | 605                                |
| Short-term loans                            | 25                       | 1,410                   | 48,405                                 | 14,338                  | 82,279                             |
|   |                          | <u>825,706</u>          | <u>865,699</u>                         | <u>1,112,832</u>        | <u>1,290,188</u>                   |
| Net current assets/(liabilities)            |                          | <u>213,191</u>          | <u>(22,307)</u>                        | <u>(29,534)</u>         | <u>(92,987)</u>                    |
| Total assets less current liabilities       |                          | <u>788,060</u>          | <u>801,744</u>                         | <u>1,440,531</u>        | <u>1,387,705</u>                   |
| Non-current liabilities                     |                          |                         |  |                         |                                    |
| Consideration payables<br>– non-current     | 23                       | –                       | 21,120                                 | 130,670                 | 11,560                             |
| Other long-term liabilities                 | 26                       | –                       | 114,742                                | 874,659                 | 870,783                            |
| Deferred tax liabilities                    | 28(b)                    | –                       | 2,721                                  | 9,147                   | 12,338                             |
|   |                          | <u>–</u>                | <u>138,583</u>                         | <u>1,014,476</u>        | <u>894,681</u>                     |
| Minority interests                          |                          | <u>1,003</u>            | <u>84,158</u>                          | <u>153,784</u>          | <u>160,614</u>                     |
| Net assets                                  |                          | <u>787,057</u>          | <u>579,003</u>                         | <u>272,271</u>          | <u>332,410</u>                     |
| <b>CAPITAL AND RESERVES</b>                 |                          |                         |  |                         |                                    |
| Share capital                               | 29                       | 315,939                 | 327,765                                | 332,187                 | 334,604                            |
| Reserves                                    | 31(a)                    | 471,118                 | 252,329                                | (54,688)                | 3,891                              |
| Own shares held                             | 32                       | –                       | (1,091)                                | (5,228)                 | (6,085)                            |
| Shareholders' funds                         |                          | <u>787,057</u>          | <u>579,003</u>                         | <u>272,271</u>          | <u>332,410</u>                     |

## II(B). BALANCE SHEETS OF THE COMPANY

|                                       | Section V | 2000             | 31 December      | 2002             | 30 June          |
|---------------------------------------|-----------|------------------|------------------|------------------|------------------|
|                                       | Note      | HK\$'000         | 2001             | 2002             | 2003             |
|                                       |           | HK\$'000         | HK\$'000         | HK\$'000         | HK\$'000         |
| <b>ASSETS</b>                         |           |                  |                  |                  |                  |
| Non-current assets                    |           |                  |                  |                  |                  |
| Interests in subsidiaries             | 17        | 1,298,211        | 1,516,999        | 2,421,694        | 2,526,636        |
| Investment securities                 | 20        | 1                | –                | –                | –                |
|                                       |           | <u>1,298,212</u> | <u>1,516,999</u> | <u>2,421,694</u> | <u>2,526,636</u> |
| Current assets                        |           |                  |                  |                  |                  |
| Other receivables                     | 22        | 1,325            | 23,552           | 20,961           | 22,447           |
| Bank balances and cash                |           | 820,302          | 21,988           | 14,433           | 439              |
|                                       |           | <u>821,627</u>   | <u>45,540</u>    | <u>35,394</u>    | <u>22,886</u>    |
| Current liabilities                   |           |                  |                  |                  |                  |
| Consideration payables                |           |                  |                  |                  |                  |
| – current                             | 23        | 517,279          | 268,609          | 431,478          | 520,061          |
| Other payables                        | 24        | 56,896           | 20,133           | 5,487            | 7,165            |
| Short-term bank loans                 | 25        | –                | –                | –                | 42,300           |
|                                       |           | <u>574,175</u>   | <u>288,742</u>   | <u>436,965</u>   | <u>569,526</u>   |
| Net current assets/(liabilities)      |           | <u>247,452</u>   | <u>(243,202)</u> | <u>(401,571)</u> | <u>(546,640)</u> |
| Total assets less current liabilities |           | <u>1,545,664</u> | <u>1,273,797</u> | <u>2,020,123</u> | <u>1,979,996</u> |
| Non-current liabilities               |           |                  |                  |                  |                  |
| Consideration payables                |           |                  |                  |                  |                  |
| – non-current                         | 23        | –                | 21,120           | 130,670          | 11,560           |
| Other long-term liabilities           | 26        | –                | 100,000          | 850,000          | 850,000          |
|                                       |           | <u>–</u>         | <u>121,120</u>   | <u>980,670</u>   | <u>861,560</u>   |
| Net assets                            |           | <u>1,545,664</u> | <u>1,152,677</u> | <u>1,039,453</u> | <u>1,118,436</u> |
| <b>CAPITAL AND RESERVES</b>           |           |                  |                  |                  |                  |
| Share capital                         | 29        | 315,939          | 327,765          | 332,187          | 334,604          |
| Reserves                              | 31(b)     | 1,229,725        | 826,003          | 712,494          | 789,917          |
| Own shares held                       | 32        | –                | (1,091)          | (5,228)          | (6,085)          |
| Shareholders' funds                   |           | <u>1,545,664</u> | <u>1,152,677</u> | <u>1,039,453</u> | <u>1,118,436</u> |

## III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|   | Year ended 31 December |           |           | Six months ended |          |
|---|------------------------|-----------|-----------|------------------|----------|
|   | 2000                   | 2001      | 2002      | 30 June          |          |
|   | HK\$'000               | HK\$'000  | HK\$'000  | 2002             | 2003     |
|   | HK\$'000               | HK\$'000  | HK\$'000  | HK\$'000         | HK\$'000 |
| Total (deficit)/equity<br>as at 1 January   | (23,715)               | 787,057   | 579,003   | 579,003          | 272,271  |
| Disposal of a subsidiary  | –                      | 150       | –         | –                | –        |
| Investment revaluation<br>deficits  | –                      | –         | –         | (1,796)          | –        |
| Exchange differences  | (253)                  | (519)     | (255)     | 5,491            | 683      |
| Net (loss)/profit not recognised<br>in the profit and loss account  | (253)                  | (369)     | (255)     | 3,695            | 683      |
| Issuance of shares by<br>capitalisation of<br>shareholders' loans   | 501,709                | –         | –         | –                | –        |
| Issuance of shares to<br>the then shareholders<br>and investors for cash                                      | 141,405                | –         | –         | –                | –        |
| Issuance of shares pursuant<br>to initial public offering,<br>net of issuing expenses                         | 662,611                | –         | –         | –                | –        |
| Over-allotment placement<br>of shares   | 114,276                | –         | –         | –                | –        |
| Placement of shares in<br>September 2000, net of<br>issuing expenses  | 478,377                | –         | –         | –                | –        |
| Issuance of shares for<br>acquisition of subsidiaries<br>and associated companies,<br>net of issuing expenses | 714,416                | 416,381   | 87,597    | 31,067           | 92,987   |
| Exercise of share options,<br>net of issuing expenses   | –                      | 12,912    | 19,642    | 19,642           | –        |
| Goodwill eliminated<br>against reserves   | (536,484)              | –         | –         | –                | –        |
| Loss for the year/period  | (1,265,285)            | (635,887) | (409,579) | (124,507)        | (32,674) |
| Own shares held   | –                      | (1,091)   | (4,137)   | (4,137)          | (857)    |
| Total equity as at<br>31 December/30 June   | 787,057                | 579,003   | 272,271   | 504,763          | 332,410  |

## IV. CONSOLIDATED CASH FLOW STATEMENTS

|  | Section V<br><i>Note</i> | Year ended 31 December  |                         |                         | Six months ended 30 June |                         |
|--|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------------|
|  |                          | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i>  | 2003<br><i>HK\$'000</i> |
| Net cash (outflow)/inflow  |                          |                         |                         |                         |                          |                         |
| from operations  | 33(a)                    | (340,115)               | (367,175)               | (75,203)                | (165,388)                | 10,530                  |
| Interest paid  |                          | –                       | (1,140)                 | (19,205)                | (8,579)                  | (9,563)                 |
| Hong Kong profits tax paid   |                          | –                       | (1,718)                 | (2,003)                 | –                        | (393)                   |
| Overseas taxation paid   |                          | –                       | (1,807)                 | (26,613)                | (14,536)                 | (20,203)                |
| Net cash used in operating activities  |                          | (340,115)               | (371,840)               | (123,024)               | (188,503)                | (19,629)                |
| Investing activities   |                          |                         |                         |                         |                          |                         |
| Interest received  |                          | 80,634                  | 22,521                  | 22,631                  | 21,757                   | 2,231                   |
| Capital expenditure  |                          | (217,809)               | (63,065)                | (166,698)               | (68,335)                 | (45,538)                |
| Sale of fixed assets   |                          | 5,831                   | 4,852                   | 1,423                   | (97)                     | 375                     |
| Settlement of consideration payable for acquisition of subsidiaries in prior years |                          | –                       | –                       | (42,639)                | (42,639)                 | (6,271)                 |
| Acquisition of subsidiaries  | 33(b)                    | 2,110                   | (298,974)               | (312,047)               | (191,729)                | 14,855                  |
| Disposal/deconsolidation of a subsidiary   | 33(c)                    | –                       | 163                     | (7,962)                 | –                        | 135                     |
| Purchase and sales of other investments, net                                       |                          | (134,453)               | (58,595)                | (219)                   | (35,954)                 | (3,293)                 |
| Loans to related companies   |                          | (19,728)                | (89,744)                | (500)                   | –                        | –                       |
| Loan repayment from related companies  |                          | –                       | 2,261                   | 3,760                   | 1,692                    | –                       |
| Dividends received   |                          | –                       | –                       | 130                     | 130                      | 4,939                   |
| Net cash used in investing activities  |                          | (283,415)               | (480,581)               | (502,121)               | (315,175)                | (32,567)                |
| Net cash used before financing   |                          | (623,530)               | (852,421)               | (625,145)               | (503,678)                | (52,196)                |
| Financing  |                          |                         |                         |                         |                          |                         |
| Issuance of ordinary shares, net of issuing expenses                               | 33(d)                    | 1,397,445               | 12,912                  | 19,292                  | 19,478                   | (78)                    |
| Repurchase of ordinary shares  | 33(d)                    | (776)                   | –                       | –                       | –                        | –                       |
| New bank and other loans   | 33(d)                    | 138,832                 | 141,317                 | 767,364                 | 555,315                  | 80,375                  |
| Loan repayments  | 33(d)                    | –                       | (9,499)                 | (63,737)                | (46,228)                 | (12,232)                |
| Contribution from minority shareholders  | 33(d)                    | 172                     | 7,064                   | 1,410                   | –                        | –                       |
| Dividends paid to minority shareholders  |                          | –                       | –                       | (3,176)                 | –                        | (3,900)                 |
| Net cash from financing  |                          | 1,535,673               | 151,794                 | 721,153                 | 528,565                  | 64,165                  |
| Increase/(decrease) in bank balances and cash                                      |                          | 912,143                 | (700,627)               | 96,008                  | 24,887                   | 11,969                  |
| Bank balances and cash at 1 January  |                          | 22,369                  | 934,512                 | 233,885                 | 233,885                  | 329,893                 |
| Bank balances and cash at 31 December/30 June                                      |                          | 934,512                 | 233,885                 | 329,893                 | 258,772                  | 341,862                 |

**V. NOTES TO THE FINANCIAL INFORMATION****1. Basis of preparation**

The Company was incorporated in the Cayman Islands on 5 October 1999. On 1 March 2000, its shares were listed on GEM.

Pursuant to a group reorganisation (“Reorganisation”) in preparation for the listing of the Company’s shares, the Company acquired the entire share capital of Alexis Company Limited (“Alexus”) through share swap and the net assets of other business by cash from the major shareholders of the Company, Hutchison Whampoa Limited (“HWL”), Cheung Kong (Holdings) Limited (“CKH”) and certain strategic investors. The Company became the ultimate holding company of the companies within the Group as at the date of Reorganisation. Details of the Reorganisation are set out in the prospectus of the Company dated 18 February 2000.

Both the Company and Alexus are under common control and the shareholders and their rights remain unchanged before and after the Reorganisation. Merger accounting is therefore adopted in the preparation of the Group’s accounts pursuant to Statement of Standard Accounting Practice 2.127 “Accounting for group restructurings”. The consolidated accounts of the Group for the year ended 31 December 2000, are prepared on a combined basis as if Alexus and its subsidiary, ECLink Electronic Network Systems (Shenzhen) Co., Ltd., had been in the Group since 1 January 1999.

**2. Principal accounting policies**

The principal accounting policies adopted in the preparation of this report are set out below. These policies conform with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”) and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

*(a) Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December/30 June. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies and to appoint or remove majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

*(b) Jointly controlled entities*

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss accounts include the Group’s share of the results of jointly controlled entities for the Relevant Periods, and the consolidated balance sheets include the Group’s share of the net assets of the jointly controlled entities and goodwill on acquisition, net of accumulated amortisation and provision for impairment losses, if any.

V. NOTES TO THE FINANCIAL INFORMATION *(continued)*2. Principal accounting policies *(continued)**(c) Associated companies*

An associated company is a company, not being a subsidiary and a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss accounts include the Group's share of the results of associated companies for the Relevant Periods, and the consolidated balance sheets include the Group's share of the net assets of the associated companies.

*(d) Investment securities*

Investment securities held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investment securities are impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

*(e) Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Fixed assets are depreciated at rates sufficient to write-off their cost less accumulated impairment losses, if any, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|  |                                       |
|--|---------------------------------------|
| Properties   | over the lease terms                  |
| Leasehold improvements                                   | 15 – 30%                              |
| Computer equipment                                       | 20 – 33 <sup>1</sup> / <sub>3</sub> % |
| Outdoor signboards                                       | 5 – 20%                               |
| Office equipment, furniture, fixtures and motor vehicles | 10 – 33 <sup>1</sup> / <sub>3</sub> % |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

*(f) Construction in progress*

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as direct expenses capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to properties or outdoor signboards when subsequently all the activities necessary to prepare the assets to their intended use are completed. No depreciation is provided in respect of construction in progress.



V. NOTES TO THE FINANCIAL INFORMATION *(continued)*2. Principal accounting policies *(continued)**(g) Other non-current assets**(i) Concession rights*

Concession rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Concession rights represent the cost of acquiring operating rights for the placement of advertisements on bus shelters and unipoles in the Mainland China. Concession rights are amortised on a straight-line basis over the period of operating rights.

*(ii) Copyrights and publishing rights*

Copyrights and publishing rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Copyrights and publishing rights represent the cost of acquiring reproduction and distribution rights for audio-visual products and publications. Copyrights and publishing rights are amortised on a systematic basis over the period of operating rights.

*(h) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, jointly controlled entity or associated company at the date of acquisition.

Goodwill on acquisitions arising on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a maximum period of twenty years.

Goodwill on acquisition prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

*(i) Asset impairment*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that intangible and tangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

*(j) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

*(k) Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs are calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

*(l) Trade receivables*

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

**V. NOTES TO THE FINANCIAL INFORMATION** *(continued)***2. Principal accounting policies** *(continued)**(m) Employee benefits**(i) Pension obligations*

The Group operates a number of defined contribution and defined benefit plans and the assets of which are generally held in separate trustees – administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies, taking account of the recommendations of independent qualified actuaries.

The Group's contributions to the defined contribution plans are expensed as incurred.

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. Actuarial gains and losses are recognised over the average remaining service lives of the employee. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefit pension plans are charged to the profit and loss account in the period to which the contributions relate.

*(ii) Equity compensation benefits*

Pursuant to written resolutions of the shareholders of the Company dated 11 February 2000, two share option schemes namely, Pre-IPO Share Option Plan and Share Option Scheme were adopted by the Company. The options are granted and exercisable at the market price of the shares on the date of grant and no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium account.

*(n) Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

*(o) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

*(p) Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

**V. NOTES TO THE FINANCIAL INFORMATION** *(continued)***2. Principal accounting policies** *(continued)**(q) Revenue recognition*

Revenue from sale of services is recognised when the services are rendered.

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis taking into account the principal amounts outstanding and the effective interest rates applicable.

*(r) Borrowing costs*

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

*(s) Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

*(t) Segment reporting*

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses, including depreciation and amortisation. Segment assets consist primarily of fixed assets, other non-current assets, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and pension obligations and exclude items such as consideration payables, taxation and corporate borrowings. Capital expenditure comprises additions to fixed assets, concession rights, copyrights and publishing rights.

In respect of geographical segment reporting, sales are based on the country in which the business is operated. Total assets and capital expenditure are where the assets are located.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information

The principal activity of the Company is investment holding. The principal activities of subsidiaries as at 30 June 2003 are set out in note 38. Turnover and revenues recognised during the Relevant Periods are as follows:

|  | Year ended 31 December |                |                  | Six months ended |                |
|--|------------------------|----------------|------------------|------------------|----------------|
|  | 2000                   | 2001           | 2002             | 30 June          |                |
|  | HK\$'000               | HK\$'000       | HK\$'000         | 2002             | 2003           |
|  |                        |                |                  | HK\$'000         | HK\$'000       |
| Turnover   |                        |                |                  |                  |                |
| Provision of online media and telecom value-added services   | 54,865                 | 143,890        | 255,800          | 109,565          | 218,518        |
| Advertising sales of outdoor media assets and provision of outdoor media services                                | –                      | 117,477        | 247,895          | 76,115           | 141,455        |
| Advertising sales of print media and publication of magazines and books  | –                      | 168,286        | 741,258          | 366,609          | 360,237        |
| Advertising and sponsorship sales in relation to sports events and programmes and sales of audio-visual products | 34,358                 | 196,971        | 379,173          | 126,929          | 146,732        |
|  | <u>89,223</u>          | <u>626,624</u> | <u>1,624,126</u> | <u>679,218</u>   | <u>866,942</u> |
| Interest income  | 80,634                 | 23,069         | 5,867            | 3,209            | 1,214          |
| Total revenues   | <u>169,857</u>         | <u>649,693</u> | <u>1,629,993</u> | <u>682,427</u>   | <u>868,156</u> |

*Primary reporting format – business segments*

The Group is organised into four main business segments:

- Internet group – provision of online media and telecom value-added services
- Outdoor media group – advertising sales of outdoor media assets and provision of outdoor media services
- Publishing division – advertising sales of print media and publication of magazines and books
- Sports & entertainment division – advertising and sponsorship sales in relation to sports events and programmes and sales of audio-visual products

There are no significant sales or other transactions between the business segments.

*Secondary reporting format – geographical segments*

The Group's four business segments are operated in three main geographical areas:

|                |   |   |
|----------------|---|---|
| Hong Kong      | – | internet group, publishing division and sports & entertainment division |
| Mainland China | – | internet group, outdoor media group and sports & entertainment division |
| Taiwan         | – | publishing division   |

There are no significant sales between the geographical segments.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Primary reporting format – business segments

Year ended 31 December 2000

|   | Internet<br>group<br>HK\$'000 | Outdoor<br>media<br>group<br>HK\$'000 | Sports &<br>entertainment<br>division<br>HK\$'000 | Group<br>HK\$'000 |
|---|-------------------------------|---------------------------------------|---|-------------------|
| Turnover  | 54,865                        | –                                     | 34,358  | 89,223            |
| Segment loss/(profit) before<br>amortisation and depreciation | 279,496                       | –                                     | (2,247)   | 277,249           |
| Amortisation and depreciation                                 | 61,648                        | –                                     | 62  | 61,710            |
| Segment loss/(profit)   | 341,144                       | –                                     | (2,185)   | 338,959           |
| Unallocated costs   |                               |                                       |   | 44,377            |
| Operating loss  |                               |                                       |   | 383,336           |
| Provision for impairment of goodwill                          | 829,211                       | –                                     | –   | 829,211           |
| Restructuring costs   | 37,717                        | –                                     | –   | 37,717            |
| Share of losses of jointly controlled<br>entities             | 16,190                        | –                                     | –   | 16,190            |
| Share of losses of<br>associated companies                    | 6,230                         | –                                     | –   | 6,230             |
| Loss before taxation  |                               |                                       |   | 1,272,684         |
| Taxation  |                               |                                       |   | 3,147             |
| Loss after taxation   |                               |                                       |   | 1,275,831         |
| Minority interests  |                               |                                       |   | (10,546)          |
| Loss attributable to shareholders                             |                               |                                       |   | 1,265,285         |
| Segment assets  | 600,363                       | 56,380                                | 92,250  | 748,993           |
| Interests in jointly controlled entities                      | 27,540                        | –                                     | –   | 27,540            |
| Interests in associated companies                             | 5,084                         | –                                     | –   | 5,084             |
| Investment securities   | 8,595                         | 1,175                                 | 752   | 10,522            |
| Unallocated assets  |                               |                                       |   | 821,627           |
| Total assets  |                               |                                       |   | 1,613,766         |
| Segment liabilities   | 138,595                       | 18,721                                | 89,658  | 246,974           |
| Unallocated liabilities                                       |                               |                                       |   | 578,732           |
| Minority interests  |                               |                                       |   | 1,003             |
| Total liabilities   |                               |                                       |   | 826,709           |
| Capital expenditure   | 217,809                       | –                                     | –   | 217,809           |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Primary reporting format – business segments (continued)

Year ended 31 December 2001

|   | Internet<br>group<br>HK\$'000 | Outdoor<br>media<br>group<br>HK\$'000 | Publishing<br>division<br>HK\$'000 | Sports &<br>entertainment<br>division<br>HK\$'000 | Group<br>HK\$'000 |
|---|-------------------------------|---------------------------------------|------------------------------------|---|-------------------|
| Turnover  | 143,890                       | 117,477                               | 168,286                            | 196,971   | 626,624           |
| Segment loss/(profit) before<br>amortisation and depreciation | 92,388                        | (62,358)                              | (370)                              | (21,436)  | 8,224             |
| Amortisation and depreciation                                 | 80,432                        | 11,570                                | 6,450                              | 379   | 98,831            |
| Segment loss/(profit)   | 172,820                       | (50,788)                              | 6,080                              | (21,057)  | 107,055           |
| Unallocated costs   |                               |                                       |                                    |   | 123,537           |
| Operating loss  |                               |                                       |                                    |   | 230,592           |
| Finance costs   |                               |                                       |                                    |   | 1,395             |
| Provision for impairment<br>of goodwill                       | 280,936                       | –                                     | –                                  | –   | 280,936           |
| Provision for impairment<br>of fixed assets                   | 49,540                        | –                                     | –                                  | –   | 49,540            |
| Restructuring costs   | 8,527                         | –                                     | –                                  | –   | 8,527             |
| Share of losses of jointly<br>controlled entities             | 35,856                        | –                                     | –                                  | –   | 35,856            |
| Share of losses of<br>associated companies                    | 2,428                         | –                                     | 736                                | –   | 3,164             |
| Loss before taxation  |                               |                                       |                                    |   | 610,010           |
| Taxation  |                               |                                       |                                    |   | 18,692            |
| Loss after taxation   |                               |                                       |                                    |   | 628,702           |
| Minority interests  |                               |                                       |                                    |   | 7,185             |
| Loss attributable to shareholders                             |                               |                                       |                                    |   | 635,887           |
| Segment assets  | 450,797                       | 240,592                               | 674,601                            | 76,275  | 1,442,265         |
| Interests in jointly<br>controlled entities                   | 125,632                       | –                                     | –                                  | –   | 125,632           |
| Interests in associated companies                             | 2,656                         | –                                     | 1,085                              | –   | 3,741             |
| Investment securities   | –                             | 1,485                                 | 34,768                             | 752   | 37,005            |
| Unallocated assets  |                               |                                       |                                    |   | 58,800            |
| Total assets  |                               |                                       |                                    |   | 1,667,443         |
| Segment liabilities   | 152,721                       | 36,416                                | 229,057                            | 50,525  | 468,719           |
| Unallocated liabilities                                       |                               |                                       |                                    |   | 535,563           |
| Minority interests  |                               |                                       |                                    |   | 84,158            |
| Total liabilities   |                               |                                       |                                    |   | 1,088,440         |
| Capital expenditure   | 25,705                        | 20,179                                | 3,501                              | 645   | 50,030            |
| Unallocated capital expenditure                               |                               |                                       |                                    |   | 13,035            |
|   |                               |                                       |                                    |   | 63,065            |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Primary reporting format – business segments (continued)

Year ended 31 December 2002

|   | Internet<br>group<br>HK\$'000 | Outdoor<br>media<br>group<br>HK\$'000 | Publishing<br>division<br>HK\$'000 | Sports &<br>entertainment<br>division<br>HK\$'000 | Group<br>HK\$'000 |
|---|-------------------------------|---------------------------------------|------------------------------------|---|-------------------|
| Turnover  | <u>255,800</u>                | <u>247,895</u>                        | <u>741,258</u>                     | <u>379,173</u>                                    | <u>1,624,126</u>  |
| Segment loss/(profit) before<br>amortisation and depreciation | 22,804                        | (77,285)                              | (70,484)                           | (64,012)  | (188,977)         |
| Amortisation and depreciation                                 | <u>68,438</u>                 | <u>33,236</u>                         | <u>40,779</u>                      | <u>3,609</u>                                      | <u>146,062</u>    |
| Segment loss/(profit)   | <u>91,242</u>                 | <u>(44,049)</u>                       | <u>(29,705)</u>                    | <u>(60,403)</u>                                   | <u>(42,915)</u>   |
| Unallocated costs   |                               |                                       |                                    |   | <u>149,107</u>    |
| Operating loss  |                               |                                       |                                    |   | 106,192           |
| Finance costs   |                               |                                       |                                    |   | 19,079            |
| Provision for impairment<br>of goodwill                       | 100,100                       | 67,008                                | 30,000                             | –   | 197,108           |
| Share of losses of jointly<br>controlled entities             | 29,585                        | –                                     | –                                  | –   | 29,585            |
| Share of profits less losses<br>of associated companies       | 1,185                         | –                                     | (1,205)                            | –   | <u>(20)</u>       |
| Loss before taxation  |                               |                                       |                                    |   | 351,944           |
| Taxation  |                               |                                       |                                    |   | <u>29,080</u>     |
| Loss after taxation   |                               |                                       |                                    |   | 381,024           |
| Minority interests  |                               |                                       |                                    |   | <u>28,555</u>     |
| Loss attributable to shareholders                             |                               |                                       |                                    |   | <u>409,579</u>    |
| Segment assets  | 277,277                       | 673,666                               | 998,821                            | 305,962   | 2,255,726         |
| Interests in jointly controlled<br>entities                   | 35,510                        | –                                     | –                                  | –   | 35,510            |
| Interests in associated companies                             | 1,470                         | –                                     | 3,131                              | –   | 4,601             |
| Investment securities   | 61,292                        | 45,205                                | 19,157                             | 752   | 126,406           |
| Unallocated assets  |                               |                                       |                                    |   | <u>131,120</u>    |
| Total assets  |                               |                                       |                                    |   | <u>2,553,363</u>  |
| Segment liabilities   | 75,019                        | 99,861                                | 292,895                            | 90,464  | 558,239           |
| Unallocated liabilities                                       |                               |                                       |                                    |   | 1,569,069         |
| Minority interests  |                               |                                       |                                    |   | <u>153,784</u>    |
| Total liabilities   |                               |                                       |                                    |   | <u>2,281,092</u>  |
| Capital expenditure   | 60,847                        | 52,368                                | 13,916                             | 33,234  | 160,365           |
| Unallocated capital expenditure                               |                               |                                       |                                    |   | <u>6,333</u>      |
|   |                               |                                       |                                    |   | <u>166,698</u>    |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Primary reporting format – business segments (continued)

Six months ended 30 June 2002

|  | Internet<br>group<br><i>HK\$'000</i> | Outdoor<br>media<br>group<br><i>HK\$'000</i> | Publishing<br>division<br><i>HK\$'000</i> | Sports &<br>entertainment<br>division<br><i>HK\$'000</i> | Group<br><i>HK\$'000</i> |
|--|--------------------------------------|--|---|--|--------------------------|
| Turnover   | <u>109,565</u>                       | <u>76,115</u>                                | <u>366,609</u>                            | <u>126,929</u>   | <u>679,218</u>           |
| Segment loss/(profit) before<br>amortisation and<br>depreciation | 28,994                               | (18,580)                                     | (47,455)                                  | (12,594)   | (49,635)                 |
| Amortisation and depreciation                                    | <u>32,262</u>                        | <u>11,789</u>                                | <u>19,673</u>                             | <u>223</u>   | <u>63,947</u>            |
| Segment loss/(profit)  | <u>61,256</u>                        | <u>(6,791)</u>                               | <u>(27,782)</u>                           | <u>(12,371)</u>  | 14,312                   |
| Unallocated costs  |                                      |  |   |  | <u>58,281</u>            |
| Operating loss   |                                      |  |   |  | 72,593                   |
| Finance costs  |                                      |  |   |  | 8,248                    |
| Share of losses of jointly<br>controlled entities                | 17,161                               | –  | –   | –  | 17,161                   |
| Share of profits less<br>losses of associated<br>companies       | 1,010                                | –  | (698)                                     | –  | <u>312</u>               |
| Loss before taxation   |                                      |  |   |  | 98,314                   |
| Taxation   |                                      |  |   |  | <u>23,963</u>            |
| Loss after taxation  |                                      |  |   |  | 122,277                  |
| Minority interests   |                                      |  |   |  | <u>2,230</u>             |
| Loss attributable to<br>shareholders                             |                                      |  |   |  | <u>124,507</u>           |
| Capital expenditure  | 44,223                               | 15,383                                       | 6,743                                     | 97   | 66,446                   |
| Unallocated capital expenditure                                  |                                      |  |   |  | <u>1,889</u>             |
|  |                                      |  |   |  | <u>68,335</u>            |



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Primary reporting format – business segments (continued)

Six months ended 30 June 2003

|  | Internet<br>group<br>HK\$'000 | Outdoor<br>media<br>group<br>HK\$'000 | Publishing<br>division<br>HK\$'000 | Sports &<br>entertainment<br>division<br>HK\$'000 | Group<br>HK\$'000 |
|--|-------------------------------|---------------------------------------|------------------------------------|---|-------------------|
| Turnover   | 218,518                       | 141,455                               | 360,237                            | 146,732   | 866,942           |
| Segment profit before<br>amortisation and<br>depreciation  | (74,324)                      | (36,855)                              | (25,533)                           | (9,178)   | (145,890)         |
| Amortisation and depreciation                              | 29,885                        | 21,206                                | 19,599                             | 12,742  | 83,432            |
| Segment (profit)/loss                                      | (44,439)                      | (15,649)                              | (5,934)                            | 3,564   | (62,458)          |
| Unallocated costs  |                               |                                       |                                    |   | 74,878            |
| Operating loss   |                               |                                       |                                    |   | 12,420            |
| Finance costs  |                               |                                       |                                    |   | 9,611             |
| Share of losses of jointly<br>controlled entities          | 4,998                         | –                                     | –                                  | –   | 4,998             |
| Share of profits less<br>losses of associated<br>companies | 69                            | –                                     | (801)                              | –   | (732)             |
| Loss before taxation                                       |                               |                                       |                                    |   | 26,297            |
| Taxation   |                               |                                       |                                    |   | 1,854             |
| Loss after taxation  |                               |                                       |                                    |   | 28,151            |
| Minority interests   |                               |                                       |                                    |   | 4,523             |
| Loss attributable to shareholders                          |                               |                                       |                                    |   | 32,674            |
| Segment assets   | 339,908                       | 740,364                               | 1,003,988                          | 316,103   | 2,400,363         |
| Interests in jointly controlled<br>entities                | 16,407                        | –                                     | –                                  | –   | 16,407            |
| Interests in associated<br>companies                       | 1,401                         | –                                     | 2,071                              | –   | 3,472             |
| Investment securities                                      | 61,525                        | 45,205                                | 19,820                             | 752   | 127,302           |
| Unallocated assets   |                               |                                       |                                    |   | 130,349           |
| Total assets   |                               |                                       |                                    |   | 2,677,893         |
| Segment liabilities  | 88,508                        | 101,239                               | 288,852                            | 118,325   | 596,924           |
| Unallocated liabilities                                    |                               |                                       |                                    |   | 1,587,945         |
| Minority interest  |                               |                                       |                                    |   | 160,614           |
| Total liabilities  |                               |                                       |                                    |   | 2,345,483         |
| Capital expenditure  | 22,713                        | 20,070                                | 3,228                              | 662   | 46,673            |
| Unallocated capital expenditure                            |                               |                                       |                                    |   | 1,360             |
|  |                               |                                       |                                    |   | 48,033            |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 3. Turnover, revenue and segment information (continued)

## Secondary reporting format – geographical segments

|                               | Turnover               |                  |                  |                             |                  |
|-------------------------------|------------------------|------------------|------------------|-----------------------------|------------------|
|                               | Year ended 31 December |                  |                  | Six months ended<br>30 June |                  |
|                               | 2000                   | 2001             | 2002             | 2002                        | 2003             |
|                               | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    | HK\$'000         |
| Hong Kong                     | 31,909                 | 96,085           | 137,068          | 37,581                      | 37,346           |
| Mainland China                | 57,314                 | 413,350          | 796,685          | 298,559                     | 494,481          |
| Taiwan                        | –                      | 117,189          | 690,373          | 343,078                     | 335,115          |
|                               | <u>89,223</u>          | <u>626,624</u>   | <u>1,624,126</u> | <u>679,218</u>              | <u>866,942</u>   |
|                               | Segment loss/(profit)  |                  |                  |                             |                  |
|                               | Year ended 31 December |                  |                  | Six months ended<br>30 June |                  |
|                               | 2000                   | 2001             | 2002             | 2002                        | 2003             |
|                               | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    | HK\$'000         |
| Hong Kong                     | 217,520                | 44,331           | (300)            | 15,675                      | 19,338           |
| Mainland China                | 59,729                 | (22,399)         | (99,744)         | (9,780)                     | (125,003)        |
| Taiwan                        | –                      | (13,708)         | (88,933)         | (55,530)                    | (40,225)         |
|                               | <u>277,249</u>         | <u>8,224</u>     | <u>(188,977)</u> | <u>(49,635)</u>             | <u>(145,890)</u> |
| Amortisation and depreciation | 61,710                 | 98,831           | 146,062          | 63,947                      | 83,432           |
| Unallocated costs             | 44,377                 | 123,537          | 149,107          | 58,281                      | 74,878           |
|                               | <u>383,336</u>         | <u>230,592</u>   | <u>106,192</u>   | <u>72,593</u>               | <u>12,420</u>    |
|                               | Total assets           |                  |                  |                             |                  |
|                               | 31 December            |                  |                  | 30 June                     |                  |
|                               | 2000                   | 2001             | 2002             | 2003                        |                  |
|                               | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    |                  |
| Hong Kong                     | 1,037,600              | 322,664          | 253,390          | 218,026                     |                  |
| Mainland China                | 576,166                | 717,825          | 1,312,496        | 1,461,238                   |                  |
| Taiwan                        | –                      | 626,954          | 987,477          | 998,629                     |                  |
| Total                         | <u>1,613,766</u>       | <u>1,667,443</u> | <u>2,553,363</u> | <u>2,677,893</u>            |                  |
|                               | Capital expenditure    |                  |                  |                             |                  |
|                               | 31 December            |                  |                  | 30 June                     |                  |
|                               | 2000                   | 2001             | 2002             | 2003                        |                  |
|                               | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    |                  |
| Hong Kong                     | 201,883                | 15,832           | 3,949            | 1,451                       |                  |
| Mainland China                | 15,926                 | 43,732           | 149,565          | 43,394                      |                  |
| Taiwan                        | –                      | 3,501            | 13,184           | 3,188                       |                  |
| Total                         | <u>217,809</u>         | <u>63,065</u>    | <u>166,698</u>   | <u>48,033</u>               |                  |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 4. Operating loss

Operating loss is stated after charging the following:

|  | Year ended 31 December |              |          | Six months ended<br>30 June |          |
|--|------------------------|--------------|----------|-----------------------------|----------|
|  | 2000                   | 2001         | 2002     | 2002                        | 2003     |
|  | HK\$'000               | HK\$'000     | HK\$'000 | HK\$'000                    | HK\$'000 |
| Depreciation   | 35,796                 | 88,266       | 104,851  | 48,097                      | 54,690   |
| Amortisation   |                        |              |          |                             |          |
| – Goodwill   | 25,914                 | 20,416       | 49,514   | 21,195                      | 26,177   |
| – Other non-current assets                                 | –                      | 383          | 5,832    | 1,363                       | 12,853   |
| Staff costs (including directors' emoluments) (Note 12)    | 119,992                | 191,741      | 285,748  | 129,486                     | 196,593  |
| Cost of inventories  | –                      | 92,175       | 423,173  | 97,005                      | 252,872  |
| Operating leases   |                        |              |          |                             |          |
| – Land and buildings                                       | 20,113                 | 23,906       | 42,692   | 14,716                      | 19,727   |
| – Other assets   | –                      | 1,448        | 35,626   | 1,258                       | 22,386   |
| Auditors' remuneration                                     | 2,638                  | 4,206        | 4,900    | 2,659                       | 3,564    |
| Loss on disposal of fixed assets                           | 18,912                 | 1,102        | 1,390    | 170                         | 176      |
| Provision for contract termination                         | –                      | –            | 20,630   | –                           | –        |
| Provision for loan to a related company                    | –                      | –            | 13,260   | –                           | –        |
| Provision for diminution in value of investment securities | 7,190                  | 6,334        | –        | 132                         | –        |
|  | <u>7,190</u>           | <u>6,334</u> | <u>–</u> | <u>132</u>                  | <u>–</u> |

## 5. Finance costs

|   | Year ended 31 December |              |               | Six months ended<br>30 June |              |
|---|------------------------|--------------|---------------|-----------------------------|--------------|
|   | 2000                   | 2001         | 2002          | 2002                        | 2003         |
|   | HK\$'000               | HK\$'000     | HK\$'000      | HK\$'000                    | HK\$'000     |
| Interest on bank loans                                      | –                      | 671          | 1,847         | 938                         | 879          |
| Interest on other loans, wholly repayable within five years | –                      | 724          | 17,232        | 7,310                       | 8,732        |
| Total borrowing costs incurred                              | <u>–</u>               | <u>1,395</u> | <u>19,079</u> | <u>8,248</u>                | <u>9,611</u> |

## 6. Provision for impairment of goodwill

The Group performed an assessment of the fair value of goodwill, including goodwill that had previously been eliminated against reserves, at the balance sheet dates. The assessment was based on value in use of the assets as determined at the cash generating unit (the individual business operations) based on the present value of estimated future cash flows.

## 7. Restructuring costs

These represented mainly costs of termination and redundancy incurred in connection with the realignment of resources exercise for the online operations.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 8. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

|                                | Year ended 31 December |               |               | Six months ended<br>30 June |              |
|--------------------------------|------------------------|---------------|---------------|-----------------------------|--------------|
|                                | 2000                   | 2001          | 2002          | 2002                        | 2003         |
|                                | HK\$'000               | HK\$'000      | HK\$'000      | HK\$'000                    | HK\$'000     |
| Hong Kong profits tax          | 161                    | 2,496         | 6,098         | 793                         | –            |
| Overseas taxation              | 2,986                  | 15,342        | 40,302        | 18,466                      | 11,680       |
| Over-provision in prior years  | –                      | –             | (11,081)      | –                           | (1,637)      |
| Deferred taxation (Note 28(c)) | –                      | 854           | (6,239)       | 4,704                       | (8,189)      |
|                                | <u>3,147</u>           | <u>18,692</u> | <u>29,080</u> | <u>23,963</u>               | <u>1,854</u> |

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%, 2001: 16%, 2000: 16%) on the estimated assessable profits for the Relevant Periods. In 2003, the government enacted a change in profits tax rate from 16% to 17.5% for the fiscal year ending 31 March 2004.

Taxation on overseas profits has been calculated on the estimated assessable profits for the Relevant Periods at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

|  | Year ended 31 December |                  |                  | Six months ended<br>30 June |                 |
|--|------------------------|------------------|------------------|-----------------------------|-----------------|
|  | 2000                   | 2001             | 2002             | 2002                        | 2003            |
|  | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    | HK\$'000        |
| Loss before taxation   | <u>(1,272,684)</u>     | <u>(610,010)</u> | <u>(351,944)</u> | <u>(98,314)</u>             | <u>(26,297)</u> |
| Calculated at a taxation rate of<br>17.5% (2002: 16%, 2001: 16%,<br>2000: 16%) | (203,629)              | (97,602)         | (56,311)         | (15,730)                    | (4,602)         |
| Effect of different taxation rates in<br>other countries                       | 2,750                  | 4,292            | (11,962)         | 8,151                       | (25,974)        |
| Income not subject to taxation   | (12,740)               | (3,807)          | (3,274)          | (932)                       | (1,871)         |
| Expenses not deductible for<br>taxation purposes                               | 143,415                | 48,594           | 42,767           | 9,940                       | 13,317          |
| Withholding tax  | –                      | 854              | 9,147            | 4,704                       | 3,141           |
| Utilisation of previously<br>unrecognised tax losses                           | –                      | –                | (137)            | –                           | (2,902)         |
| Tax losses not recognised  | <u>73,351</u>          | <u>66,361</u>    | <u>48,850</u>    | <u>17,830</u>               | <u>20,745</u>   |
| Taxation charge  | <u>3,147</u>           | <u>18,692</u>    | <u>29,080</u>    | <u>23,963</u>               | <u>1,854</u>    |

## 9. Loss attributable to shareholders

The loss of the Company is HK\$216,326,000 (2001: HK\$821,189,000, 2000: HK\$1,081,971,000) for the year ended 31 December 2002 and HK\$13,147,000 for the six months ended 30 June 2003 (2002: HK\$7,174,000) and is included in determining the loss attributable to the shareholders in the consolidated profit and loss accounts. The loss of the Company included a provision for impairment in interests in subsidiaries amounting to HK\$197,108,000 (2001: HK\$829,189,000, 2000: HK\$1,160,777,000) for the year ended 31 December 2002 and HK\$Nil for the six months ended 30 June 2003 (2002: HK\$Nil) (Note 17).

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 10. Dividends

No dividend had been paid or declared by the Company during the Relevant Periods.

## 11. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$409,579,000 (2001: HK\$635,887,000, 2000: HK\$1,265,285,000) for the year ended 31 December 2002 and HK\$32,674,000 for the six months ended 30 June 2003 (2002: HK\$124,507,000) and the weighted average of 3,301,115,146 (2001: 3,215,055,403, 2000: 2,887,139,499) ordinary shares in issue during the year ended 31 December 2002 and of 3,339,621,837 (2002: 3,290,572,731) ordinary shares in issue during the six months ended 30 June 2003. The 2,300,000 ordinary shares outstanding as a result of the Group's reorganisation prior to its initial public offering of its shares in March 2000 are included in the calculation of the weighted average number of shares in 2000, as if those shares had been in issue since 1 January 2000.

Diluted loss per share has not been presented since the exercise of the share options granted by the Company would have an anti-dilutive effect on the loss per share for the Relevant Periods.

## 12. Staff costs, including directors' emoluments

|  | Year ended 31 December |                |                | Six months ended |                |
|--|------------------------|----------------|----------------|------------------|----------------|
|  | 2000                   | 2001           | 2002           | 2002             | 2003           |
|  | HK\$'000               | HK\$'000       | HK\$'000       | HK\$'000         | HK\$'000       |
| Wages and salaries                                 | 116,440                | 182,288        | 274,778        | 123,528          | 188,947        |
| Pension costs – defined contribution plans         | 3,552                  | 6,288          | 5,808          | 3,377            | 3,209          |
| Pension costs – defined benefit plans (Note 27(b)) | –                      | 3,165          | 5,162          | 2,581            | 4,437          |
|  | <u>119,992</u>         | <u>191,741</u> | <u>285,748</u> | <u>129,486</u>   | <u>196,593</u> |

The Group's Hong Kong employees are members of a defined benefit retirement scheme. All contributions are made by the Group at either 7.5% or 10% of the employees' basic salaries. Benefits are equal to the vested contribution plus a minimum interest of 5% per annum thereon. Where an employee leaves the scheme before the employer's contribution has fully vested, such forfeited contributions may be used by the employer to reduce its existing level of contributions.

Commencing 1 December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund. Contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower.

The Group's subsidiaries in Mainland China participate in the provincial/municipal retirement schemes managed by the respective provincial/municipal bureau. Pursuant to the relevant provisions, the Group's Mainland China subsidiaries are required to make monthly contributions at rates prevailing in the relevant provinces on the employee's monthly salaries. The bureaux are responsible for pension payments to the retired employees of the Group.

The Group's subsidiaries in Taiwan operate certain retirement schemes providing benefits to all eligible employees based on final pay. The subsidiaries have an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. Certain assets of the scheme are deposited with the Central Trust of China in Taiwan and held separately from those of the Group.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 13. Directors' and senior management's emoluments

## (a) Directors' emoluments

The aggregate amounts of emoluments payable to the directors of the Company during the Relevant Periods are as follows:

|   | Year ended 31 December |               |               | Six months ended<br>30 June |              |
|---|------------------------|---------------|---------------|-----------------------------|--------------|
|   | 2000                   | 2001          | 2002          | 2002                        | 2003         |
|   | HK\$'000               | HK\$'000      | HK\$'000      | HK\$'000                    | HK\$'000     |
| Fees  | 466                    | 550           | 549           | 275                         | 275          |
| Basic salaries, housing allowances, other allowances and benefits in kind                     | 7,598                  | 7,847         | 8,427         | 3,685                       | 6,686        |
| Benefit from share options exercised  | 6,932                  | 1,681         | –             | –                           | –            |
| Discretionary bonuses   | 1,958                  | 5,685         | 3,789         | –                           | –            |
| Contributions to retirement benefit schemes for directors (and past directors) of the Company | 436                    | 468           | 581           | 289                         | 274          |
|   | <u>17,390</u>          | <u>16,231</u> | <u>13,346</u> | <u>4,249</u>                | <u>7,235</u> |

Directors' fees disclosed above include HK\$200,000 (2001: HK\$200,000, 2000: HK\$173,770) paid to independent non-executive directors for the year ended 31 December 2002, and HK\$100,000 (2002: HK\$100,000) for the six months ended 30 June 2003.

Details of the emoluments of individual directors are as follow:

|                                      | Year ended 31 December |               |               | Six months ended<br>30 June |              |
|--------------------------------------|------------------------|---------------|---------------|-----------------------------|--------------|
|                                      | 2000                   | 2001          | 2002          | 2002                        | 2003         |
|                                      | HK\$'000               | HK\$'000      | HK\$'000      | HK\$'000                    | HK\$'000     |
| Director 1                           | 2,088                  | 6,376         | 7,080         | 1,506                       | 3,388        |
| Director 2                           | –                      | –             | –             | –                           | 1,669        |
| Director 3                           | 1,726                  | 3,462         | 2,702         | 1,206                       | 811          |
| Director 4                           | –                      | 1,902         | 2,856         | 1,262                       | 641          |
| Director 5                           | 3,017                  | 3,941         | –             | –                           | –            |
| Director 6                           | 10,093                 | –             | –             | –                           | –            |
| Director 7                           | 32                     | 50            | 46            | 25                          | –            |
| Director 8                           | –                      | –             | 162           | –                           | 476          |
| Director 9                           | 44                     | 50            | 50            | 25                          | 25           |
| Director 10                          | 44                     | 50            | 50            | 25                          | 25           |
| Director 11                          | 44                     | 50            | 50            | 25                          | 25           |
| Director 12                          | 44                     | 50            | 50            | 25                          | 25           |
| Director 13                          | 44                     | 50            | 50            | 25                          | 25           |
| Director 14                          | 38                     | 50            | 50            | 25                          | 25           |
| Independent non-executive director 1 | 88                     | 100           | 100           | 50                          | 50           |
| Independent non-executive director 2 | 88                     | 100           | 100           | 50                          | 50           |
|                                      | <u>17,390</u>          | <u>16,231</u> | <u>13,346</u> | <u>4,249</u>                | <u>7,235</u> |

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the Relevant Periods.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 13. Directors' and senior management's emoluments (continued)

## (b) Five highest paid individual

The five individuals whose emoluments were the highest in the Group are as follows:

|               | Number of individuals  |                   |                   |                          |                   |
|---------------|------------------------|-------------------|-------------------|--------------------------|-------------------|
|               | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|               | 2000                   | 2001              | 2002              | 2002                     | 2003              |
| Directors     | 4                      | 3                 | 3                 | 3                        | 2                 |
| Non-directors | 1                      | 2                 | 2                 | 2                        | 3                 |
|               | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |

The emoluments payable to the non-director individuals are as follows:

|   | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|---|------------------------|-------------------|-------------------|--------------------------|-------------------|
|   | 2000                   | 2001              | 2002              | 2002                     | 2003              |
|   | HK\$'000               | HK\$'000          | HK\$'000          | HK\$'000                 | HK\$'000          |
| Basic salaries, housing allowances, other allowances and benefits in kind | 1,542                  | 2,673             | 2,691             | 1,342                    | 3,202             |
| Benefit from share options exercised                                      | –                      | 3,805             | 5,434             | 5,434                    | –                 |
| Discretionary bonuses   | 345                    | 2,286             | 1,136             | –                        | –                 |
| Contributions to retirement benefit schemes                               | 103                    | 215               | 199               | 105                      | 188               |
|   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |
|   | <u>1,990</u>           | <u>8,979</u>      | <u>9,460</u>      | <u>6,881</u>             | <u>3,390</u>      |

The emoluments of the non-directors fell within the following bands:

| Emolument bands               | Number of individuals  |                   |                   |                          |                   |
|-------------------------------|------------------------|-------------------|-------------------|--------------------------|-------------------|
|                               | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|                               | 2000                   | 2001              | 2002              | 2002                     | 2003              |
| HK\$500,001 – HK\$1,000,000   | –                      | –                 | –                 | 1                        | –                 |
| HK\$1,000,001 – HK\$1,500,000 | –                      | –                 | –                 | –                        | 3                 |
| HK\$1,500,001 – HK\$2,000,000 | 1                      | –                 | –                 | –                        | –                 |
| HK\$3,500,001 – HK\$4,000,000 | –                      | –                 | 1                 | –                        | –                 |
| HK\$4,000,001 – HK\$4,500,000 | –                      | 1                 | –                 | –                        | –                 |
| HK\$4,500,001 – HK\$5,000,000 | –                      | 1                 | –                 | –                        | –                 |
| HK\$5,500,001 – HK\$6,000,000 | –                      | –                 | 1                 | 1                        | –                 |
|                               | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 14. Fixed assets

|  | Properties<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Computer<br>equipment<br>HK\$'000 | Group<br>Outdoor<br>signboards<br>HK\$'000 | Other<br>assets<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------|---------------------------------------|-----------------------------------|--|-----------------------------|---|-------------------|
| Cost   |                        |                                       |                                   |  |                             |   |                   |
| At 1 January 2000                                  | -                      | 2,878                                 | 32,806                            | -  | 1,633                       | -                                       | 37,317            |
| Additions  | -                      | 41,868                                | 161,008                           | -  | 14,933                      | -                                       | 217,809           |
| Acquisition of subsidiaries<br>(Note 33(b))        | -                      | 1,439                                 | 29,436                            | 27,600                                     | 7,956                       | 11,233                                  | 77,664            |
| Disposals  | -                      | (11,785)                              | (10,646)                          | -  | (2,961)                     | -                                       | (25,392)          |
| At 31 December 2000                                | -                      | 34,400                                | 212,604                           | 27,600                                     | 21,561                      | 11,233                                  | 307,398           |
| Exchange adjustment                                | -                      | (98)                                  | (202)                             | -  | (142)                       | -                                       | (442)             |
| Additions  | 339                    | 2,762                                 | 33,961                            | 442  | 5,965                       | 5,449                                   | 48,918            |
| Acquisition of subsidiaries<br>(Note 33(b))        | -                      | 6,744                                 | 16,476                            | 27,982                                     | 16,633                      | 5,706                                   | 73,541            |
| Transfers upon completion                          | 11,719                 | -                                     | -                                 | 8,084                                      | -                           | (19,803)                                | -                 |
| Disposals  | -                      | (3,700)                               | (3,387)                           | (167)                                      | (3,144)                     | (1,676)                                 | (12,074)          |
| At 31 December 2001                                | 12,058                 | 40,108                                | 259,452                           | 63,941                                     | 40,873                      | 909                                     | 417,341           |
| Exchange adjustment                                | (7)                    | 82                                    | 199                               | -  | 182                         | -                                       | 456               |
| Additions  | 868                    | 6,313                                 | 76,150                            | 14,760                                     | 6,483                       | 17,410                                  | 121,984           |
| Acquisition of subsidiaries<br>(Note 33(b))        | -                      | 1,659                                 | 22,436                            | 52,160                                     | 12,133                      | 5,945                                   | 94,333            |
| Transfers upon completion                          | -                      | -                                     | -                                 | 14,076                                     | 67                          | (14,143)                                | -                 |
| Disposals  | -                      | (3,649)                               | (9,146)                           | (801)                                      | (4,260)                     | -                                       | (17,856)          |
| Deconsolidation<br>of a subsidiary<br>(Note 33(c)) | -                      | -                                     | (504)                             | (16,035)                                   | (309)                       | (8,448)                                 | (25,296)          |
| At 31 December 2002                                | 12,919                 | 44,513                                | 348,587                           | 128,101                                    | 55,169                      | 1,673                                   | 590,962           |
| Exchange adjustment                                | 5                      | 225                                   | 124                               | -  | 167                         | -                                       | 521               |
| Additions  | -                      | 1,598                                 | 26,878                            | 10,314                                     | 2,036                       | 2,622                                   | 43,448            |
| Acquisition of a subsidiary<br>(Note 33(b))        | -                      | 698                                   | 24,468                            | -  | 1,442                       | -                                       | 26,608            |
| Transfer upon completion                           | -                      | 94                                    | -                                 | 1,859                                      | -                           | (1,953)                                 | -                 |
| Disposals  | -                      | (3)                                   | (735)                             | (159)                                      | (517)                       | -                                       | (1,414)           |
| Disposal of a subsidiary<br>(Note 33(c))           | -                      | (509)                                 | (16,658)                          | -  | (116)                       | -                                       | (17,283)          |
| At 30 June 2003                                    | 12,924                 | 46,616                                | 382,664                           | 140,115                                    | 58,181                      | 2,342                                   | 642,842           |



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 14. Fixed assets (continued)

|  | Properties<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Computer<br>equipment<br>HK\$'000 | Group<br>Outdoor<br>signboards<br>HK\$'000 | Other<br>assets<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------|---------------------------------------|-----------------------------------|--|-----------------------------|---|-------------------|
| Accumulated<br>depreciation and<br>impairment losses |                        |                                       |                                   |  |                             |   |                   |
| At 1 January 2000                                    | -                      | 1,616                                 | 10,807                            | -  | 335                         | -                                       | 12,758            |
| Acquisition of<br>subsidiaries<br>(Note 33(b))       | -                      | 341                                   | 4,199                             | 13,948                                     | 3,105                       | -                                       | 21,593            |
| Charge for the year                                  | -                      | 4,658                                 | 30,068                            | -  | 1,070                       | -                                       | 35,796            |
| Disposals  | -                      | -                                     | (474)                             | -  | (175)                       | -                                       | (649)             |
| At 31 December 2000                                  | -                      | 6,615                                 | 44,600                            | 13,948                                     | 4,335                       | -                                       | 69,498            |
| Exchange adjustment                                  | -                      | (77)                                  | (99)                              | -  | (66)                        | -                                       | (242)             |
| Acquisition of subsidiaries<br>(Note 33(b))          | -                      | 5,083                                 | 8,335                             | 2,158                                      | 10,193                      | -                                       | 25,769            |
| Charge for the year                                  | 131                    | 5,096                                 | 69,641                            | 6,795                                      | 6,603                       | -                                       | 88,266            |
| Impairment charge                                    | -                      | 6,930                                 | 39,790                            | -  | 2,820                       | -                                       | 49,540            |
| Disposals  | -                      | (1,593)                               | (1,836)                           | (140)                                      | (2,551)                     | -                                       | (6,120)           |
| At 31 December 2001                                  | 131                    | 22,054                                | 160,431                           | 22,761                                     | 21,334                      | -                                       | 226,711           |
| Exchange adjustment                                  | 1                      | 47                                    | 101                               | -  | 67                          | -                                       | 216               |
| Acquisition of subsidiaries<br>(Note 33(b))          | -                      | 769                                   | 12,911                            | 8,480                                      | 5,966                       | -                                       | 28,126            |
| Charge for the year                                  | 260                    | 6,750                                 | 77,201                            | 13,941                                     | 6,699                       | -                                       | 104,851           |
| Disposals  | -                      | (3,494)                               | (7,013)                           | (564)                                      | (3,972)                     | -                                       | (15,043)          |
| Deconsolidation of<br>a subsidiary<br>(Note 33(c))   | -                      | -                                     | (341)                             | (4,381)                                    | (45)                        | -                                       | (4,767)           |
| At 31 December 2002                                  | 392                    | 26,126                                | 243,290                           | 40,237                                     | 30,049                      | -                                       | 340,094           |
| Exchange adjustment                                  | -                      | 109                                   | 77                                | -  | -                           | -                                       | 186               |
| Acquisition of subsidiaries<br>(Note 33(b))          | -                      | 104                                   | 12,530                            | -  | 480                         | -                                       | 13,114            |
| Charge for the period                                | 233                    | 3,764                                 | 39,488                            | 7,206                                      | 3,999                       | -                                       | 54,690            |
| Disposals  | -                      | -                                     | (215)                             | (110)                                      | (517)                       | -                                       | (842)             |
| Disposal of a subsidiary<br>(Note 33(c))             | -                      | (506)                                 | (15,677)                          | -  | (62)                        | -                                       | (16,245)          |
| At 30 June 2003                                      | 625                    | 29,597                                | 279,493                           | 47,333                                     | 33,949                      | -                                       | 390,997           |
| Net book value                                       |                        |                                       |                                   |  |                             |   |                   |
| At 31 December 2000                                  | -                      | 27,785                                | 168,004                           | 13,652                                     | 17,226                      | 11,233                                  | 237,900           |
| At 31 December 2001                                  | 11,927                 | 18,054                                | 99,021                            | 41,180                                     | 19,539                      | 909                                     | 190,630           |
| At 31 December 2002                                  | 12,527                 | 18,387                                | 105,297                           | 87,864                                     | 25,120                      | 1,673                                   | 250,868           |
| At 30 June 2003                                      | 12,299                 | 17,019                                | 103,171                           | 92,782                                     | 24,232                      | 2,342                                   | 251,845           |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 14. Fixed assets (continued)

The Group's interests in properties at their net book values are analysed as follows:

|                                  | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|----------------------------------|------------------|---------------------------------|------------------|-----------------------------|
|                                  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Outside Hong Kong, held on       |                  |                                 |                  |                             |
| Leases of over 50 years          | –                | 11,719                          | 12,340           | 12,123                      |
| Leases of between 10 to 50 years | –                | 208                             | 187              | 176                         |
|                                  | <u>–</u>         | <u>11,927</u>                   | <u>12,527</u>    | <u>12,299</u>               |

## 15. Other non-current assets

|                                    | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|------------------------------------|------------------|---------------------------------|------------------|-----------------------------|
|                                    | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Concession rights (Note a)         | –                | 13,764                          | 43,348           | 44,012                      |
| Copyrights (Note a)                | –                | –                               | 39,523           | 27,173                      |
| Publishing rights (Note a)         | –                | –                               | 1,911            | 1,514                       |
| Loan to a related company (Note b) | –                | 13,260                          | –                | –                           |
| Pension assets (Note 27(a))        | –                | –                               | 1,349            | 1,349                       |
| Deferred tax assets (Note 28(a))   | –                | –                               | 12,650           | 24,052                      |
|                                    | <u>–</u>         | <u>27,024</u>                   | <u>98,781</u>    | <u>98,100</u>               |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 15. Other non-current assets (continued)

Note:

(a) Movement in concession rights, copyrights and publishing rights is set out below:

|   | Group                            |                        |                                  |                   |
|---|----------------------------------|------------------------|----------------------------------|-------------------|
|   | Concession<br>rights<br>HK\$'000 | Copyrights<br>HK\$'000 | Publishing<br>rights<br>HK\$'000 | Total<br>HK\$'000 |
| Cost  |                                  |                        |                                  |                   |
| At 31 December 2000 and<br>1 January 2001   | –                                | –                      | –                                | –                 |
| Additions                                   | 14,147                           | –                      | –                                | 14,147            |
| At 31 December 2001                         | 14,147                           | –                      | –                                | 14,147            |
| Additions                                   | 9,622                            | 32,359                 | 2,733                            | 44,714            |
| Acquisition of subsidiaries<br>(Note 33(b)) | 26,062                           | 8,457                  | –                                | 34,519            |
| At 31 December 2002                         | 49,831                           | 40,816                 | 2,733                            | 93,380            |
| Exchange adjustment                         | –                                | –                      | 16                               | 16                |
| Additions                                   | 4,585                            | –                      | –                                | 4,585             |
| Disposals                                   | (348)                            | (3,550)                | –                                | (3,898)           |
| As at 30 June 2003                          | 54,068                           | 37,266                 | 2,749                            | 94,083            |
| Accumulated amortisation                    |                                  |                        |                                  |                   |
| At 31 December 2000 and<br>1 January 2001   | –                                | –                      | –                                | –                 |
| Amortisation charge for the year            | 383                              | –                      | –                                | 383               |
| At 31 December 2001                         | 383                              | –                      | –                                | 383               |
| Acquisition of subsidiaries<br>(Note 33(b)) | 1,386                            | 997                    | –                                | 2,383             |
| Amortisation charge for the year            | 4,714                            | 296                    | 822                              | 5,832             |
| At 31 December 2002                         | 6,483                            | 1,293                  | 822                              | 8,598             |
| Exchange adjustment                         | –                                | –                      | 8                                | 8                 |
| Amortisation charge<br>for the period       | 3,648                            | 8,800                  | 405                              | 12,853            |
| Disposals                                   | (75)                             | –                      | –                                | (75)              |
| At 30 June 2003                             | 10,056                           | 10,093                 | 1,235                            | 21,384            |
| Net book value                              |                                  |                        |                                  |                   |
| At 31 December 2000                         | –                                | –                      | –                                | –                 |
| At 31 December 2001                         | 13,764                           | –                      | –                                | 13,764            |
| At 31 December 2002                         | 43,348                           | 39,523                 | 1,911                            | 84,782            |
| At 30 June 2003                             | 44,012                           | 27,173                 | 1,514                            | 72,699            |

(b) This represented a loan to a minority shareholder of a subsidiary, which was interest bearing at Hong Kong prime rate per annum, repayable by 31 December 2003 and secured by the pledge of the minority shareholder's interest in the subsidiary and a corporate guarantee provided by the minority's shareholder. The loan was subsequently fully provided for in 2002.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 16. Goodwill

|  | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|--|------------------|---------------------------------|------------------|-----------------------------|
|  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Cost   |                  |                                 |                  |                             |
| At 1 January                                   | 309,564          | 319,737                         | 767,284          | 1,516,346                   |
| Additions (Note 33(b))                         | 10,173           | 446,240                         | 749,049          | 6,110                       |
| Consideration adjustment                       | –                | –                               | –                | 49,726                      |
| Exchange adjustment                            | –                | (21)                            | 13               | 8                           |
| Acquisition of subsidiaries (Note 33(b))       | –                | 1,328                           | –                | –                           |
| At 31 December/30 June                         | <u>319,737</u>   | <u>767,284</u>                  | <u>1,516,346</u> | <u>1,572,190</u>            |
| Accumulated amortisation and impairment losses |                  |                                 |                  |                             |
| At 1 January                                   | –                | 25,914                          | 327,265          | 562,447                     |
| Amortisation charge                            | 25,914           | 20,416                          | 49,514           | 26,177                      |
| Exchange adjustment                            | –                | (1)                             | –                | –                           |
| Impairment charge                              | –                | 280,936                         | 185,668          | –                           |
| At 31 December/30 June                         | <u>25,914</u>    | <u>327,265</u>                  | <u>562,447</u>   | <u>588,624</u>              |
| Net book value                                 |                  |                                 |                  |                             |
| At 31 December/30 June                         | <u>293,823</u>   | <u>440,019</u>                  | <u>953,899</u>   | <u>983,566</u>              |

## 17. Interests in subsidiaries

|                                       | Company          |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---------------------------------------|------------------|---------------------------------|------------------|-----------------------------|
|                                       | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Investments at cost – unlisted shares | 1                | 1                               | 1                | 1                           |
| Amounts due from subsidiaries         | 2,465,397        | 3,523,603                       | 4,610,042        | 4,718,966                   |
| Amounts due to subsidiaries           | (6,410)          | (16,639)                        | (1,275)          | (5,257)                     |
| Less: provisions                      | (1,160,777)      | (1,989,966)                     | (2,187,074)      | (2,187,074)                 |
|                                       | <u>1,298,211</u> | <u>1,516,999</u>                | <u>2,421,694</u> | <u>2,526,636</u>            |

The amounts due from and to subsidiaries are unsecured, interest free and with no fixed terms of repayment.

The list of the principal subsidiaries of the Group as at 30 June 2003 is set out in Note 38.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 18. Interests in jointly controlled entities

|  | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|--|------------------|---------------------------------|------------------|-----------------------------|
|  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Share of net assets – unlisted shares  | 16,269           | 47,272                          | 35,510           | 16,407                      |
| Goodwill on acquisition less accumulated<br>amortisation and impairment losses | –                | 11,956                          | –                | –                           |
|  | 16,269           | 59,228                          | 35,510           | 16,407                      |
| Loans to jointly controlled entities   | 11,271           | 87,755                          | –                | –                           |
| Less: provisions   | –                | (21,351)                        | –                | –                           |
|  | <u>27,540</u>    | <u>125,632</u>                  | <u>35,510</u>    | <u>16,407</u>               |

The list of the principal jointly controlled entities of the Group as at 30 June 2003 is set out in Note 38.

The loans to jointly controlled entities as at 31 December 2000 were unsecured, interest bearing at 6.5% per annum and repayable on demand. The loans to jointly controlled entities as at 31 December 2001 were unsecured, of which HK\$53,926,000 was interest free and repayable on demand, and the remaining balances of HK\$33,829,000 were interest bearing at rates ranging from 6% to 6.5% per annum and repayable on or before 30 April 2011.

During the year ended 31 December 2002, a jointly controlled entity was reclassified as an investment security since the Group no longer has significant influence on the entity's operations. The loans to the entity amounting to HK\$61,292,000, net of provisions, were transferred to loans and advances to investee companies (Note 20).

## 19. Interests in associated companies

|                                       | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---------------------------------------|------------------|---------------------------------|------------------|-----------------------------|
|                                       | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Share of net assets – unlisted shares | <u>5,084</u>     | <u>3,741</u>                    | <u>4,601</u>     | <u>3,472</u>                |

The list of the principal associated companies of the Group as at 30 June 2003 is set out in Note 38.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 20. Investment securities

|   | Group         |                  |                |                | Company  |                  |          |              |
|---|---------------|------------------|----------------|----------------|----------|------------------|----------|--------------|
|   | 2000          | 31 December 2001 | 2002           | 30 June 2003   | 2000     | 31 December 2001 | 2002     | 30 June 2003 |
|   | HK\$'000      | HK\$'000         | HK\$'000       | HK\$'000       | HK\$'000 | HK\$'000         | HK\$'000 | HK\$'000     |
| Unlisted equity shares outside Hong Kong, at fair value | 2,065         | 37,005           | 35,265         | 36,158         | 1        | -                | -        | -            |
| Loans and advances to investee companies                | 8,457         | -                | 91,141         | 91,144         | -        | -                | -        | -            |
|   | <u>10,522</u> | <u>37,005</u>    | <u>126,406</u> | <u>127,302</u> | <u>1</u> | <u>-</u>         | <u>-</u> | <u>-</u>     |

The loans and advances to investee companies as at 30 June 2003 were unsecured, of which amounts totalling HK\$30,069,000 (31 December 2002: HK\$30,069,000) are interest bearing at rates ranging from 6% to 6.5% per annum and were repayable on or before 30 April 2011. The remaining balances were interest free and repayable on demand.

The list of the principal investment securities of the Group as at 30 June 2003 is set out in Note 38.

## 21. Inventories

|                  | Group        |                  |                |               |
|------------------|--------------|------------------|----------------|---------------|
|                  | 2000         | 31 December 2001 | 2002           | 30 June 2003  |
|                  | HK\$'000     | HK\$'000         | HK\$'000       | HK\$'000      |
| Merchandise      | 1,407        | 1,949            | 10,503         | 9,601         |
| Finished goods   | -            | 77,932           | 82,566         | 77,419        |
| Raw materials    | -            | 1,078            | 5,597          | 4,416         |
| Work in progress | -            | 11,717           | 9,594          | 7,211         |
|                  | <u>1,407</u> | <u>92,676</u>    | <u>108,260</u> | <u>98,647</u> |

As at 30 June 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$Nil (31 December 2002, 2001 and 2000: HK\$Nil, HK\$77,000 and HK\$838,000, respectively).

## 22. Trade and other receivables

|  | Group          |                  |                |                | Company      |                  |               |               |
|--|----------------|------------------|----------------|----------------|--------------|------------------|---------------|---------------|
|  | 2000           | 31 December 2001 | 2002           | 30 June 2003   | 2000         | 31 December 2001 | 2002          | 30 June 2003  |
|  | HK\$'000       | HK\$'000         | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000         | HK\$'000      | HK\$'000      |
| Trade receivables (Note a)                           | 44,586         | 257,836          | 380,954        | 435,560        | -            | -                | -             | -             |
| Prepayments, deposits and other receivables (Note b) | 58,392         | 258,995          | 264,191        | 321,132        | 1,325        | 23,552           | 20,961        | 22,447        |
|  | <u>102,978</u> | <u>516,831</u>   | <u>645,145</u> | <u>756,692</u> | <u>1,325</u> | <u>23,552</u>    | <u>20,961</u> | <u>22,447</u> |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 22. Trade and other receivables (continued)

Note:

- (a) Majority of the Group's turnover is on open account terms and in accordance with terms specified in the contracts governing the relevant transactions.

The ageing analysis of the Group's trade receivables is as follows:

|              | 2000            | 31 December<br>2001 | 2002            | 30 June<br>2003 |
|--------------|-----------------|---------------------|-----------------|-----------------|
|              | <i>HK\$'000</i> | <i>HK\$'000</i>     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current      | 14,330          | 102,462             | 201,788         | 146,515         |
| 31 – 60 days | 14,049          | 39,116              | 75,721          | 120,050         |
| 61 – 90 days | 15,592          | 27,470              | 37,548          | 53,022          |
| Over 90 days | 615             | 88,788              | 65,897          | 115,973         |
|              | <u>44,586</u>   | <u>257,836</u>      | <u>380,954</u>  | <u>435,560</u>  |

Included in trade receivables are amounts receivable from related companies as follows:

|   | 2000            | 31 December<br>2001 | 2002            | 30 June<br>2003 |
|---|-----------------|---------------------|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i>     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HWL and CKH, substantial<br>shareholders of the Company | –               | –                   | 674             | 483             |
| Minority shareholders of<br>subsidiaries of the Group   | –               | –                   | 33,245          | 50,043          |
| Shareholders of investee<br>companies                   | –               | 7,833               | 7,833           | –               |
| An associated company                                   | –               | –                   | –               | 209             |
|   | <u>–</u>        | <u>7,833</u>        | <u>41,752</u>   | <u>50,735</u>   |

- (b) Included in the Group's prepayments, deposits and other receivables are balances with related companies as follows:

|   | 2000            | 31 December<br>2001 | 2002            | 30 June<br>2003 |
|---|-----------------|---------------------|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i>     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Jointly controlled entities   | 1,669           | 10,308              | 1,706           | 4,401           |
| Associated companies  | 560             | 516                 | 68              | 230             |
| Related companies   |                 |                     |                 |                 |
| – HWL, CKH and Cranwood<br>Company Limited<br>("Cranwood") substantial<br>shareholders of the Company | 908             | 10,147              | 3,546           | 1,083           |
| – Minority shareholders of<br>subsidiaries of the Group   | –               | 8,461               | 39,628          | 42,152          |
|   | <u>3,137</u>    | <u>29,432</u>       | <u>44,948</u>   | <u>47,866</u>   |

The balances due from jointly controlled entities, associated companies and related companies represent expenses paid by the Group on behalf of the companies and are unsecured, interest free and repayable on demand.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 23. Consideration payables

|   | Group and Company |                  |                  | 30 June<br>2003<br>HK\$'000 |
|---|-------------------|------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000  | 2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Acquisition of subsidiaries (Note a)              | 322,279           | 94,729           | 367,148          | 336,621                     |
| Acquisition of an investment security<br>(Note b) | 195,000           | 195,000          | 195,000          | 195,000                     |
|   | <u>517,279</u>    | <u>289,729</u>   | <u>562,148</u>   | <u>531,621</u>              |
| Represented by:                                   |                   |                  |                  |                             |
| – Current   | 517,279           | 268,609          | 431,478          | 520,061                     |
| – Non-current                                     | –                 | 21,120           | 130,670          | 11,560                      |
|   | <u>517,279</u>    | <u>289,729</u>   | <u>562,148</u>   | <u>531,621</u>              |

Note:

- (a) This represents consideration payables with respect to the acquisition of subsidiaries that will be satisfied by cash and/or the issuance of shares of the Company pursuant to the terms of the respective acquisition agreements.
- (b) This represents the balance of the consideration payable with respect to the acquisition of a 50% equity interest of Shanghai Maya Online Broadband Network Company Limited. The directors of the Company intend to issue equity shares to settle the consideration payable, subject to further negotiation in respect of share price and time schedule.

## 24. Trade and other payables

|   | Group            |                  |                  | 30 June<br>2003<br>HK\$'000 | Company          |                  |                  | 30 June<br>2003<br>HK\$'000 |
|---|------------------|------------------|------------------|-----------------------------|------------------|------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 |                             | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Trade payables (Note a)                 | 86,548           | 188,568          | 207,069          | 237,209                     | –                | –                | –                | –                           |
| Other payables<br>and accruals (Note b) | 217,322          | 283,513          | 390,969          | 396,217                     | 56,896           | 20,133           | 5,487            | 7,165                       |
|   | <u>303,870</u>   | <u>472,081</u>   | <u>598,038</u>   | <u>633,426</u>              | <u>56,896</u>    | <u>20,133</u>    | <u>5,487</u>     | <u>7,165</u>                |

Note:

- (a) The ageing analysis of the Group's trade payables is as follows:

|              | Group            |                  |                  | 30 June<br>2003<br>HK\$'000 |
|--------------|------------------|------------------|------------------|-----------------------------|
|              | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Current      | 13,046           | 102,496          | 86,554           | 72,659                      |
| 31 – 60 days | 12,180           | 20,177           | 31,278           | 51,087                      |
| 61 – 90 days | 23,214           | 21,208           | 26,382           | 39,073                      |
| Over 90 days | 38,108           | 44,687           | 62,855           | 74,390                      |
|              | <u>86,548</u>    | <u>188,568</u>   | <u>207,069</u>   | <u>237,209</u>              |



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 24. Trade and other payables (continued)

(b) Included in the Group's other payables and accruals are balances with related companies as follows:

|  | Group            |                                 |                  |                             |
|--|------------------|---------------------------------|------------------|-----------------------------|
|  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
| Associated companies   | –                | 1,112                           | –                | –                           |
| Related companies  |                  |                                 |                  |                             |
| – Substantial shareholders of the Company, HWL, CKH and Cranwood | 19,472           | 5,006                           | 6,414            | 6,499                       |
| – Minority shareholders of subsidiaries of the Group             | –                | –                               | 50,258           | 47,264                      |
|  | <u>19,472</u>    | <u>6,118</u>                    | <u>56,672</u>    | <u>53,763</u>               |

The amounts due to associated companies and related companies represent expenses paid on behalf of the Group by certain associated companies and related companies and are unsecured, interest free and repayable on demand.

## 25. Short-term loans

|             | Group            |                                 |                  |                             | Company          |                                 |                  |                             |
|-------------|------------------|---------------------------------|------------------|-----------------------------|------------------|---------------------------------|------------------|-----------------------------|
|             | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
| Bank loans  |                  |                                 |                  |                             |                  |                                 |                  |                             |
| Secured     | –                | 29,979                          | 3,164            | 53,920                      | –                | –                               | –                | 42,300                      |
| Unsecured   | 1,410            | 2,522                           | 9,400            | 27,456                      | –                | –                               | –                | –                           |
|             | <u>1,410</u>     | <u>32,501</u>                   | <u>12,564</u>    | <u>81,376</u>               | <u>–</u>         | <u>–</u>                        | <u>–</u>         | <u>42,300</u>               |
| Other loans |                  |                                 |                  |                             |                  |                                 |                  |                             |
| Secured     | –                | 13,486                          | 876              | –                           | –                | –                               | –                | –                           |
| Unsecured   | –                | 2,418                           | 898              | 903                         | –                | –                               | –                | –                           |
|             | <u>–</u>         | <u>15,904</u>                   | <u>1,774</u>     | <u>903</u>                  | <u>–</u>         | <u>–</u>                        | <u>–</u>         | <u>–</u>                    |
|             | <u>1,410</u>     | <u>48,405</u>                   | <u>14,338</u>    | <u>82,279</u>               | <u>–</u>         | <u>–</u>                        | <u>–</u>         | <u>42,300</u>               |

## 26. Other long-term liabilities

|  | Group            |                                 |                  |                             | Company          |                                 |                  |                             |
|--|------------------|---------------------------------|------------------|-----------------------------|------------------|---------------------------------|------------------|-----------------------------|
|  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
| Long-term bank loans<br>(Note a)             | –                | 14,451                          | 2,804            | 2,532                       | –                | –                               | –                | –                           |
| Loans from shareholders<br>(Note b)          | –                | 100,000                         | 850,000          | 850,000                     | –                | 100,000                         | 850,000          | 850,000                     |
| Loans from minority shareholders<br>(Note c) | –                | 1,866                           | 3,850            | –                           | –                | –                               | –                | –                           |
| Pension obligations<br>(Note 27(a))          | –                | 10,653                          | 18,566           | 18,856                      | –                | –                               | –                | –                           |
|  | <u>–</u>         | <u>126,970</u>                  | <u>875,220</u>   | <u>871,388</u>              | <u>–</u>         | <u>100,000</u>                  | <u>850,000</u>   | <u>850,000</u>              |
| Current portion of long-term bank loans      | –                | (12,228)                        | (561)            | (605)                       | –                | –                               | –                | –                           |
|  | <u>–</u>         | <u>114,742</u>                  | <u>874,659</u>   | <u>870,783</u>              | <u>–</u>         | <u>100,000</u>                  | <u>850,000</u>   | <u>850,000</u>              |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 26. Other long-term liabilities (continued)

Note:

## (a) Long-term bank loans

|  | Group    |                     |          | 30 June<br>2003 |
|--|----------|---------------------|----------|-----------------|
|  | 2000     | 31 December<br>2001 | 2002     |                 |
|  | HK\$'000 | HK\$'000            | HK\$'000 | HK\$'000        |
| Secured  | –        | 14,451              | 559      | 559             |
| Unsecured  | –        | –                   | 2,245    | 1,973           |
|  | –        | 14,451              | 2,804    | 2,532           |
| Less: current portion of<br>long-term bank loans | –        | (12,228)            | (561)    | (605)           |
|  | –        | 2,223               | 2,243    | 1,927           |

The bank loans are repayable as follows:

|                            |   |        |       |       |
|----------------------------|---|--------|-------|-------|
| Within one year            | – | 12,228 | 561   | 605   |
| In the second year         | – | 2,223  | 40    | 605   |
| In the third to fifth year | – | –      | 1,804 | 887   |
| After the fifth year       | – | –      | 399   | 435   |
|                            | – | 14,451 | 2,804 | 2,532 |

## (b) Loans from shareholders

|          | Group and Company |                     |          | 30 June<br>2003 |
|----------|-------------------|---------------------|----------|-----------------|
|          | 2000              | 31 December<br>2001 | 2002     |                 |
|          | HK\$'000          | HK\$'000            | HK\$'000 | HK\$'000        |
| HWL      | –                 | 40,000              | 340,000  | 340,000         |
| CKH      | –                 | 20,000              | 170,000  | 170,000         |
| Cranwood | –                 | 40,000              | 340,000  | 340,000         |
|          | –                 | 100,000             | 850,000  | 850,000         |

The loans from HWL, CKH and Cranwood, the substantial shareholders of the Company, were granted in accordance with the Facility Letters dated 10 December 2001 and Supplemental Facility Letters dated 12 March 2003. The loans are unsecured, interest bearing at a rate of 50 basis points over 3 months HIBOR and will be repayable by the end of 2004.

## (c) Loans from minority shareholders

The loans from minority shareholders are unsecured, interest free and not repayable within the next twelve months from the balance sheet date.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 27. Pension assets and obligations

The Group operates certain defined benefit pension plans in Hong Kong and Taiwan. These pension plans are either final salary defined benefit plans or with minimum guaranteed return rate on plan assets. The assets of the funded plans are generally held independently of the Group's assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans as at 31 December 2002 in Hong Kong and Taiwan are valued by Watson Wyatt Hong Kong Limited and KPMG Consulting Co., Ltd., respectively.

- (a) The pension assets/obligations recognised in the balance sheet are determined as follows:

|   | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---|------------------|---------------------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Present value of funded obligations         | –                | 12,569                          | 29,805           | 29,805                      |
| Fair value of plan assets                   | –                | (1,472)                         | (9,536)          | (9,536)                     |
|   | <u>–</u>         | <u>(1,472)</u>                  | <u>(9,536)</u>   | <u>(9,536)</u>              |
| Deficits                                    | –                | 11,097                          | 20,269           | 20,269                      |
| Unrecognised actuarial losses               | –                | (444)                           | (3,052)          | (3,052)                     |
| Exchange adjustment                         | –                | –                               | –                | 290                         |
|   | <u>–</u>         | <u>–</u>                        | <u>–</u>         | <u>290</u>                  |
| Recognised in the balance sheet             | <u>–</u>         | <u>10,653</u>                   | <u>17,217</u>    | <u>17,507</u>               |
| Represented by:                             |                  |                                 |                  |                             |
| Pension assets (Note 15 and Note c)         | –                | –                               | (1,349)          | (1,349)                     |
| Pension obligations<br>(Note 26 and Note d) | –                | 10,653                          | 18,566           | 18,856                      |
|   | <u>–</u>         | <u>10,653</u>                   | <u>17,217</u>    | <u>17,507</u>               |

- (b) The amounts recognised in the profit and loss account are as follows:

|  | Group            |  |                  | Six months ended<br>30 June |                  |
|--|------------------|--|------------------|-----------------------------|------------------|
|  | 2000<br>HK\$'000 | Year ended 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000            | 2003<br>HK\$'000 |
| Current service cost                       | –                | 2,647                                      | 5,860            | 2,930                       | 4,132            |
| Interest cost                              | –                | 534  | 984              | 492                         | 602              |
| Expected return on<br>plan assets          | –                | (59)                                       | (596)            | (298)                       | (365)            |
| Net actuarial losses<br>recognised         | –                | 43   | 48               | 24                          | 68               |
| Recognition of transitional<br>liability   | –                | –  | (1,134)          | (567)                       | –                |
|  | <u>–</u>         | <u>–</u>                                   | <u>(1,134)</u>   | <u>(567)</u>                | <u>–</u>         |
| Total, included in staff cost<br>(Note 12) | <u>–</u>         | <u>3,165</u>                               | <u>5,162</u>     | <u>2,581</u>                | <u>4,437</u>     |
| Represented by:                            |                  |  |                  |                             |                  |
| Pension assets (Note c)                    | –                | –  | 913              | –                           | 1,752            |
| Pension obligations<br>(Note d)            | –                | 3,165                                      | 4,249            | 2,581                       | 2,685            |
|  | <u>–</u>         | <u>3,165</u>                               | <u>4,249</u>     | <u>2,581</u>                | <u>2,685</u>     |
|  | <u>–</u>         | <u>3,165</u>                               | <u>5,162</u>     | <u>2,581</u>                | <u>4,437</u>     |
| Actual return on plan assets:              |                  |  |                  |                             |                  |
| Recognised as an asset                     | –                | 16   | –                | –                           | –                |
| Recognised as a liability                  | –                | –  | 407              | 204                         | 365              |
|  | <u>–</u>         | <u>–</u>                                   | <u>407</u>       | <u>204</u>                  | <u>365</u>       |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 27. Pension assets and obligations (continued)

(c) Movements in the pension assets recognised in the balance sheet are as follows:

|                         | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|-------------------------|------------------|---------------------------------|------------------|-----------------------------|
|                         | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| At 1 January            | –                | –                               | –                | (1,349)                     |
| Total expenses (Note b) | –                | –                               | 913              | 1,752                       |
| Contributions paid      | –                | –                               | (2,262)          | (1,752)                     |
|                         | <u>–</u>         | <u>–</u>                        | <u>(1,349)</u>   | <u>(1,349)</u>              |
| At 31 December/30 June  | <u>–</u>         | <u>–</u>                        | <u>(1,349)</u>   | <u>(1,349)</u>              |

(d) Movements in the pension obligations recognised in the balance sheet are as follows:

|   | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---|------------------|---------------------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| At 1 January                                | –                | –                               | 10,653           | 18,566                      |
| Exchange adjustment                         | –                | –                               | –                | 104                         |
| Acquisition of subsidiaries<br>(Note 33(b)) | –                | 8,080                           | 4,795            | –                           |
| Total expenses (Note b)                     | –                | 3,165                           | 4,249            | 2,685                       |
| Contributions paid                          | –                | (592)                           | (1,131)          | (2,499)                     |
|   | <u>–</u>         | <u>10,653</u>                   | <u>18,566</u>    | <u>18,566</u>               |
| At 31 December/30 June                      | <u>–</u>         | <u>10,653</u>                   | <u>18,566</u>    | <u>18,856</u>               |

(e) The principal actuarial assumptions used are as follows:

|   | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---|------------------|---------------------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| Discount rate                               | N/A              | 4.25%                           | 4% – 5%          | 4% – 5%                     |
| Expected rate of return on<br>plan assets   | N/A              | 4%                              | 3.25% – 8%       | 3.25% – 8%                  |
| Expected rate of future salary<br>increases | N/A              | 3%                              | 3% – 5%          | 3% – 5%                     |
|   | <u>N/A</u>       | <u>3%</u>                       | <u>3% – 5%</u>   | <u>3% – 5%</u>              |

## 28. Deferred taxation

(a) Deferred tax assets

|  | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|--|------------------|---------------------------------|------------------|-----------------------------|
|  | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| At 1 January   | –                | –                               | –                | 12,650                      |
| Credited to consolidated profit<br>and loss account (Note c) | –                | –                               | 12,650           | 11,330                      |
| Exchange adjustment  | –                | –                               | –                | 72                          |
|  | <u>–</u>         | <u>–</u>                        | <u>12,650</u>    | <u>24,052</u>               |
| At 31 December/30 June (Note 15)                             | <u>–</u>         | <u>–</u>                        | <u>12,650</u>    | <u>24,052</u>               |
| Amount to be recovered after more<br>than one year           | –                | –                               | –                | 2,476                       |
|  | <u>–</u>         | <u>–</u>                        | <u>–</u>         | <u>2,476</u>                |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 28. Deferred taxation (continued)

## (b) Deferred tax liabilities

|   | Group            |                                 |                  | 30 June<br>2003<br>HK\$'000 |
|---|------------------|---------------------------------|------------------|-----------------------------|
|   | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 |                             |
| At 1 January  | –                | –                               | 2,721            | 9,147                       |
| Acquisition of subsidiaries<br>(Note 33(b))                 | –                | 1,887                           | –                | –                           |
| Charged to consolidated profit<br>and loss account (Note c) | –                | 854                             | 6,411            | 3,141                       |
| Exchange adjustment   | –                | (20)                            | 15               | 50                          |
|   | <u>–</u>         | <u>2,721</u>                    | <u>9,147</u>     | <u>12,338</u>               |
| At 31 December/30 June                                      | <u>–</u>         | <u>2,721</u>                    | <u>9,147</u>     | <u>12,338</u>               |
| Amount to be payable after<br>more than one year            | <u>–</u>         | <u>2,721</u>                    | <u>9,147</u>     | <u>12,338</u>               |

## (c) Deferred taxation charged/(credited) to profit and loss account

|   | Group                  |                  |                  | Six months ended<br>30 June |                |
|---|------------------------|------------------|------------------|-----------------------------|----------------|
|   | Year ended 31 December |                  | 2002<br>HK\$'000 | 2002                        | 2003           |
|   | 2000<br>HK\$'000       | 2001<br>HK\$'000 |                  | HK\$'000                    | HK\$'000       |
| Deferred tax assets (Note a)  | –                      | –                | (12,650)         | –                           | (11,330)       |
| Deferred tax liabilities<br>(Note b)  | –                      | 854              | 6,411            | 4,704                       | 3,141          |
|   | <u>–</u>               | <u>854</u>       | <u>6,411</u>     | <u>4,704</u>                | <u>3,141</u>   |
| Deferred taxation charged/<br>(credited) to consolidated<br>profit and loss account<br>(Note 8) | <u>–</u>               | <u>854</u>       | <u>(6,239)</u>   | <u>4,704</u>                | <u>(8,189)</u> |

## (d) Movements in deferred tax assets and liabilities (prior to offsetting of balances within the same jurisdiction) during the Relevant Periods

| Deferred tax assets   | Tax losses<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------|--------------------|-------------------|
| At 1 January 2000   | –                      | –                  | –                 |
| Credited to consolidated profit and loss account              | 18,447                 | –                  | 18,447            |
|   | <u>18,447</u>          | <u>–</u>           | <u>18,447</u>     |
| At 31 December 2000   | 18,447                 | –                  | 18,447            |
| Charged to consolidated profit and loss account               | (9,495)                | –                  | (9,495)           |
|   | <u>18,447</u>          | <u>–</u>           | <u>18,447</u>     |
| At 31 December 2001   | 8,952                  | –                  | 8,952             |
| (Charged)/credited to consolidated profit<br>and loss account | (7,464)                | 12,650             | 5,186             |
|   | <u>8,952</u>           | <u>12,650</u>      | <u>21,602</u>     |
| At 31 December 2002   | 1,488                  | 12,650             | 14,138            |
| Credited to consolidated profit and loss account              | 727                    | 9,115              | 9,842             |
| Exchange adjustment   | –                      | 72                 | 72                |
|   | <u>1,488</u>           | <u>12,650</u>      | <u>14,138</u>     |
| At 30 June 2003   | <u>2,215</u>           | <u>21,837</u>      | <u>24,052</u>     |

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses as at 30 June 2003 of HK\$1,343,083,000 (31 December 2002, 2001 and 2000: HK\$1,224,543,000, HK\$919,233,000 and HK\$504,479,000, respectively) to carry forward against future taxable income. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Group operates.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 28. Deferred taxation (continued)

(d) Movements in deferred tax assets and liabilities (prior to offsetting of balances within the same jurisdiction) during the Relevant Periods (continued)

| Deferred tax liabilities                                   | Accelerated tax<br>depreciation<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--------------------|-------------------|
| At 1 January 2000  | –   | –                  | –                 |
| Charged to consolidated profit and loss account            | 18,447                                      | –                  | 18,447            |
| At 31 December 2000  | 18,447                                      | –                  | 18,447            |
| Acquisition of subsidiaries (Note 33(b))                   | –   | 1,887              | 1,887             |
| (Credited)/charged to consolidated profit and loss account | (9,495)                                     | 854                | (8,641)           |
| Exchange adjustment  | –   | (20)               | (20)              |
| At 31 December 2001  | 8,952                                       | 2,721              | 11,673            |
| (Credited)/charged to consolidated profit and loss account | (7,464)                                     | 6,411              | (1,053)           |
| Exchange adjustment  | –   | 15                 | 15                |
| At 31 December 2002  | 1,488                                       | 9,147              | 10,635            |
| (Credited)/charged to consolidated profit and loss account | (1,488)                                     | 3,141              | 1,653             |
| Exchange adjustment  | –   | 50                 | 50                |
| At 30 June 2003  | –   | 12,338             | 12,338            |

Deferred income tax liabilities as at 30 June 2003 of HK\$36,965,000 (31 December 2002, 2001 and 2000: HK\$24,121,000, HK\$4,827,000 and HK\$Nil, respectively) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of certain subsidiaries since the Group has determined that the earnings of the subsidiaries will not be distributed in the foreseeable future. Such unremitted earnings as at 30 June 2003 totalled HK\$184,825,000 (31 December 2002, 2001 and 2000: HK\$120,603,000, HK\$24,133,000 and HK\$Nil, respectively).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

|                          | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
|--------------------------|------------------|---------------------------------|------------------|-----------------------------|
| Deferred tax assets      | –                | –                               | 12,650           | 24,052                      |
| Deferred tax liabilities | –                | (2,721)                         | (9,147)          | (12,338)                    |
|                          | –                | (2,721)                         | 3,503            | 11,714                      |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 29. Share capital

## Company – Authorised

|  | Ordinary shares of<br>US\$1 each |          | Ordinary shares of<br>HK\$0.1 each |          | Total<br>HK\$'000 |
|--|----------------------------------|----------|------------------------------------|----------|-------------------|
|  | No. of shares                    | HK\$'000 | No. of shares                      | HK\$'000 |                   |
| At 1 January 2000                                      | 50,000                           | 389      | –                                  | –        | 389               |
| Increase during the year<br>(Note (a) and (b))         | 150,000                          | 1,163    | 5,000,000,000                      | 500,000  | 501,163           |
| Cancellation during the year<br>(Note (b))             | (200,000)                        | (1,552)  | –                                  | –        | (1,552)           |
| At 31 December 2000, 2001<br>and 2002 and 30 June 2003 | –                                | –        | 5,000,000,000                      | 500,000  | 500,000           |

## Company – Issued and fully paid

|  | Ordinary shares of<br>US\$1 each |          | Ordinary shares of<br>HK\$0.1 each |          | Total<br>HK\$'000 |
|--|----------------------------------|----------|------------------------------------|----------|-------------------|
|  | No. of shares                    | HK\$'000 | No. of shares                      | HK\$'000 |                   |
| At 1 January 2000  | 50,000                           | 389      | –                                  | –        | 389               |
| Issuance of shares (Note (a), (b),<br>(c), (d), (e), (f), (g) and (h)) | 50,000                           | 387      | 3,159,390,899                      | 315,939  | 316,326           |
| Repurchase of shares (Note (b))  | (100,000)                        | (776)    | –                                  | –        | (776)             |
| At 31 December 2000  | –                                | –        | 3,159,390,899                      | 315,939  | 315,939           |
| At 1 January 2001  | –                                | –        | 3,159,390,899                      | 315,939  | 315,939           |
| Issuance of shares<br>(Note (i) and (j))                               | –                                | –        | 118,254,909                        | 11,826   | 11,826            |
| At 31 December 2001  | –                                | –        | 3,277,645,808                      | 327,765  | 327,765           |
| At 1 January 2002  | –                                | –        | 3,277,645,808                      | 327,765  | 327,765           |
| Issuance of shares<br>(Note (k) and (l))                               | –                                | –        | 44,220,150                         | 4,422    | 4,422             |
| At 31 December 2002  | –                                | –        | 3,321,865,958                      | 332,187  | 332,187           |
| At 1 January 2003  | –                                | –        | 3,321,865,958                      | 332,187  | 332,187           |
| Issuance of shares (m)   | –                                | –        | 24,170,686                         | 2,417    | 2,417             |
| At 30 June 2003  | –                                | –        | 3,346,036,644                      | 334,604  | 334,604           |

## Note:

- (a) On 18 January 2000, the authorised share capital of the Company was increased to US\$200,000 divided into 200,000 shares of US\$1 each. 50,000 shares were allotted and issued and credited as fully paid for the acquisition of Alexis pursuant to the Reorganisation referred to in note 1 to the accounts.
- (b) On 26 January 2000, the authorised share capital of the Company was further increased to HK\$500,000,000 divided into 5,000,000,000 shares of HK\$0.1 each and US\$200,000 divided into 200,000 shares of US\$1 each, of which 7,750,000 shares of HK\$0.1 each were allotted and issued at par for cash to the then shareholders of the Company. The Company also repurchased from the then shareholders of the Company all of the 100,000 shares of US\$1 each in issue at a price of HK\$7.75 per share and such US\$1 shares were then cancelled.

V. NOTES TO THE FINANCIAL INFORMATION *(continued)*29. Share capital *(continued)*

- (c) On 1 February 2000, 7,750,000 shares were further allotted and issued to the then shareholders of the Company, of which the allotment of 4,649,900 shares was satisfied by capitalisation of loans from shareholder amounting to HK\$501.7 million. The remaining 3,100,100 shares were issued at par for cash. In addition, HK\$228,450,000 of the share premium arising out of the above loan capitalisation was applied towards the issue of 2,284,500,000 shares of the Company at par to the then shareholders.
- (d) On 9 February 2000 and 6 March 2000, 121,000,000 and 6,530,899 shares of the Company were allotted and issued to a strategic investor for cash considerations of HK\$129,470,000 and HK\$11,625,000, respectively.
- (e) On 1 March 2000, 428,000,000 shares of the Company were allotted at HK\$1.78 each to public and traded on the GEM of the Stock Exchange.
- (f) On 10 March 2000, pursuant to the exercise of over-allotment option by BNP Prime Peregrine Securities Limited, 64,200,000 shares at HK\$1.78 each were allotted and issued.
- (g) On 19 September 2000, 95,800,000 shares were allotted and issued to strategic investors at a price of HK\$5.08 each pursuant to a subscription agreement.
- (h) On 3 March 2000, 31 October 2000, 2 November 2000 and 8 December 2000, 21,400,000, 44,640,000, 61,686,000 and 16,134,000 shares were allotted and issued at HK\$1.78, HK\$5.3, HK\$5.69 and HK\$5.5 per share, respectively, as part of the considerations for the acquisitions of subsidiaries and associated companies.
- (i) On 13 February, 7 November and 8 December 2001, 6,054,000, 600,000 and 600,000 ordinary shares were allotted and issued at HK\$1.78 each pursuant to the exercise of share options by the past directors of the Company, respectively.
- (j) On 12 March, 31 October, 30 November and 8 December 2001, 53,504,776, 23,898,225, 31,100,908 and 2,497,000 ordinary shares were allotted and booked at prices ranging between HK\$1.795 and HK\$5.51 per share as part of the considerations for the acquisitions of subsidiaries, respectively.
- (k) On 7 January, 21 February, 13 March, 15 March, and 14 June 2002, 3,632,000, 908,000, 3,340,000, 2,724,000 and 450,000 ordinary shares were allotted and issued at HK\$1.78 each pursuant to Pre-IPO Share Option Plan, respectively.
- (l) On 7 February, 24 May, 20 September, 18 October and 9 December 2002, 4,300,000, 7,833,977, 18,299,238, 235,935 and 2,497,000 ordinary shares were allotted and booked at prices ranging between HK\$1.85 and HK\$5.5 per share, which were the fair value calculated based on the average closing price quoted on the Stock Exchange for the calendar month immediately prior to the date of acquisitions or the closing price quoted on the Stock Exchange at the date of acquisition, where applicable, as part of the considerations for the acquisition of subsidiaries, respectively.
- (m) On 30 January, 14 May and 30 May 2003, 13,101,798, 4,332,312 and 6,736,576 ordinary shares were allotted and booked at prices ranging between HK\$3.05 and HK\$4.039 per share, which are the fair value calculated based on the average closing price quoted on the Stock Exchange for the calendar month immediately prior to the date of acquisition or the closing price quoted on the Stock Exchange at the date of acquisition, where applicable, as part of the considerations for the acquisition of subsidiaries, respectively.



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 30. Share option schemes

Pursuant to written resolutions of the shareholders of the Company dated 11 February 2000, two share option schemes namely, Pre-IPO Share Option Plan and the Share Option Scheme (collectively, the Schemes) were adopted by the Company.

Pursuant to the Pre-IPO Share Option Plan, the Company may grant options to any full-time employees of the Company or of its subsidiaries or of HWL or any subsidiary of HWL to subscribe for shares in the Company. However, save for the options which have been granted on 11 February 2000, no further options may be granted upon the listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange on 1 March 2000. The subscription price per share under the Pre-IPO Share Option Plan is HK\$1.78 and the options have vested in three tranches in the proportion of 20%: 30%: 50% on 11 February 2001, 2002 and 2003, respectively.

Pursuant to the Share Option Scheme, the Board may, at its discretion, invite any participant (including any employee and director of the Group and of any company in which the Group owns or controls 20% or more of its voting rights and/or issued share capital, business associate and trustee) to take up options to subscribe for shares in the Company. The options granted under the Share Option Scheme can be exercised at prices ranging from HK\$3.76 to HK\$11.3 per share at any time within the option period of ten years from the respective dates of grant, provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period unless they are cancelled.

The maximum number of shares in respect of which options may be granted under the Schemes shall not exceed 329,254,980 shares, being 10% of the issued share capital of the Company at the date of approval of the Share Option Scheme.

Details of share options are as follows:

|                                    | 2000                      |                     | 31 December 2001          |                     | 2002                      |                     | 30 June 2003               |                     |
|------------------------------------|---------------------------|---------------------|---------------------------|---------------------|---------------------------|---------------------|----------------------------|---------------------|
|                                    | Number of share options   |                     | Number of share options   |                     | Number of share options   |                     | Number of share options    |                     |
|                                    | Pre-IPO Share Option Plan | Share Option Scheme | Pre-IPO Share Option Plan | Share Option Scheme | Pre-IPO Share Option Plan | Share Option Scheme | Pre-IPO Share Options Plan | Share Option Scheme |
| Movements in share options:        |                           |                     |                           |                     |                           |                     |                            |                     |
| Outstanding at 1 January           | -                         | -                   | 48,426,000                | 152,088,000         | 36,330,000                | 121,824,000         | 16,196,000                 | 109,504,000         |
| Granted                            | 78,696,000                | 184,992,000         | -                         | -                   | -                         | 64,230,000          | -                          | -                   |
| Exercised                          | (6,054,000)               | -                   | (4,832,000)               | -                   | (7,422,000)               | -                   | -                          | -                   |
| Lapsed                             | (24,216,000)              | (32,904,000)        | (7,264,000)               | (30,264,000)        | (12,712,000)              | (12,926,000)        | -                          | (714,000)           |
| Cancelled                          | -                         | -                   | -                         | -                   | -                         | (63,624,000)        | -                          | (1,012,000)         |
| Outstanding at 31 December/30 June | <u>48,426,000</u>         | <u>152,088,000</u>  | <u>36,330,000</u>         | <u>121,824,000</u>  | <u>16,196,000</u>         | <u>109,504,000</u>  | <u>16,196,000</u>          | <u>107,778,000</u>  |

Details of share options granted during the year are:

|                                |                  |                             |   |   |   |                 |   |   |
|--------------------------------|------------------|-----------------------------|---|---|---|-----------------|---|---|
| Expiry date of options granted | 10 February 2010 | 22 March – 14 November 2010 | - | - | - | 6 February 2012 | - | - |
| Subscription price per share   | HK\$1.78         | HK\$4.685 – HK\$11.30       | - | - | - | HK\$3.76        | - | - |

Terms of the share options outstanding are:

| Expiry date                    | Subscription price   | 2000               | 31 December 2001   | 2002               | 30 June 2003       |
|--------------------------------|----------------------|--------------------|--------------------|--------------------|--------------------|
| 10 February – 14 November 2010 | HK\$1.78 – HK\$11.30 | 200,514,000        | 158,154,000        | 62,476,000         | 61,338,000         |
| 6 February 2012                | HK\$3.76             | -                  | -                  | 63,224,000         | 62,636,000         |
|                                |                      | <u>200,514,000</u> | <u>158,154,000</u> | <u>125,700,000</u> | <u>123,974,000</u> |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 31. Reserves

(a) Group

|  | Share<br>premium<br>account<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Exchange<br>difference<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--------------------------------|--|------------------------------------|-----------------------------------|-------------------|
| <b>At 1 January 2000</b>   | 52,335                                  | 10                             | –  | 225                                | (76,674)                          | (24,104)          |
| Arising from the<br>reorganisation<br>for listing (Note b(i))                        | –                                       | (387)                          | –  | –                                  | –                                 | (387)             |
| Issuance of shares<br>by capitalisation<br>of shareholders' loans                    | 501,245                                 | –                              | –  | –                                  | –                                 | 501,245           |
| Application of share<br>premium towards<br>issuance of shares                        | (228,450)                               | –                              | –  | –                                  | –                                 | (228,450)         |
| Issuance of shares<br>to the then<br>shareholders and<br>investors for cash          | 128,342                                 | –                              | –  | –                                  | –                                 | 128,342           |
| Issuance of shares<br>pursuant to initial<br>public offering                         | 719,040                                 | –                              | –  | –                                  | –                                 | 719,040           |
| Over-allotment<br>placement of shares  | 107,856                                 | –                              | –  | –                                  | –                                 | 107,856           |
| Placement of shares<br>in September 2000   | 477,084                                 | –                              | –  | –                                  | –                                 | 477,084           |
| Issuance of shares<br>for acquisition<br>of subsidiaries and<br>associated companies | 700,029                                 | –                              | –  | –                                  | –                                 | 700,029           |
| Share issuing expenses   | (107,515)                               | –                              | –  | –                                  | –                                 | (107,515)         |
| Share repurchase   | –                                       | –                              | 776  | –                                  | (776)                             | –                 |
| Loss for the year  | –                                       | –                              | –  | –                                  | (1,265,285)                       | (1,265,285)       |
| Goodwill eliminated<br>against reserves<br>(Note b(iv))                              | (536,484)                               | –                              | –  | –                                  | –                                 | (536,484)         |
| Exchange differences   | –                                       | –                              | –  | (253)                              | –                                 | (253)             |
| <b>At 31 December 2000</b>   | <b>1,813,482</b>                        | <b>(377)</b>                   | <b>776</b>                                   | <b>(28)</b>                        | <b>(1,342,735)</b>                | <b>471,118</b>    |
| Analysed by:   |   |                                |  |                                    |                                   |                   |
| Company and subsidiaries   | 1,813,482                               | (377)                          | 776  | (28)                               | (1,320,315)                       | 493,538           |
| Jointly controlled entities  | –                                       | –                              | –  | –                                  | (16,190)                          | (16,190)          |
| Associated companies   | –                                       | –                              | –  | –                                  | (6,230)                           | (6,230)           |
| <b>At 31 December 2000</b>   | <b>1,813,482</b>                        | <b>(377)</b>                   | <b>776</b>                                   | <b>(28)</b>                        | <b>(1,342,735)</b>                | <b>471,118</b>    |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 31. Reserves (continued)

## (a) Group (continued)

|  | Share<br>premium<br>account<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserves<br>HK\$'000 | Exchange<br>difference<br>HK\$'000  | Accumulated<br>losses<br>HK\$'000  | Total<br>HK\$'000                 |                   |
|--|---|--------------------------------|--|---------------------------------|-------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>At 1 January 2001</b>   | 1,813,482                               | (377)                          | 776  | –                               | (28)                                | (1,342,735)                        | 471,118                           |                   |
| Issuance of shares for<br>acquisition of<br>subsidiaries                             | 405,280                                 | –                              | –  | –                               | –                                   | –                                  | 405,280                           |                   |
| Exercise of<br>share options   | 12,187                                  | –                              | –  | –                               | –                                   | –                                  | 12,187                            |                   |
| Disposal of a subsidiary   | 150                                     | –                              | –  | –                               | –                                   | –                                  | 150                               |                   |
| Loss for the year  | –                                       | –                              | –  | –                               | –                                   | (635,887)                          | (635,887)                         |                   |
| Transfer to general<br>reserves  | –                                       | –                              | –  | 139                             | –                                   | (139)                              | –                                 |                   |
| Exchange adjustments   | –                                       | –                              | –  | –                               | (519)                               | –                                  | (519)                             |                   |
| <b>At 31 December 2001</b>   | <u>2,231,099</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>139</u>                      | <u>(547)</u>                        | <u>(1,978,761)</u>                 | <u>252,329</u>                    |                   |
| Analysed by:   |   |                                |  |                                 |                                     |                                    |                                   |                   |
| Company and subsidiaries   | 2,231,099                               | (377)                          | 776  | 139                             | (512)                               | (1,917,321)                        | 313,804                           |                   |
| Jointly controlled entities  | –                                       | –                              | –  | –                               | (35)                                | (52,046)                           | (52,081)                          |                   |
| Associated companies   | –                                       | –                              | –  | –                               | –                                   | (9,394)                            | (9,394)                           |                   |
| <b>At 31 December 2001</b>   | <u>2,231,099</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>139</u>                      | <u>(547)</u>                        | <u>(1,978,761)</u>                 | <u>252,329</u>                    |                   |
|  | Share<br>premium<br>account<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserves<br>HK\$'000 | Revaluation<br>reserves<br>HK\$'000 | Exchange<br>difference<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
| <b>At 1 January 2002</b>   | 2,231,099                               | (377)                          | 776  | 139                             | –                                   | (547)                              | (1,978,761)                       | 252,329           |
| Issuance of shares for<br>acquisition of<br>subsidiaries,<br>net of issuing expenses | 84,280                                  | –                              | –  | –                               | –                                   | –                                  | –                                 | 84,280            |
| Exercise of share options,<br>net of issuing expenses                                | 18,537                                  | –                              | –  | –                               | –                                   | –                                  | –                                 | 18,537            |
| Loss for the year  | –                                       | –                              | –  | –                               | –                                   | –                                  | (409,579)                         | (409,579)         |
| Transfer to general<br>reserves  | –                                       | –                              | –  | 204                             | –                                   | –                                  | (204)                             | –                 |
| Exchange difference  | –                                       | –                              | –  | –                               | –                                   | (255)                              | –                                 | (255)             |
| <b>At 31 December 2002</b>   | <u>2,333,916</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>343</u>                      | <u>–</u>                            | <u>(802)</u>                       | <u>(2,388,544)</u>                | <u>(54,688)</u>   |
| Analysed by:   |   |                                |  |                                 |                                     |                                    |                                   |                   |
| Company and subsidiaries   | 2,333,916                               | (377)                          | 776  | 343                             | –                                   | (802)                              | (2,374,464)                       | (40,608)          |
| Jointly controlled entities  | –                                       | –                              | –  | –                               | –                                   | –                                  | (9,652)                           | (9,652)           |
| Associated companies   | –                                       | –                              | –  | –                               | –                                   | –                                  | (4,428)                           | (4,428)           |
| <b>At 31 December 2002</b>   | <u>2,333,916</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>343</u>                      | <u>–</u>                            | <u>(802)</u>                       | <u>(2,388,544)</u>                | <u>(54,688)</u>   |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 31. Reserves (continued)

## (a) Group (continued)

|  | Share<br>premium<br>account<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserves<br>HK\$'000 | Revaluation<br>reserves<br>HK\$'000 | Exchange<br>difference<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--------------------------------|--|---------------------------------|-------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>At 1 January 2002</b>   | 2,231,099                               | (377)                          | 776  | 139                             | –                                   | (547)                              | (1,978,761)                       | 252,329           |
| Issuance of shares for<br>acquisition of<br>subsidiaries,<br>net of issuing expenses | 29,853                                  | –                              | –  | –                               | –                                   | –                                  | –                                 | 29,853            |
| Exercise of share options,<br>net of issuing expenses                                | 18,537                                  | –                              | –  | –                               | –                                   | –                                  | –                                 | 18,537            |
| Investment revaluation<br>deficits   | –                                       | –                              | –  | –                               | (1,796)                             | –                                  | –                                 | (1,796)           |
| Loss for the period  | –                                       | –                              | –  | –                               | –                                   | –                                  | (124,507)                         | (124,507)         |
| Exchange difference  | –                                       | –                              | –  | –                               | –                                   | 5,491                              | –                                 | 5,491             |
| <b>At 30 June 2002</b>   | <u>2,279,489</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>139</u>                      | <u>(1,796)</u>                      | <u>4,944</u>                       | <u>(2,103,268)</u>                | <u>179,907</u>    |
| Analysed by:   |   |                                |  |                                 |                                     |                                    |                                   |                   |
| Company and subsidiaries   | 2,279,489                               | (377)                          | 776  | 139                             | (1,796)                             | 4,944                              | (2,047,228)                       | 235,947           |
| Jointly controlled entities  | –                                       | –                              | –  | –                               | –                                   | –                                  | (51,280)                          | (51,280)          |
| Associated companies   | –                                       | –                              | –  | –                               | –                                   | –                                  | (4,760)                           | (4,760)           |
| <b>At 30 June 2002</b>   | <u>2,279,489</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>139</u>                      | <u>(1,796)</u>                      | <u>4,944</u>                       | <u>(2,103,268)</u>                | <u>179,907</u>    |
|  | Share<br>premium<br>account<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserves<br>HK\$'000 | Revaluation<br>reserves<br>HK\$'000 | Exchange<br>difference<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
| <b>At 1 January 2003</b>   | 2,333,916                               | (377)                          | 776  | 343                             | –                                   | (802)                              | (2,388,544)                       | (54,688)          |
| Issuance of shares for<br>acquisition of<br>subsidiaries, net<br>of issuing expenses | 90,570                                  | –                              | –  | –                               | –                                   | –                                  | –                                 | 90,570            |
| Loss for the period  | –                                       | –                              | –  | –                               | –                                   | –                                  | (32,674)                          | (32,674)          |
| Transfer to general<br>reserves  | –                                       | –                              | –  | 15,285                          | –                                   | –                                  | (15,285)                          | –                 |
| Exchange difference  | –                                       | –                              | –  | –                               | –                                   | 683                                | –                                 | 683               |
| <b>At 30 June 2003</b>   | <u>2,424,486</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>15,628</u>                   | <u>–</u>                            | <u>(119)</u>                       | <u>(2,436,503)</u>                | <u>3,891</u>      |
| Analysed by:   |   |                                |  |                                 |                                     |                                    |                                   |                   |
| Company and subsidiaries   | 2,424,486                               | (377)                          | 776  | 15,628                          | –                                   | (119)                              | (2,426,236)                       | 14,158            |
| Jointly controlled entities  | –                                       | –                              | –  | –                               | –                                   | –                                  | (6,571)                           | (6,571)           |
| Associated companies   | –                                       | –                              | –  | –                               | –                                   | –                                  | (3,696)                           | (3,696)           |
| <b>At 30 June 2003</b>   | <u>2,424,486</u>                        | <u>(377)</u>                   | <u>776</u>                                   | <u>15,628</u>                   | <u>–</u>                            | <u>(119)</u>                       | <u>(2,436,503)</u>                | <u>3,891</u>      |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 31. Reserves (continued)

(b) Company

|   | Share<br>premium<br>account<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|------------------------------------|--|-----------------------------------|-------------------|
| <b>At 1 January 2000</b>  | (9,505)                                 | –                                  | –  | 5                                 | (9,500)           |
| Arising from the reorganisation for listing (Note b(ii))                    | –                                       | 23,565                             | –  | –                                 | 23,565            |
| Issuance of shares by capitalisation of shareholders' loans                 | 501,245                                 | –                                  | –  | –                                 | 501,245           |
| Application of share premium towards issuance of shares                     | (228,450)                               | –                                  | –  | –                                 | (228,450)         |
| Issuance of shares to the then shareholders and investors for cash          | 128,342                                 | –                                  | –  | –                                 | 128,342           |
| Issuance of shares pursuant to initial public offering                      | 719,040                                 | –                                  | –  | –                                 | 719,040           |
| Over-allotment placement of shares  | 107,856                                 | –                                  | –  | –                                 | 107,856           |
| Placement of shares in September 2000                                       | 477,084                                 | –                                  | –  | –                                 | 477,084           |
| Issuance of shares for acquisition of subsidiaries and associated companies | 700,029                                 | –                                  | –  | –                                 | 700,029           |
| Share issuing expenses  | (107,515)                               | –                                  | –  | –                                 | (107,515)         |
| Share repurchase  | –                                       | –                                  | 776  | (776)                             | –                 |
| Loss for the year   | –                                       | –                                  | –  | (1,081,971)                       | (1,081,971)       |
| <b>At 31 December 2000</b>  | <u>2,288,126</u>                        | <u>23,565</u>                      | <u>776</u>                                   | <u>(1,082,742)</u>                | <u>1,229,725</u>  |
| <b>At 1 January 2001</b>  | 2,288,126                               | 23,565                             | 776  | (1,082,742)                       | 1,229,725         |
| Issuance of shares for acquisition of subsidiaries                          | 405,280                                 | –                                  | –  | –                                 | 405,280           |
| Exercise of share options   | 12,187                                  | –                                  | –  | –                                 | 12,187            |
| Loss for the year   | –                                       | –                                  | –  | (821,189)                         | (821,189)         |
| <b>At 31 December 2001</b>  | <u>2,705,593</u>                        | <u>23,565</u>                      | <u>776</u>                                   | <u>(1,903,931)</u>                | <u>826,003</u>    |
| <b>At 1 January 2002</b>  | 2,705,593                               | 23,565                             | 776  | (1,903,931)                       | 826,003           |
| Issuance of shares for acquisition of subsidiaries, net of issuing expenses | 84,280                                  | –                                  | –  | –                                 | 84,280            |
| Exercise of share options, net of issuing expenses                          | 18,537                                  | –                                  | –  | –                                 | 18,537            |
| Loss for the year   | –                                       | –                                  | –  | (216,326)                         | (216,326)         |
| <b>At 31 December 2002</b>  | <u>2,808,410</u>                        | <u>23,565</u>                      | <u>776</u>                                   | <u>(2,120,257)</u>                | <u>712,494</u>    |
| <b>At 1 January 2002</b>  | 2,705,593                               | 23,565                             | 776  | (1,903,931)                       | 826,003           |
| Issuance of shares for acquisition of subsidiaries                          | 29,853                                  | –                                  | –  | –                                 | 29,853            |
| Exercise of share options, net of issuing expenses                          | 18,537                                  | –                                  | –  | –                                 | 18,537            |
| Loss for the period   | –                                       | –                                  | –  | (7,174)                           | (7,174)           |
| <b>At 30 June 2002</b>  | <u>2,753,983</u>                        | <u>23,565</u>                      | <u>776</u>                                   | <u>(1,911,105)</u>                | <u>867,219</u>    |
| <b>At 1 January 2003</b>  | 2,808,410                               | 23,565                             | 776  | (2,120,257)                       | 712,494           |
| Issuance of shares for acquisition of subsidiaries                          | 90,570                                  | –                                  | –  | –                                 | 90,570            |
| Loss for the period   | –                                       | –                                  | –  | (13,147)                          | (13,147)          |
| <b>At 30 June 2003</b>  | <u>2,898,980</u>                        | <u>23,565</u>                      | <u>776</u>                                   | <u>(2,133,404)</u>                | <u>789,917</u>    |

V. NOTES TO THE FINANCIAL INFORMATION *(continued)*31. Reserves *(continued)**(b) Company (continued)**Note:*

- (i) The capital reserve of the Group arose from the Reorganisation and represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof.
- (ii) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired pursuant to the Reorganisation on merger, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. Under the Companies Law of the Cayman Islands, the contributed surplus of this nature is distributable subject to the restrictions stated in Notes (iii) and (v) below. At group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (iii) The Group's share premium account includes share premium derived by a subsidiary of the Group in Hong Kong amounting to HK\$61,840,000, which is restricted from distribution to shareholders of the Company according to the Hong Kong Companies Ordinance. The remaining balance of the share premium account is distributable to shareholders of the Company under the Companies Law of the Cayman Islands, provided that immediately following the date on which the dividends is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (iv) The goodwill arising on acquisitions substantially funded by issuance of shares of the Company was set off against share premium account on consolidation for the year ended 31 December 2000, according to the Group's accounting policies set out in Note 2(h) and as permitted by the Companies Law of the Cayman Islands and the articles of association of the Company.
- (v) The Company's reserves available for distribution calculated under Companies Law of the Cayman Islands comprise the share premium account, contributed surplus and accumulated losses totalling HK\$789,141,000 as at 30 June 2003 (31 December 2002, 2001 and 2000: HK\$711,718,000, HK\$825,227,000 and HK\$1,228,949,000, respectively). In the opinion of the directors of the Company, the net reserves of the Company as at 30 June 2003 available for distribution to shareholders amounted to HK\$252,657,000 (31 December 2002, 2001 and 2000: HK\$175,234,000, HK\$288,743,000 and HK\$692,465,000, respectively).
- (vi) The general reserves include statutory reserves required under PRC and Taiwan laws and regulations.

## 32. Own shares held

Own shares held as at 30 June 2003 represented the cost of 2,928,564 (31 December 2002, 2001 and 2000: 2,681,373, 607,845 and Nil, respectively) ordinary shares in the Company held by certain subsidiaries and is deducted in arriving at the shareholders' funds.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements

(a) Reconciliation of operating loss to net cash outflow from operations

|  | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|--|------------------------|------------------|------------------|--------------------------|------------------|
|  | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000         | 2003<br>HK\$'000 |
| Operating loss   | (383,336)              | (230,592)        | (106,192)        | (72,593)                 | (12,420)         |
| Restructuring costs  | (37,717)               | (8,527)          | –                | –                        | –                |
| Provision for diminution<br>in value of investment<br>securities | 7,190                  | 6,334            | –                | 132                      | –                |
| Provision for loan to<br>a related company                       | –                      | –                | 13,260           | –                        | –                |
| Amortisation and<br>depreciation                                 | 61,710                 | 109,065          | 160,197          | 70,655                   | 93,720           |
| Loss on disposal of<br>fixed assets                              | 18,912                 | 1,102            | 1,390            | 170                      | 176              |
| Loss on disposal of other<br>non-current assets                  | –                      | –                | –                | –                        | 3,823            |
| Gain on disposal of a<br>subsidiary                              | –                      | (13)             | –                | –                        | (856)            |
| Gain on disposal of other<br>investments                         | –                      | –                | (30)             | –                        | –                |
| Operating (loss)/profit<br>before working capital<br>changes     | (333,241)              | (122,631)        | 68,625           | (1,636)                  | 84,443           |
| Increase in pension assets                                       | –                      | –                | (1,349)          | –                        | –                |
| (Increase)/decrease in<br>inventories                            | (838)                  | 2,486            | 7,027            | (6,592)                  | 10,154           |
| (Increase)/decrease in trade<br>and other receivables            | 22,936                 | (120,851)        | (129,447)        | (122,597)                | (112,147)        |
| Increase/(decrease) in trade<br>and other payables               | 51,915                 | (104,676)        | (14,920)         | (37,171)                 | 28,556           |
| Increase in pension<br>obligations                               | –                      | 2,697            | 3,218            | 1,013                    | 185              |
| Interest income  | (80,634)               | (23,069)         | (5,867)          | (3,209)                  | (1,214)          |
| Exchange adjustment  | (253)                  | (1,131)          | (2,490)          | 4,804                    | 553              |
| Net cash (outflow)/inflow<br>from operations                     | <u>(340,115)</u>       | <u>(367,175)</u> | <u>(75,203)</u>  | <u>(165,388)</u>         | <u>10,530</u>    |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (b) Acquisition of subsidiaries

|   | Year ended 31 December |                |                | Six months ended 30 June |               |
|---|------------------------|----------------|----------------|--------------------------|---------------|
|   | 2000                   | 2001           | 2002           | 2002                     | 2003          |
|   | HK\$'000               | HK\$'000       | HK\$'000       | HK\$'000                 | HK\$'000      |
| Net assets acquired:  |                        |                |                |                          |               |
| Fixed assets  | 56,071                 | 47,772         | 66,207         | 34,064                   | 13,494        |
| Other non-current assets  | –                      | 1,328          | 32,136         | 5,342                    | –             |
| Interests in associated companies                                   | –                      | 1,822          | 1,620          | 1,620                    | –             |
| Investment securities   | 2,430                  | 34,687         | 10,698         | 10,710                   | –             |
| Inventories   | 569                    | 93,755         | 21,766         | 1,095                    | 43            |
| Trade and other receivables   | 117,071                | 292,858        | 98,956         | 62,825                   | 1,383         |
| Bank balances and cash  | 54,529                 | 45,721         | 124,027        | 112,154                  | 19,855        |
| Trade and other payables  | (226,285)              | (278,768)      | (175,714)      | (83,409)                 | (3,458)       |
| Taxation payable  | –                      | (41,086)       | (12,131)       | (1,605)                  | –             |
| Bank and other loans  | (1,410)                | (29,947)       | –              | –                        | –             |
| Loans from minority shareholders                                    | –                      | (1,895)        | (2,350)        | (2,350)                  | –             |
| Pension obligations   | –                      | (8,080)        | (4,795)        | (4,795)                  | –             |
| Deferred tax liabilities  | –                      | (1,887)        | –              | –                        | –             |
| Minority interests  | (1,204)                | (68,993)       | (57,398)       | (48,909)                 | –             |
|   | <u>1,771</u>           | <u>87,287</u>  | <u>103,022</u> | <u>86,742</u>            | <u>31,317</u> |
| Goodwill  |                        |                |                |                          |               |
| – included in intangible assets                                     | 10,173                 | 446,240        | 749,049        | 490,082                  | 6,110         |
| – eliminated against reserve  | <u>1,039,077</u>       | <u>–</u>       | <u>–</u>       | <u>–</u>                 | <u>–</u>      |
|   | <u>1,051,021</u>       | <u>533,527</u> | <u>852,071</u> | <u>576,824</u>           | <u>37,427</u> |
| Satisfied by:   |                        |                |                |                          |               |
| Cash  | 52,419                 | 344,695        | 436,074        | 303,883                  | 5,000         |
| Allotment of shares   | 676,323                | 107,836        | 58,091         | 15,108                   | –             |
| Consideration payables  | 322,279                | 80,996         | 344,913        | 241,839                  | 18,322        |
| Interests in jointly controlled entities held prior to acquisitions | –                      | –              | 1,104          | 1,104                    | 14,105        |
| Investment securities held prior to acquisitions                    | –                      | –              | 11,889         | 14,890                   | –             |
|   | <u>1,051,021</u>       | <u>533,527</u> | <u>852,071</u> | <u>576,824</u>           | <u>37,427</u> |

The contributions to cash flows by the subsidiaries acquired are as follows:

|  | Year ended 31 December |               |                | Six months ended 30 June |               |
|--|------------------------|---------------|----------------|--------------------------|---------------|
|  | 2000                   | 2001          | 2002           | 2002                     | 2003          |
|  | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000                 | HK\$'000      |
| Contribution to net operating cash flows   | 7,771                  | 15,197        | 63,405         | 6,159                    | –             |
| Received/(paid) in respect of net returns on investment and servicing of finance | 468                    | (267)         | (913)          | 67                       | –             |
| Utilised for investing activities  | (4,185)                | (6,608)       | (93,742)       | (71,048)                 | –             |
| Post acquisition (loss)/profit   | (7,445)                | 6,015         | 50,389         | 8,770                    | –             |
| Net (liabilities)/assets – as at the end of the Relevant Periods                 | <u>(5,674)</u>         | <u>92,482</u> | <u>152,887</u> | <u>99,624</u>            | <u>31,318</u> |



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (b) Acquisition of subsidiaries (continued)

Analysis of the net cash inflow/(outflow) in respect of acquisition of subsidiaries is as follows:

|   | Year ended 31 December |           |           | Six months ended 30 June |          |
|---|------------------------|-----------|-----------|--------------------------|----------|
|   | 2000                   | 2001      | 2002      | 2002                     | 2003     |
|   | HK\$'000               | HK\$'000  | HK\$'000  | HK\$'000                 | HK\$'000 |
| Cash consideration  | (52,419)               | (344,695) | (436,074) | (303,883)                | (5,000)  |
| Bank balances and cash acquired                                     | 54,529                 | 45,721    | 124,027   | 112,154                  | 19,855   |
| Net cash inflow/(outflow) in respect of acquisition of subsidiaries | 2,110                  | (298,974) | (312,047) | (191,729)                | 14,855   |

## (c) Disposal/deconsolidation of subsidiaries

|   | Year ended 31 December |          |          | Six months ended 30 June |          |
|---|------------------------|----------|----------|--------------------------|----------|
|   | 2000                   | 2001     | 2002     | 2002                     | 2003     |
|   | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000                 | HK\$'000 |
| Net assets disposed/deconsolidated of:    |                        |          |          |                          |          |
| Fixed assets                              | -                      | -        | 20,529   | -                        | 1,038    |
| Investment securities                     | -                      | -        | 122      | -                        | -        |
| Trade and other receivables               | -                      | 17       | 37,884   | -                        | 2,199    |
| Bank balances and cash                    | -                      | -        | 7,962    | -                        | 1,798    |
| Trade and other payables                  | -                      | (17)     | (36,954) | -                        | (2,615)  |
| Taxation payable                          | -                      | -        | (7,291)  | -                        | -        |
| Loans from minority shareholders          | -                      | -        | -        | -                        | (4,350)  |
| Minority interests                        | -                      | -        | (11,126) | -                        | 3,705    |
| Goodwill                                  | -                      | 150      | -        | -                        | -        |
| Profit on disposal                        | -                      | 150      | 11,126   | -                        | 1,775    |
|   | -                      | 13       | -        | -                        | 856      |
|   | -                      | 163      | 11,126   | -                        | 2,631    |
| Satisfied by:                             |                        |          |          |                          |          |
| Reclassification as investment securities | -                      | -        | (11,126) | -                        | 231      |
| Consideration receivable                  | -                      | -        | -        | -                        | 467      |
| Cash                                      | -                      | 163      | -        | -                        | 1,933    |
|   | -                      | 163      | (11,126) | -                        | 2,631    |

Analysis of the net cash inflow/(outflow) in respect of the disposal/deconsolidation of subsidiaries is as follows:

|  | Year ended 31 December |          |          | Six months ended 30 June |          |
|--|------------------------|----------|----------|--------------------------|----------|
|  | 2000                   | 2001     | 2002     | 2002                     | 2003     |
|  | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000                 | HK\$'000 |
| Cash consideration   | -                      | 163      | -        | -                        | 1,933    |
| Bank balances and cash disposed/deconsolidated                                   | -                      | -        | (7,962)  | -                        | (1,798)  |
| Net cash inflow/(outflow) in respect of disposal/deconsolidation of subsidiaries | -                      | 163      | (7,962)  | -                        | 135      |

A subsidiary was excluded from consolidation during the year ended 31 December 2002 since there were severe restrictions that impair the Group's ability to exercise control over its operations. The subsidiary was reclassified as an investment security of the Group.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (d) Analysis of changes in financing during the Relevant Periods

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank<br>loans<br>HK\$'000 | Loans<br>from<br>shareholders<br>HK\$'000 | Loans<br>from<br>minority<br>shareholders<br>HK\$'000 | Other<br>loans<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------|---|---|----------------------------|-----------------------------------|-------------------|
| At 1 January 2000  | 52,734  | –                         | 362,877                                   | –   | –                          | –                                 | 415,611           |
| Issuance of ordinary<br>shares, net of issuing<br>expenses   | 1,397,445   | –                         | –   | –   | –                          | –                                 | 1,397,445         |
| Repurchase of shares   | (776)   | –                         | –   | –   | –                          | –                                 | (776)             |
| New bank and other<br>loans  | –   | –                         | 138,832                                   | –   | –                          | –                                 | 138,832           |
| Contribution from a<br>minority shareholder  | –   | –                         | –   | –   | –                          | 172                               | 172               |
| Net cash from<br>financial activities  | 1,396,669   | –                         | 138,832                                   | –   | –                          | 172                               | 1,535,673         |
| Capitalisation of<br>shareholders' loans   | 501,709   | –                         | (501,709)                                 | –   | –                          | –                                 | –                 |
| Shares issued for<br>acquisition of<br>subsidiaries, jointly<br>controlled entities<br>and associated<br>companies | 714,416   | –                         | –   | –   | –                          | –                                 | 714,416           |
| Goodwill eliminated<br>against reserves  | (536,484)   | –                         | –   | –   | –                          | –                                 | (536,484)         |
| Minority's share of<br>losses of subsidiaries  | –   | –                         | –   | –   | –                          | (10,546)                          | (10,546)          |
| Minority's share of<br>net assets of<br>subsidiaries   | –   | –                         | –   | –   | –                          | 10,173                            | 10,173            |
| Acquisition of<br>subsidiaries<br>(Note 33(b))   | –   | 1,410                     | –   | –   | –                          | 1,204                             | 2,614             |
|  | 679,641   | 1,410                     | (501,709)                                 | –   | –                          | 831                               | 180,173           |
| At 31 December 2000  | 2,129,044   | 1,410                     | –   | –   | –                          | 1,003                             | 2,131,457         |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (d) Analysis of changes in financing during the Relevant Periods (continued)

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank<br>loans<br>HK\$'000 | Loans<br>from<br>shareholders<br>HK\$'000 | Loans<br>from<br>minority<br>shareholders<br>HK\$'000 | Other<br>loans<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------|---|---|----------------------------|-----------------------------------|-------------------|
| At 1 January 2001  | 2,129,044   | 1,410                     | –   | –   | –                          | 1,003                             | 2,131,457         |
| Issuance of ordinary<br>shares, net of<br>issuing expenses | 12,912  | –                         | –   | –   | –                          | –                                 | 12,912            |
| New bank and<br>other loans                                | –   | 30,423                    | 100,000                                   | –   | 10,894                     | –                                 | 141,317           |
| Loan repayments  | –   | (2,223)                   | –   | –   | (7,276)                    | –                                 | (9,499)           |
| Contribution from<br>a minority shareholder                | –   | –                         | –   | –   | –                          | 7,064                             | 7,064             |
| Net cash from<br>financing activities                      | 12,912  | 28,200                    | 100,000                                   | –   | 3,618                      | 7,064                             | 151,794           |
| Shares issued for<br>acquisition of<br>subsidiaries        | 416,381   | –                         | –   | –   | –                          | –                                 | 416,381           |
| Minority's share of<br>profits of subsidiaries             | –   | –                         | –   | –   | –                          | 7,185                             | 7,185             |
| Acquisition of<br>subsidiaries<br>(Note 33(b))             | –   | 17,585                    | –   | 1,895   | 12,362                     | 68,993                            | 100,835           |
| Disposal of a<br>subsidiary (Note 33(c))                   | 150   | –                         | –   | –   | –                          | –                                 | 150               |
| Elimination of own<br>shares held                          | (1,091)   | –                         | –   | –   | –                          | –                                 | (1,091)           |
| Exchange adjustment  | –   | (243)                     | –   | (29)  | (76)                       | (87)                              | (435)             |
|  | 415,440   | 17,342                    | –   | 1,866   | 12,286                     | 76,091                            | 523,025           |
| At 31 December 2001  | 2,557,396   | 46,952                    | 100,000                                   | 1,866   | 15,904                     | 84,158                            | 2,806,276         |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (d) Analysis of changes in financing during the Relevant Periods (continued)

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank<br>loans<br>HK\$'000 | Loans<br>from<br>shareholders<br>HK\$'000 | Loans<br>from<br>minority<br>shareholders<br>HK\$'000 | Other<br>loans<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------|---|---|----------------------------|-----------------------------------|-------------------|
| At 1 January 2002  | 2,557,396   | 46,952                    | 100,000                                   | 1,866   | 15,904                     | 84,158                            | 2,806,276         |
| Issuance of ordinary<br>shares, net of<br>issuing expenses | 19,292  | -                         | -   | -   | -                          | -                                 | 19,292            |
| New bank and other<br>loans                                | -   | 14,966                    | 750,000                                   | 1,500   | 898                        | -                                 | 767,364           |
| Loan repayments  | -   | (46,692)                  | -   | (1,866)   | (15,179)                   | -                                 | (63,737)          |
| Contribution from<br>minority shareholders                 | -   | -                         | -   | -   | -                          | 1,410                             | 1,410             |
| Dividends paid to<br>minority shareholders                 | -   | -                         | -   | -   | -                          | (3,176)                           | (3,176)           |
| Net cash from/(used in)<br>financing activities            | 19,292  | (31,726)                  | 750,000                                   | (366)   | (14,281)                   | (1,766)                           | 721,153           |
| Shares issued for<br>acquisition of<br>subsidiaries        | 87,947  | -                         | -   | -   | -                          | -                                 | 87,947            |
| Minority's share of<br>profits of subsidiaries             | -   | -                         | -   | -   | -                          | 28,555                            | 28,555            |
| Acquisition of<br>subsidiaries<br>(Note 33(b))             | -   | -                         | -   | 2,350   | -                          | 57,398                            | 59,748            |
| Deconsolidation<br>of a subsidiary<br>(Note 33(c))         | -   | -                         | -   | -   | -                          | (11,126)                          | (11,126)          |
| Elimination of own<br>shares held                          | (4,137)   | -                         | -   | -   | -                          | -                                 | (4,137)           |
| Dividends declared to<br>minority shareholders             | -   | -                         | -   | -   | -                          | (3,900)                           | (3,900)           |
| Exchange adjustment  | -   | 142                       | -   | -   | 151                        | 465                               | 758               |
|  | 83,810  | 142                       | -   | 2,350   | 151                        | 71,392                            | 157,845           |
| At 31 December 2002  | 2,660,498   | 15,368                    | 850,000                                   | 3,850   | 1,774                      | 153,784                           | 3,685,274         |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (d) Analysis of changes in financing during the Relevant Periods (continued)

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank<br>loans<br>HK\$'000 | Loans<br>from<br>shareholders<br>HK\$'000 | Loans<br>from<br>minority<br>shareholders<br>HK\$'000 | Other<br>loans<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------|---|---|----------------------------|-----------------------------------|-------------------|
| At 1 January 2002  | 2,557,396   | 46,952                    | 100,000                                   | 1,866   | 15,904                     | 84,158                            | 2,806,276         |
| Issuance of ordinary<br>shares, net of<br>issuing expenses | 19,478  | -                         | -   | -   | -                          | -                                 | 19,478            |
| New bank and<br>other loans                                | -   | 3,381                     | 550,000                                   | 1,000   | 934                        | -                                 | 555,315           |
| Loan repayments  | -   | (33,458)                  | -   | (1,866)   | (10,904)                   | -                                 | (46,228)          |
| Net cash from/(used in)<br>financing activities            | 19,478  | (30,077)                  | 550,000                                   | (866)   | (9,970)                    | -                                 | 528,565           |
| Shares issued for<br>acquisition of<br>subsidiaries        | 31,231  | -                         | -   | -   | -                          | -                                 | 31,231            |
| Minority's share of<br>profits of<br>subsidiaries          | -   | -                         | -   | -   | -                          | 2,230                             | 2,230             |
| Acquisition of<br>subsidiaries<br>(Note 33(b))             | -   | -                         | -   | 2,350   | -                          | 48,909                            | 51,259            |
| Elimination of own<br>shares held                          | (4,137)   | -                         | -   | -   | -                          | -                                 | (4,137)           |
| Dividends declared to<br>minority shareholders             | -   | -                         | -   | -   | -                          | (2,867)                           | (2,867)           |
| Exchange adjustment  | -   | 754                       | -   | -   | 795                        | 762                               | 2,311             |
|  | 27,094  | 754                       | -   | 2,350   | 795                        | 49,034                            | 80,027            |
| At 30 June 2002  | 2,603,968   | 17,629                    | 650,000                                   | 3,350   | 6,729                      | 133,192                           | 3,414,868         |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 33. Notes to the consolidated cash flow statements (continued)

## (d) Analysis of changes in financing during the Relevant Periods (continued)

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank<br>loans<br>HK\$'000 | Loans<br>from<br>shareholders<br>HK\$'000 | Loans<br>from<br>minority<br>shareholders<br>HK\$'000 | Other<br>loans<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|---------------------------|---|---|----------------------------|-----------------------------------|-------------------|
| At 1 January 2003  | 2,660,498   | 15,368                    | 850,000                                   | 3,850   | 1,774                      | 153,784                           | 3,685,274         |
| Issuance of ordinary<br>shares, net of<br>issuing expenses | (78)  | -                         | -   | -   | -                          | -                                 | (78)              |
| New bank and<br>other loans                                | -   | 79,875                    | -   | 500   | -                          | -                                 | 80,375            |
| Loan repayments  | -   | (11,352)                  | -   | -   | (880)                      | -                                 | (12,232)          |
| Net cash (used in)/from<br>financing activities            | (78)  | 68,523                    | -   | 500   | (880)                      | -                                 | 68,065            |
| Shares issued for<br>acquisition of<br>subsidiaries        | 93,065  | -                         | -   | -   | -                          | -                                 | 93,065            |
| Minority's share of<br>profits of subsidiaries             | -   | -                         | -   | -   | -                          | 4,523                             | 4,523             |
| Minority interests in<br>other reserve                     | -   | -                         | -   | -   | -                          | (13)                              | (13)              |
| Restructuring of<br>Taiwan print media<br>group            | -   | -                         | -   | -   | -                          | (1,243)                           | (1,243)           |
| Disposal of a subsidiary<br>(Note 33(c))                   | -   | -                         | -   | (4,350)   | -                          | 3,705                             | (645)             |
| Elimination of own<br>shares held                          | (857)   | -                         | -   | -   | -                          | -                                 | (857)             |
| Dividends declared to<br>minority shareholders             | -   | -                         | -   | -   | -                          | (385)                             | (385)             |
| Exchange adjustment  | -   | 17                        | -   | -   | 9                          | 243                               | 269               |
|  | 92,208  | 17                        | -   | (4,350)   | 9                          | 6,830                             | 94,714            |
| At 30 June 2003  | 2,752,628   | 83,908                    | 850,000                                   | -   | 903                        | 160,614                           | 3,848,053         |

## 34. Pledge of assets

- (a) As at 30 June 2003, bank deposits and cash totalling HK\$64,681,000 (31 December 2002, 2001 and 2000: HK\$10,981,000, HK\$63,230,000 and HK\$Nil, respectively) were pledged to banks for securing banking facilities granted to the Group's subsidiaries and an investee company.
- (b) As at 30 June 2003, concession rights and properties of HK\$9,317,000 (31 December 2002, 2001 and 2000: HK\$2,760,000, HK\$Nil and HK\$Nil, respectively) and HK\$607,000 (31 December 2002, 2001 and 2000: HK\$560,000, HK\$Nil and HK\$Nil, respectively) respectively were pledged to banks for securing banking facilities granted to the Group's subsidiaries, respectively.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 35. Contingent liabilities

As at 30 June 2003, the Group had contingent liabilities amounting to approximately HK\$9,400,000 (31 December 2002, 2001 and 2000: HK\$9,400,000, HK\$81,371,000 and HK\$Nil, respectively) comprising of:

- (a) the provision of fixed deposits amounting to approximately HK\$9,400,000 (31 December 2002, 2001 and 2000: HK\$9,400,000, HK\$9,400,000 and HK\$Nil, respectively) as securities for bank loans granted to an investee company in which the Group has 50% equity interest, and
- (b) the contingent liabilities in respect of a litigation proceeding with International Merchandising Corporation on dispute over termination of a sponsorship contract which had been settled in 2002.

## 36. Commitments

## (a) Capital commitments

The capital commitments of the Group at the end of the Relevant Periods comprise:

|                                     | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
|-------------------------------------|------------------|---------------------------------|------------------|-----------------------------|
| Acquisition of new investments      |                  |                                 |                  |                             |
| – Contracted but not provided for   | 171,366          | 370,287                         | 52,006           | 49,001                      |
| Acquisition of capital expenditure  |                  |                                 |                  |                             |
| – Contracted but not provided for   | 1,290            | 45,545                          | 19,349           | 82,337                      |
| – Authorised but not contracted for | –                | –                               | 7,757            | 94,457                      |
|                                     | <u>172,656</u>   | <u>415,832</u>                  | <u>79,112</u>    | <u>225,795</u>              |

- (b) As at 30 June 2003, the Group had commitments in respect of contributions to registered capital of certain investments in Mainland China amounted to approximately HK\$46,530,000 (31 December 2002, 2001 and 2000: HK\$Nil, HK\$174,027,000 and HK\$198,900,000, respectively).

## (c) Commitments under operating leases

As at 31 December 2000, 2001 and 2002 and 30 June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|  | 2000                              |                             | 31 December<br>2001               |                             | 2002                              |                             | 30 June<br>2003                   |                             |
|--|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|  | Land and<br>buildings<br>HK\$'000 | Other<br>assets<br>HK\$'000 | Land and<br>buildings<br>HK\$'000 | Other<br>assets<br>HK\$'000 | Land and<br>buildings<br>HK\$'000 | Other<br>assets<br>HK\$'000 | Land and<br>buildings<br>HK\$'000 | Other<br>assets<br>HK\$'000 |
| Not later than one year                            | 26,319                            | 1,880                       | 29,780                            | 23,894                      | 34,273                            | 30,300                      | 15,743                            | 22,219                      |
| Later than one year<br>and not later<br>five years | 56,327                            | –                           | 44,924                            | 83,948                      | 39,506                            | 79,681                      | 2,081                             | 52,127                      |
| Later than five years                              | –                                 | –                           | –                                 | 158,163                     | 747                               | 66,308                      | –                                 | 15,712                      |
|  | <u>82,646</u>                     | <u>1,880</u>                | <u>74,704</u>                     | <u>266,005</u>              | <u>74,526</u>                     | <u>176,289</u>              | <u>17,824</u>                     | <u>90,058</u>               |

- (d) The Company did not have any commitments at the end of the Relevant Periods.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 37. Related party transactions

In the opinion of the directors of the Company, the following is a summary of significant related party transactions of the Group during the Relevant Periods, in addition to those disclosed in Notes 18, 20, 22, 24 and 26.

|   | Note  | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|---|-------|------------------------|------------------|------------------|--------------------------|------------------|
|   |       | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000         | 2003<br>HK\$'000 |
| Sales to  | (i)   |                        |                  |                  |                          |                  |
| – HWL and its subsidiaries  |       | –                      | 1,440            | 1,354            | –                        | 368              |
| – a joint venture of HWL  |       | –                      | 2,300            | 32               | –                        | –                |
| – Metro Broadcast Corporation Limited (“Metro”), an associated company of HWL and CKH |       | 834                    | 598              | 547              | –                        | 690              |
| – CKH and its subsidiaries  |       | –                      | –                | 867              | –                        | 128              |
| – a jointly controlled entity   |       | –                      | –                | 1,676            | –                        | 4,308            |
| – minority shareholders and their subsidiaries  |       | –                      | 7,834            | 72,859           | –                        | 62,614           |
| Cost of sales payable to  | (ii)  |                        |                  |                  |                          |                  |
| – minority shareholders of subsidiaries   |       | –                      | 41,933           | 51,296           | 19,645                   | 19,332           |
| Internet content supply, event air-time and advertising expenses payable to Metro     |       | 7,100                  | 3,641            | 3,435            | 1,919                    | –                |
| Office rental receivable from Metro   | (iii) | –                      | 1,655            | 1,580            | 894                      | 472              |
| Office and warehouse rental and service fees payable to related companies             | (iv)  |                        |                  |                  |                          |                  |
| – an equity joint venture of HWL and CKH  |       | 3,610                  | 5,390            | 3,607            | 2,275                    | 2,039            |
| – a subsidiary of CKH   |       | 16,515                 | 12,807           | 10,356           | 5,178                    | 6,156            |
| – minority shareholders and their subsidiaries  |       | –                      | –                | 921              | 300                      | 814              |
| Service fees payable to   | (v)   |                        |                  |                  |                          |                  |
| – a subsidiary of HWL   |       | 4,197                  | 4,812            | 5,712            | –                        | 2,003            |
| Service fees payable to   | (vi)  |                        |                  |                  |                          |                  |
| – HWL and its subsidiaries  |       | 4,212                  | 1,510            | 3,414            | 426                      | 921              |
| – an investee company   |       | –                      | 3,442            | 6,821            | 6,821                    | –                |
| – subsidiaries of minority shareholders   |       | –                      | 3,357            | 6,391            | 3,025                    | 4,463            |
| – a company owned by a past non-executive director                                    |       | 2,489                  | –                | 468              | –                        | –                |
| Interest income receivable from loans to  | (vii) |                        |                  |                  |                          |                  |
| – an investee company   |       | –                      | 1,608            | 1,886            | 935                      | –                |
| – a minority shareholder of a subsidiary  |       | –                      | 250              | 677              | 337                      | –                |
| Interest expenses payable to  | 26(b) |                        |                  |                  |                          |                  |
| – a subsidiary of HWL   |       | –                      | 47               | 6,145            | 2,438                    | 3,169            |
| – a subsidiary of CKH   |       | –                      | 23               | 3,073            | 1,219                    | 1,584            |
| – Cranwood  |       | –                      | 47               | 6,145            | 2,438                    | 3,169            |
| Database sub-license fee payable to China Travel Network Company Limited              |       | 2,340                  | –                | –                | –                        | –                |



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 37. Related party transactions (continued)

Note:

- (i) Sales to related companies are principally at terms no less favourable than those sales to third party customers of the Group.
- (ii) Cost of sales were payable to the minority shareholders of subsidiaries at market rates.
- (iii) Rental of office premises was charged to Metro based on the floor areas occupied.
- (iv) The rental and service fees were payable to the related companies for office premises and warehouses leased to the Group. The office premises and warehouses were leased to the Group at market rates.
- (v) The service fees were recharged by a subsidiary of HWL on cost reimbursement basis for the provision of administrative, information technology and consultancy services.
- (vi) The service fees were payable to related companies for the provision of goods and services rendered at market rates.
- (vii) Interests on loans to related companies were calculated at interest rates comparable to market.

## 38. Principal subsidiaries, jointly controlled entities, associated companies and investment securities

Particulars of principal subsidiaries, jointly controlled entities, associated companies and investment securities at the date of this report are as follows:

| Name  | Date of incorporation | Place of incorporation          | Particular of issued/ registered capital                   | Effective interest held | Principal activities and place of operation   | Name of statutory auditors |
|---|-----------------------|---------------------------------|--|-------------------------|---|----------------------------|
| <i>Directly held:</i>   |                       |                                 |  |                         |   |                            |
| tom.com enterprises limited   | 8 November 1999       | British Virgin Islands<br>"BVI" | 1 ordinary share of US\$1                                  | 100%                    | Holds the domain name of www.tom.com  | note (b)                   |
| TOM.COM INTERNATIONAL LIMITED   | 26 May 1999           | Hong Kong                       | 10 ordinary shares of HK\$1 each of the Group in Hong Kong | 100%                    | Operates tom.com portal and manages strategic investments                                       | note (c)                   |
| TOM Outdoor Media Group Limited   | 28 January 2000       | BVI                             | 1 ordinary share of US\$1                                  | 100%                    | Investment holding in Mainland China  | note (b)                   |
| <i>Indirectly held:</i>   |                       |                                 |  |                         |   |                            |
| <b>Internet group</b>   |                       |                                 |  |                         |   |                            |
| <sup>^</sup> AASTOCKS.com LIMITED, changed to subsidiary on 1 April 2002 and investment security on 18 May 2003 | 6 March 2000          | Hong Kong                       | 23,000,000 ordinary shares of HK\$1 each                   | 16.7%                   | Operates financial website in Hong Kong   | note (d)                   |
| Advanced Internet Services Limited, acquired on 1 November 2000   | 3 September 1999      | Hong Kong                       | 10,000,000 ordinary shares of US\$0.01 each                | 100%                    | Investment holding in Hong Kong   | note (c)                   |
| Beijing GreaTom United Technology Company Limited   | 12 March 2001         | Mainland China                  | Registered capital RMB25,000,000                           | 70%                     | Development of operating platform for broadband internet value-added services in Mainland China | 華實會計師事務所                   |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 38. Principal subsidiaries, jointly controlled entities, associated companies and investment securities (continued)

| Name  | Date of incorporation | Place of incorporation | Particular of issued/ registered capital | Effective interest held | Principal activities and place of operation  | Name of statutory auditors |
|---|-----------------------|------------------------|--|-------------------------|--|----------------------------|
| <b>Internet group (continued)</b>   |                       |                        |  |                         |  |                            |
| @ Beijing Lei Ting Wan Jun Network Technology Limited   | 23 November 2000      | Mainland China         | Registered capital RMB11,000,000         | 100%                    | Provision of internet content services and telecom value-added services in Mainland China            | 北京華慶會計師事務所<br>有限責任公司       |
| @ 北京唐碼國際廣告有限公司<br>(formerly known as 北京綠精靈廣告有限公司)   | 5 March 2001          | Mainland China         | Registered capital RMB1,000,000          | 100%                    | Advertising sales in Mainland China  | note (b)                   |
| Beijing Redsail Netlegend Data Network Technology Company Limited, changed to subsidiary on 25 June 2003              | 19 June 2000          | Mainland China         | Registered capital RMB62,800,000         | 100%                    | Provision of interactive call center in Mainland China   | 北京中科華會計師事務所                |
| Beijing Super Channel Network Limited   | 20 January 2000       | Mainland China         | Registered capital US\$13,000,000        | 100%                    | Development of software, information system, computer network and website products in Mainland China | note (c)                   |
| Cernet Information Technology Company Limited, acquired on 1 January 2002   | 11 December 2001      | Mainland China         | Registered capital RMB60,000,000         | 51%                     | Provision of system integration and consultancy services in Mainland China                           | 華聞會計師事務所<br>有限責任公司         |
| * Cernet Online Company Limited   | 17 December 2001      | Mainland China         | Registered capital RMB10,000,000         | 37%                     | Acts as primary internet services provider in Mainland China   | note (b)                   |
| * ChinaPlus (Beijing) Company Limited   | 30 December 2001      | Mainland China         | Registered capital US\$3,500,000         | 50%                     | Operates interactive marketing business in Mainland China and Taiwan                                 | 華實會計師事務所                   |
| ECLink Electronic Network Systems (Shenzhen) Company Limited  | 21 July 1997          | Mainland China         | Registered capital US\$3,000,000         | 100%                    | Software, electronics and computer network system development in Mainland China                      | note (c)                   |
| # She Communications Limited  | 15 January 1999       | Hong Kong              | 2 ordinary shares of HK\$10 each         | 33.3%                   | Operates a fashion website in Hong Kong  | note (c)                   |
| ^ Stocks Technology Enterprises Limited, changed to subsidiary on 1 April 2002 and investment security on 18 May 2003 | 7 March 2000          | BVI                    | 1 ordinary share of US\$1                | 50%                     | Holds AASTOCKS.com software license in Hong Kong   | note (d)                   |
| tom.com (china) investment limited  | 28 July 2000          | Mainland China         | Registered capital US\$30,000,000        | 100%                    | Investment holding in Mainland China   | note (b)                   |
| @ 深圳市新飛網信息技術有限公司, acquired on 1 November 2000   | 16 November 1999      | Mainland China         | Registered capital RMB23,000,000         | 100%                    | Operates 163.net, e-mails service provider in Mainland China   | note (b)                   |
| ^ Shanghai Maya Online Broadband Network Company Limited, changed to investment security on 1 October 2002            | 22 October 1999       | Mainland China         | Registered capital RMB50,000,000         | 50%                     | Operates a website and engages in content provision and development in Mainland China                | note (d)                   |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 38. Principal subsidiaries, jointly controlled entities, associated companies and investment securities (continued)

| Name   | Date of incorporation | Place of incorporation | Particular of issued/ registered capital | Effective interest held | Principal activities and place of operation                       | Name of statutory auditors |
|--|-----------------------|------------------------|--|-------------------------|---|----------------------------|
| <b>Outdoor media group</b>   |                       |                        |  |                         |   |                            |
| @ Fujian Seeecout Guangming Media Advertising Company Limited, acquired on 1 July 2002                             | 30 August 2002        | Mainland China         | Registered capital RMB5,000,000          | 70%                     | Advertising sales in Mainland China                               | note (b)                   |
| @ Henan New Tianming Advertising and Information Chuanbo Company Limited, acquired on 1 April 2002                 | 10 April 2002         | Mainland China         | Registered capital RMB6,000,000          | 50%                     | Advertising sales in Mainland China                               | 河南中聯會計師事務所有限公司             |
| @ Kunming Fench Media Company Limited  | 30 July 2001          | Mainland China         | Registered capital RMB11,000,000         | 100%                    | Advertising sales in Mainland China                               | 雲南興華會計師事務所有限公司             |
| @ Kunming Fench Star Information Industry Limited, acquired on 31 December 2000                                    | 29 January 1997       | Mainland China         | Registered capital RMB11,000,000         | 100%                    | Advertising sales in Mainland China                               | note (b)                   |
| @ Liaoning New Star Guangming Media Assets Company Limited, acquired on 1 April 2002                               | 30 April 2002         | Mainland China         | Registered capital RMB10,000,000         | 60%                     | Advertising sales in Mainland China                               | note (b)                   |
| Perfect Team Limited, acquired on 1 December 2001  | 11 May 2001           | BVI                    | 4,000,000 ordinary shares of US\$1 each  | 65%                     | Advertising sales in Mainland China                               | note (b)                   |
| @ Qingdao Chunyu Advertising Chuanbo Company Limited, acquired on 1 April 2002                                     | 29 August 2002        | Mainland China         | Registered capital RMB1,500,000          | 70%                     | Advertising sales in Mainland China                               | note (b)                   |
| @ Shandong Qilu International Outdoor Media Company Limited, acquired on 1 April 2002                              | 7 June 2002           | Mainland China         | Registered capital RMB11,000,000         | 60%                     | Advertising sales in Mainland China                               | 山東中宇會計師事務所有限公司             |
| @ Shenyang Sano Global Media Company Limited, acquired on 1 July 2002  | 2 September 2002      | Mainland China         | Registered capital RMB3,000,000          | 60%                     | Advertising sales in Mainland China                               | 沈陽中審會計師事務所                 |
| @ Sichuan Southwest Outdoor Media Company Limited, acquired on 1 August 2002                                       | 23 January 2003       | Mainland China         | Registered capital RMB3,000,000          | 70%                     | Advertising sales in Mainland China                               | note (b)                   |
| @ Xiamen Bomei Lianhe Advertising Company Limited, acquired on 1 July 2002   | 20 August 2002        | Mainland China         | Registered capital RMB1,500,000          | 60%                     | Advertising sales in Mainland China                               | 廈門達新會計師事務所有限公司             |
| <sup>^</sup> Shanghai Maya Cultural Transmission Company Limited, changed to investment security on 1 October 2002 | 11 December 1998      | Mainland China         | Registered capital RMB20,000,000         | 50%                     | Provision of advertising and marketing services in Mainland China | note (d)                   |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 38. Principal subsidiaries, jointly controlled entities, associated companies and investment securities (continued)

| Name   | Date of incorporation | Place of incorporation | Particular of issued/ registered capital        | Effective interest held | Principal activities and place of operation  | Name of statutory auditors                         |
|--|-----------------------|------------------------|---|-------------------------|--|--|
| <b>Publishing division</b>   |                       |                        |   |                         |  |  |
| Business Weekly Publishing Inc., acquired on 1 January 2002          | 9 November 1987       | Taiwan                 | 2,069,120 ordinary shares of NTS10 each         | 83.19%                  | Publishing of magazines in Taiwan  | note (c)   |
| Cité Publishing Limited, acquired on 1 October 2001                  | 19 September 1996     | Taiwan                 | 28,171,506 ordinary shares of NTS10 each        | 83.15%                  | Publishing of books in Taiwan  | note (c)   |
| Home Media Group Limited, acquired on 1 October 2001                 | 2 February 2001       | Cayman Islands         | 999,892,935 ordinary shares of US\$0.00001 each | 83.17%                  | Investment holding in Taiwan   | note (b)   |
| Nong Nong Magazine Company Limited, acquired on 1 January 2002       | 19 March 1991         | Taiwan                 | 250,000 ordinary shares of NTS100 each          | 66.55%                  | Publishing of magazines in Taiwan  | note (c)   |
| PC Home Publications Inc., acquired on 1 October 2001                | 13 December 1995      | Taiwan                 | 18,310,000 ordinary shares of NTS10 each        | 83.17%                  | Publishing of magazines which focus on information technology in Taiwan                                    | note (c)   |
| Sharp Point Publishing Company Limited, acquired on 16 November 2001 | 12 July 1982          | Taiwan                 | 10,296,000 ordinary shares of NTS10 each        | 83.19%                  | Publishing of youth magazines and books in Taiwan  | note (c)   |
| TOM (Cup Magazine) Publishing Limited                                | 17 July 2002          | Hong Kong              | 2 ordinary shares of HK\$1 each                 | 100%                    | Publishing of magazines in Hong Kong   | note (b)   |
| Yazhou Zhoukan Limited, acquired on 1 March 2001                     | 25 November 1993      | Hong Kong              | 9,500 ordinary shares of HK\$1 each             | 50%                     | Publishing of regional news magazines in Asia  | note (c)   |
| <b>Sports and entertainment division</b>                             |                       |                        |   |                         |  |  |
| Media Serv Limited, acquired on 5 September 2002                     | 25 April 1994         | BVI                    | 200 ordinary shares of US\$1 each               | 60%                     | Advertising and sponsorship sales in relation to sports event and programmes in Hong Kong                  | Billy Ho & Co. Certified Public Accountants        |
| Y.C. Press Advertising Limited, acquired on 1 November 2000          | 15 April 1998         | Hong Kong              | 6,000 ordinary shares of HK\$100 each           | 70%                     | Sports advertising and event management in Mainland China and Hong Kong                                    | Dominic K.F. Li & Co. Certified Public Accountants |
| @ 廣州市鴻翔音像製作有限公司, acquired on 16 October 2002                         | 21 July 1998          | Mainland China         | Registered capital RMB800,000                   | 50%                     | Sales of audio-visual products in Mainland China   | note (b)   |
| @ 廣東羊城報業體育發展有限公司, acquired on 1 November 2000                        | 2 September 1998      | Mainland China         | Registered capital RMB5,000,000                 | 70%                     | Manages sponsorships and marketing of sports events and production of TV sports programs in Mainland China | 廣東金橋會計師事務所有限責任公司                                   |
| @ 廣東羊城報業廣告有限公司, acquired on 1 November 2000                          | 29 August 1996        | Mainland China         | Registered capital RMB1,980,000                 | 70%                     | Advertising, corporate image design and sale of products in Mainland China                                 | 廣東金橋會計師事務所有限責任公司                                   |

V. NOTES TO THE FINANCIAL INFORMATION *(continued)*38. Principal subsidiaries, jointly controlled entities, associated companies and investment securities *(continued)*

- \* Jointly controlled entity
- # Associated company
- @ The equity interest is held by individual nominees on behalf of the Group
- ^ Investment security

*Note:*

- (a) The above table lists the principal subsidiaries, jointly controlled entities, associated companies and investment securities of the Group as at the date of this report which, in the opinion of the directors of the Company, principally affect the results and net assets of the Group. To give full details of subsidiaries, jointly controlled entities, associated companies and investment securities would, in the opinion of the directors of the Company, result in particulars of excessive length.
- (b) No audit requirement.
- (c) Audited by PricewaterhouseCoopers, Certified Public Accountants.
- (d) Investment securities as at the date of this report, therefore no disclosure of auditors is required.

## 39. Subsequent events

- (a) On 2 July 2003, the Group entered into an agreement with an independent third party for the proposed acquisition of 64.07% of the issued share capital of China Entertainment Television Broadcast Limited by issuance of 21,250,000 shares of the Company at HK\$2.535 per share. Under the terms of the agreement, the Group has committed to assume all funding obligations of the businesses of not less than a total of US\$30 million (approximately HK\$234 million) over a period of 30 months, subject to the terms and conditions stipulated in the agreement.
- (b) On 3 July 2003, the Group entered into the placing and subscription agreements for placing and allotment of 450,000,000 shares of the Company for a net proceed of approximately HK\$995 million. The completion of the placing and subscription took place on 7 July 2003 and 8 July 2003, respectively.
- (c) On 10 July 2003, four Taiwan subsidiaries of the Group entered into the Financing Facility Agreement with five financial institutions pursuant to which the said subsidiaries have been granted a syndicated loan facility in an aggregate amount of up to NT\$1,875 million (approximately HK\$426 million).
- (d) On 12 July 2003, the Group completed the restructuring of Taiwan print media group through the acquisition of approximately 6.13% of the issued share capital of Cité Publishing Holding Limited ("Cité Publishing Holding"), the holding company of Taiwan print media companies, by issuance of 20,632,106 shares of the Company and booked at HK\$2.375 per share, which was the fair value calculated based on the closing price of the Company as quoted on the Stock Exchange at the date of acquisition. The shareholding of the Group in Cité Publishing Holding increased from approximately 77.32% to approximately 83.45%.
- (e) On 31 July 2003, the Group completed the acquisition of approximately 0.39% of the issued share capital of Cité Publishing Holding from a previously non-selling party (who subsequently agreed to sell his holding of 1.55% of the issued share of Home Media Group Limited and to subscribe for 0.78% of the issued capital of Cité Publishing Holding), by issuance of 1,319,998 shares of the Company and booked at HK\$2.1 per share, which was the fair value calculated based on the closing price of the Company as quoted on the Stock Exchange at the date of acquisition. The shareholding of the Group in Cité Publishing Holding changed to approximately 83.19%.

## 40. Subsequent accounts

No audited accounts have been prepared for the Company and any of the companies comprising the Group in respect of any period subsequent to 30 June 2003 and, save as disclosed in the Accountants' Report, no dividends or other distributions have been declared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2003.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
 Hong Kong



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central  
Hong Kong

26 August 2003

The Directors  
TOM.COM LIMITED

Dear Sirs,

We set out below our report on the financial information regarding China Entertainment Television Broadcast Limited ("CETV") and its subsidiary (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003 (the "Relevant Periods"), for inclusion in the circular of TOM.COM LIMITED ("TOM") dated 26 August 2003 (the "Circular") in connection with the proposed acquisition of a 64.07% equity interest in CETV.

CETV was incorporated in Hong Kong on 4 January 1994 as a limited liability company under the Hong Kong Companies Ordinance. The company is principally engaged in the operations of satellite television channels and provision of content and television programmes to various platforms including satellite television and syndication networks. During the Relevant Periods, CETV had the following subsidiary, which was a private company:

| Name   | Place and date of incorporation | Particulars of issued and paid-up capital | Attributable equity interest | Principal activity |
|--|---------------------------------|---|------------------------------|--------------------|
| Xinhua Entertainment Television/Film International Company Limited | Hong Kong, 15 October 1996      | 10,000 ordinary shares of HK\$1 each      | 60%                          | Dormant            |

CETV and its subsidiary have adopted 31 December as their financial year end date. The accounts of CETV were audited by Ernst & Young, Certified Public Accountants, for each of the three years ended 31 December 2000, 2001 and 2002. The subsidiary had not carried out any business activities since its incorporation and had been deregistered on 16 November 2001. No audited accounts had been prepared for the subsidiary.

For the purpose of this report, we have examined the audited accounts or, where appropriate, the management accounts of CETV and the management accounts of its subsidiary for the Relevant Periods, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information set out in sections I to V below (the “Financial Information”) has been prepared based on the audited accounts or, where appropriate, the management accounts of CETV and the management accounts of its subsidiary for the Relevant Periods, after making such adjustments as are appropriate. The directors of CETV, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of CETV are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and CETV as at 31 December 2000, 2001 and 2002 and 30 June 2003 and of the results and cash flows of the Group for the Relevant Periods.

## I. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

|                                      | Section V<br>Note | Year ended 31 December |                  |                  | Six months<br>ended 30 June |                  |
|--------------------------------------|-------------------|------------------------|------------------|------------------|-----------------------------|------------------|
|                                      |                   | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000            | 2003<br>HK\$'000 |
| Turnover                             | 3                 | <u>–</u>               | <u>9,012</u>     | <u>3,510</u>     | <u>1,027</u>                | <u>5,351</u>     |
| Cost of sales                        |                   | –                      | 46,800           | 44,143           | 21,795                      | 22,592           |
| Other revenues                       | 3                 | (41)                   | (114)            | (42)             | (42)                        | –                |
| Selling and marketing<br>expenses    |                   | –                      | 13,601           | 15,308           | 6,957                       | 9,087            |
| Administrative expenses              |                   | 34,797                 | 53,271           | 52,686           | 23,183                      | 25,072           |
| Other operating income               |                   | (18,273)               | (9,828)          | –                | –                           | –                |
| Other operating expenses             |                   | <u>27,605</u>          | <u>28,793</u>    | <u>28,838</u>    | <u>14,357</u>               | <u>14,525</u>    |
| Operating loss                       | 4                 | 44,088                 | 123,511          | 137,423          | 65,223                      | 65,925           |
| Finance costs                        | 5                 | <u>13,314</u>          | <u>9,057</u>     | <u>13,351</u>    | <u>6,427</u>                | <u>7,348</u>     |
| Loss before taxation                 |                   | 57,402                 | 132,568          | 150,774          | 71,650                      | 73,273           |
| Taxation                             | 6                 | <u>–</u>               | <u>–</u>         | <u>177</u>       | <u>–</u>                    | <u>103</u>       |
| Loss attributable to<br>shareholders | 7                 | <u>57,402</u>          | <u>132,568</u>   | <u>150,951</u>   | <u>71,650</u>               | <u>73,376</u>    |
| Loss per share                       | 9                 | <u>HK\$1,913</u>       | <u>HK\$4,419</u> | <u>HK\$5,032</u> | <u>HK\$2,388</u>            | <u>HK\$2,446</u> |



## II(A). CONSOLIDATED BALANCE SHEETS

|  | Section V<br><i>Note</i> | 2000<br><i>HK\$'000</i> | 31 December<br>2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 30 June<br>2003<br><i>HK\$'000</i> |
|--|--------------------------|-------------------------|--|-------------------------|------------------------------------|
| <b>ASSETS</b>                                  |                          |                         |  |                         |                                    |
| Non-current assets                             |                          |                         |  |                         |                                    |
| Fixed assets                                   | 12                       | 16,401                  | 5,552                                  | 4,904                   | 4,787                              |
| Purchased program<br>and film rights           | 13                       | 2,670                   | 6,641                                  | 15,204                  | 10,758                             |
|  |                          | <u>19,071</u>           | <u>12,193</u>                          | <u>20,108</u>           | <u>15,545</u>                      |
| Current assets                                 |                          |                         |  |                         |                                    |
| Trade receivables                              | 15                       | –                       | 1,312                                  | 2,360                   | 5,224                              |
| Prepayments, deposits<br>and other receivables |                          | 1,057                   | 1,185                                  | 843                     | 891                                |
| Amounts due from related<br>companies          | 16                       | –                       | 4,517                                  | 4,636                   | –                                  |
| Bank balances and cash                         |                          | 242                     | 6,797                                  | 402                     | 613                                |
|  |                          | <u>1,299</u>            | <u>13,811</u>                          | <u>8,241</u>            | <u>6,728</u>                       |
| Current liabilities                            |                          |                         |  |                         |                                    |
| Trade payables                                 |                          | 452                     | 186                                    | –                       | –                                  |
| Other payables and accruals                    |                          | 27,689                  | 28,766                                 | 32,803                  | 38,065                             |
| Amounts due to related<br>companies            | 16                       | 2,777                   | 114                                    | –                       | 644                                |
| Obligation under<br>finance leases             |                          | 49                      | –                                      | –                       | –                                  |
| Current portion of other<br>long-term loans    | 17                       | –                       | –                                      | –                       | 2,440                              |
| Taxation payable                               |                          | –                       | –                                      | 131                     | 65                                 |
|  |                          | <u>30,967</u>           | <u>29,066</u>                          | <u>32,934</u>           | <u>41,214</u>                      |
| Net current liabilities                        |                          | <u>(29,668)</u>         | <u>(15,255)</u>                        | <u>(24,693)</u>         | <u>(34,486)</u>                    |
| Total assets less current<br>liabilities       |                          | <u>(10,597)</u>         | <u>(3,062)</u>                         | <u>(4,585)</u>          | <u>(18,941)</u>                    |
| Non-current liabilities                        |                          |                         |  |                         |                                    |
| Loan from the immediate<br>holding company     | 18                       | 88,320                  | 228,170                                | 377,337                 | 438,670                            |
| Other long-term loans                          | 17                       | 6,837                   | 7,090                                  | 7,351                   | 5,038                              |
|  |                          | <u>95,157</u>           | <u>235,260</u>                         | <u>384,688</u>          | <u>443,708</u>                     |
| Net liabilities                                |                          | <u>(105,754)</u>        | <u>(238,322)</u>                       | <u>(389,273)</u>        | <u>(462,649)</u>                   |
| <b>CAPITAL AND RESERVES</b>                    |                          |                         |  |                         |                                    |
| Share capital                                  | 19                       | 9                       | 9                                      | 9                       | 9                                  |
| Accumulated losses                             | 20                       | (105,763)               | (238,331)                              | (389,282)               | (462,658)                          |
| Shareholders' deficits                         |                          | <u>(105,754)</u>        | <u>(238,322)</u>                       | <u>(389,273)</u>        | <u>(462,649)</u>                   |

## II(B). BALANCE SHEETS OF CETV

|  | Section V<br><i>Note</i> | 2000<br><i>HK\$'000</i> | 31 December<br>2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 30 June<br>2003<br><i>HK\$'000</i> |
|--|--------------------------|-------------------------|--|-------------------------|------------------------------------|
| <b>ASSETS</b>                                  |                          |                         |  |                         |                                    |
| Non-current assets                             |                          |                         |  |                         |                                    |
| Fixed assets                                   | 12                       | 16,401                  | 5,552                                  | 4,904                   | 4,787                              |
| Purchased program<br>and film rights           | 13                       | 2,670                   | 6,641                                  | 15,204                  | 10,758                             |
| Subsidiary                                     | 14                       | 22                      | –                                      | –                       | –                                  |
|  |                          | <u>19,093</u>           | <u>12,193</u>                          | <u>20,108</u>           | <u>15,545</u>                      |
| Current assets                                 |                          |                         |  |                         |                                    |
| Trade receivables                              | 15                       | –                       | 1,312                                  | 2,360                   | 5,224                              |
| Prepayments, deposits<br>and other receivables |                          | 1,057                   | 1,185                                  | 843                     | 891                                |
| Amounts due from<br>related companies          | 16                       | –                       | 4,517                                  | 4,636                   | –                                  |
| Bank balances and cash                         |                          | 242                     | 6,797                                  | 402                     | 613                                |
|  |                          | <u>1,299</u>            | <u>13,811</u>                          | <u>8,241</u>            | <u>6,728</u>                       |
| Current liabilities                            |                          |                         |  |                         |                                    |
| Trade payables                                 |                          | 452                     | 186                                    | –                       | –                                  |
| Other payables and accruals                    |                          | 27,689                  | 28,766                                 | 32,803                  | 38,065                             |
| Amounts due to related<br>companies            | 16                       | 2,777                   | 114                                    | –                       | 644                                |
| Obligation under finance<br>leases             |                          | 49                      | –                                      | –                       | –                                  |
| Current portion of other<br>long-term loans    | 17                       | –                       | –                                      | –                       | 2,440                              |
| Taxation payable                               |                          | –                       | –                                      | 131                     | 65                                 |
|  |                          | <u>30,967</u>           | <u>29,066</u>                          | <u>32,934</u>           | <u>41,214</u>                      |
| Net current liabilities                        |                          | <u>(29,668)</u>         | <u>(15,255)</u>                        | <u>(24,693)</u>         | <u>(34,486)</u>                    |
| Total assets less current liabilities          |                          | <u>(10,575)</u>         | <u>(3,062)</u>                         | <u>(4,585)</u>          | <u>(18,941)</u>                    |
| Non-current liabilities                        |                          |                         |  |                         |                                    |
| Loan from the immediate<br>holding company     | 18                       | 88,320                  | 228,170                                | 377,337                 | 438,670                            |
| Other long-term loans                          | 17                       | 6,837                   | 7,090                                  | 7,351                   | 5,038                              |
|  |                          | <u>95,157</u>           | <u>235,260</u>                         | <u>384,688</u>          | <u>443,708</u>                     |
| Net liabilities                                |                          | <u>(105,732)</u>        | <u>(238,322)</u>                       | <u>(389,273)</u>        | <u>(462,649)</u>                   |
| <b>CAPITAL AND RESERVES</b>                    |                          |                         |  |                         |                                    |
| Share capital                                  | 19                       | 9                       | 9                                      | 9                       | 9                                  |
| Accumulated losses                             | 20                       | (105,741)               | (238,331)                              | (389,282)               | (462,658)                          |
| Shareholders' deficits                         |                          | <u>(105,732)</u>        | <u>(238,322)</u>                       | <u>(389,273)</u>        | <u>(462,649)</u>                   |

## III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

|   | Section V<br><i>Note</i> | Year ended 31 December  |                         |                         | Six months<br>ended 30 June |                         |
|---|--------------------------|-------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
|   |                          | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i> | 2002<br><i>HK\$'000</i>     | 2003<br><i>HK\$'000</i> |
| Total shareholders' deficits at 1 January           |                          | (373,419)               | (105,754)               | (238,322)               | (238,322)                   | (389,273)               |
| Loss for the year/period                            | 20                       | (57,402)                | (132,568)               | (150,951)               | (71,650)                    | (73,376)                |
| Contribution from owners                            | 20                       | 325,067                 | —                       | —                       | —                           | —                       |
| Total shareholders' deficits at 31 December/30 June |                          | <u>(105,754)</u>        | <u>(238,322)</u>        | <u>(389,273)</u>        | <u>(309,972)</u>            | <u>(462,649)</u>        |

## IV. CONSOLIDATED CASH FLOW STATEMENTS

|   | Section V<br>Note | Year ended 31 December |                   |                   | Six months<br>ended 30 June |                   |
|---|-------------------|------------------------|-------------------|-------------------|-----------------------------|-------------------|
|   |                   | 2000<br>HK\$'000       | 2001<br>HK\$'000  | 2002<br>HK\$'000  | 2002<br>HK\$'000            | 2003<br>HK\$'000  |
| Net cash outflow from operations                  | 22(a)             | (53,665)               | (93,832)          | (102,851)         | (55,294)                    | (40,835)          |
| Interest paid                                     |                   | (883)                  | –                 | –                 | –                           | –                 |
| Interest element of finance lease                 |                   | (41)                   | (2)               | –                 | –                           | –                 |
| PRC income tax paid                               |                   | –                      | –                 | (46)              | –                           | (169)             |
|   |                   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Net cash used in operating activities             |                   | <u>(54,589)</u>        | <u>(93,834)</u>   | <u>(102,897)</u>  | <u>(55,294)</u>             | <u>(41,004)</u>   |
| Investing activities                              |                   |                        |                   |                   |                             |                   |
| Interest received                                 |                   | –                      | 7                 | –                 | –                           | –                 |
| Purchase of fixed assets                          |                   | (10,447)               | (1,392)           | (1,149)           | (172)                       | (996)             |
| Sale of fixed assets                              |                   | 495                    | –                 | 28                | –                           | –                 |
| Purchase of program and film rights               |                   | (2,988)                | (29,225)          | (38,454)          | (20,409)                    | (11,901)          |
|   |                   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Net cash used in investing activities             |                   | <u>(12,940)</u>        | <u>(30,610)</u>   | <u>(39,575)</u>   | <u>(20,581)</u>             | <u>(12,897)</u>   |
| Net cash used before financing                    |                   | <u>(67,529)</u>        | <u>(124,444)</u>  | <u>(142,472)</u>  | <u>(75,875)</u>             | <u>(53,901)</u>   |
| Financing   | 22(b)             |                        |                   |                   |                             |                   |
| New loans   |                   | 85,284                 | 131,048           | 136,077           | 69,861                      | 54,112            |
| Loan repayments                                   |                   | (10,537)               | –                 | –                 | –                           | –                 |
| Capital element of finance lease payments         |                   | (596)                  | (49)              | –                 | –                           | –                 |
|   |                   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Net cash from financing                           |                   | <u>74,151</u>          | <u>130,999</u>    | <u>136,077</u>    | <u>69,861</u>               | <u>54,112</u>     |
| Increase/(decrease) in cash and cash equivalents  |                   | 6,622                  | 6,555             | (6,395)           | (6,014)                     | 211               |
| Cash and cash equivalents, at 1 January           |                   | (6,380)                | 242               | 6,797             | 6,797                       | 402               |
|   |                   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>           | <u>          </u> |
| Cash and cash equivalents, at 31 December/30 June |                   | <u>242</u>             | <u>6,797</u>      | <u>402</u>        | <u>783</u>                  | <u>613</u>        |
| Analysis of balances of cash and cash equivalents |                   |                        |                   |                   |                             |                   |
| Bank balances and cash                            |                   | <u>242</u>             | <u>6,797</u>      | <u>402</u>        | <u>783</u>                  | <u>613</u>        |

## V. NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of preparation

The Group had shareholders' deficits and net current liabilities as at 31 December 2000, 2001 and 2002 and 30 June 2003. The Financial Information has been prepared on a going concern basis which assumes the continuing financial support of CETV's holding company. In this regard, Turner Broadcasting System, Inc. ("TBS"), the current intermediate holding company of CETV has indicated its intention to provide financial support to CETV in order to enable CETV to meet its liabilities as they fall due for a twelve months period from the latest balance sheet date of 30 June 2003. In addition, subsequent to the completion of the acquisition of CETV by TOM, TOM will provide funding to the operations of CETV for an aggregate amount up to US\$30 million (equivalent to approximately HK\$234 million), subject to the terms stipulated in a shareholders deed to be entered into between TOM and TBS upon completion.

For the purpose of this report, the Financial Information of the Group as at and for the year ended 31 December 2002 and the six months ended 30 June 2002 and 2003 also represented that of CETV as the sole subsidiary of CETV was deregistered in 2001.

### 2. Principal accounting policies

The principal accounting policies adopted in the preparation of the Financial Information included in this report are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention.

#### (a) Consolidation

The consolidated accounts include the accounts of CETV and its subsidiary made up to 31 December.

Subsidiaries are those entities in which CETV, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In CETV's balance sheet, the investment in subsidiary is stated at cost less provision for impairment losses. The results of subsidiary are accounted for by CETV on the basis of dividends received and receivable.

#### (b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Leasehold improvements are depreciated over the period of the leases while other fixed assets are depreciated at rates sufficient to write-off their cost less accumulated impairment losses, if any, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|                                   |   |
|-----------------------------------|---|
| Furniture, fixtures and equipment | 20% to 33 <sup>1</sup> / <sub>3</sub> % |
| Studio and broadcasting equipment | 20%                                     |
| Motor vehicles                    | 25%                                     |

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account.

**V. NOTES TO THE FINANCIAL INFORMATION** *(continued)***2. Principal accounting policies** *(continued)**(b) Fixed assets and depreciation (continued)*

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

*(c) Purchased program and film rights*

Purchased program and film rights are stated at cost less amortisation and accumulated impairment losses, if any. Cost comprises direct expenditure on licensing the program and film rights. A major portion of the program and film rights costs are amortised upon the initial publicity in the first year with the remaining balance being evenly amortised over the remaining contract term. The cost of self produced programs is expensed to the profit and loss account as incurred.

*(d) Assets under leases**(i) Finance leases*

Leases that substantially transfer all the rewards and risks of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance costs, are included in long-term liabilities. The finance costs of such leases are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

*(ii) Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

*(e) Trade receivables*

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

*(f) Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts, if any.

*(g) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

*(h) Employee benefits**(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**V. NOTES TO THE FINANCIAL INFORMATION** *(continued)***2. Principal accounting policies** *(continued)**(h) Employee benefits (continued)**(ii) Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*(iii) Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

*(iv) Equity compensation benefit*

Certain directors and employees of CETV participate in an incentive programme which offers the opportunity for the directors and employees to acquire shares of AOL Time Warner Inc., the holding company of TBS. No cost has been recognised by CETV in this regard.

*(i) Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

*(j) Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

*(k) Revenue recognition*

Revenue from the sale of airtime is recognised on the actual executed portion according to media schedules.

Subscription revenue in respect of video program production and tape dubbing is recognised upon completion of production.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 2. Principal accounting policies (continued)

## (l) Borrowing costs

All borrowing costs are charged to the profit and loss account in the period in which they are incurred.

## (m) Related companies

A related company is a company in which one or more of the directors or major shareholders of CETV have a significant direct or indirect beneficial interest either as directors or shareholders.

## (n) Translation of foreign currencies

The Group maintains its books and records in United States dollars. Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account. For the purpose of this report, the balance sheets and profit and loss accounts of the Group and CETV are translated into HK\$ at the rate of US\$1 = HK\$7.8.

## 3. Turnover and revenue

The Group is principally engaged in the operations of satellite television channels and provision of content and television programs to various platforms including satellite television and syndication networks. Revenues recognised during the Relevant Periods are as follows:

|                     | Year ended 31 December |          |          | Six months ended 30 June |          |
|---------------------|------------------------|----------|----------|--------------------------|----------|
|                     | 2000                   | 2001     | 2002     | 2002                     | 2003     |
|                     | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000                 | HK\$'000 |
| Turnover            |                        |          |          |                          |          |
| Advertising income  | –                      | 8,963    | 3,361    | 980                      | 5,249    |
| Subscription income | –                      | 49       | 149      | 47                       | 102      |
|                     | –                      | 9,012    | 3,510    | 1,027                    | 5,351    |
| Other revenues      |                        |          |          |                          |          |
| Interest income     | –                      | 7        | –        | –                        | –        |
| Others              | 41                     | 107      | 42       | 42                       | –        |
|                     | 41                     | 114      | 42       | 42                       | –        |
| Total revenues      | 41                     | 9,126    | 3,552    | 1,069                    | 5,351    |

No business and geographical segment information is presented since CETV is principally engaged in the operations of satellite television channels and provision of content and television programs to various platforms including satellite television and syndication networks, and the business is principally conducted in Mainland China and the assets are located in Hong Kong.



## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 4. Operating loss

Operating loss is stated after crediting and charging the following:

|   | Year ended 31 December |              |           | Six months ended 30 June |            |
|---|------------------------|--------------|-----------|--------------------------|------------|
|   | 2000                   | 2001         | 2002      | 2002                     | 2003       |
|   | HK\$'000               | HK\$'000     | HK\$'000  | HK\$'000                 | HK\$'000   |
| <b>Crediting:</b>                                       |                        |              |           |                          |            |
| Forfeiture of amounts due to creditors                  | 9,712                  | -            | -         | -                        | -          |
| Forfeiture of amounts due to directors                  | 8,561                  | -            | -         | -                        | -          |
| Write-back of unrealised airtime deposit                | -                      | 8,313        | -         | -                        | -          |
|   | <u>-</u>               | <u>8,313</u> | <u>-</u>  | <u>-</u>                 | <u>-</u>   |
| <b>Charging:</b>  |                        |              |           |                          |            |
| Depreciation  |                        |              |           |                          |            |
| - Owned fixed assets                                    | 3,094                  | 5,089        | 1,741     | 818                      | 978        |
| - Leased fixed assets                                   | 156                    | -            | -         | -                        | -          |
| Amortisation of purchased program and film rights       | 699                    | 25,254       | 29,891    | 14,620                   | 16,347     |
| Operating leases  |                        |              |           |                          |            |
| - Land and buildings                                    | 2,745                  | 2,600        | 5,884     | 2,644                    | 1,559      |
| - Transmitting equipment                                | 25,832                 | 27,364       | 27,013    | 13,521                   | 13,437     |
| Auditors' remuneration                                  | 82                     | 60           | 60        | 30                       | 30         |
| Staff costs (including directors' emoluments) (note 10) | 13,236                 | 30,791       | 36,127    | 19,024                   | 20,590     |
| Loss on disposals/write-off of fixed assets             | 1,772                  | 7,152        | 28        | 55                       | 135        |
|   | <u>1,772</u>           | <u>7,152</u> | <u>28</u> | <u>55</u>                | <u>135</u> |

## 5. Finance costs

|  | Year ended 31 December |              |               | Six months ended 30 June |              |
|--|------------------------|--------------|---------------|--------------------------|--------------|
|  | 2000                   | 2001         | 2002          | 2002                     | 2003         |
|  | HK\$'000               | HK\$'000     | HK\$'000      | HK\$'000                 | HK\$'000     |
| Interest on loans wholly repayable within five years | 12,967                 | 9,055        | 13,351        | 6,427                    | 7,348        |
| Interest on bank overdrafts                          | 306                    | -            | -             | -                        | -            |
| Finance lease interest                               | 41                     | 2            | -             | -                        | -            |
|  | <u>13,314</u>          | <u>9,057</u> | <u>13,351</u> | <u>6,427</u>             | <u>7,348</u> |
| Total borrowing cost incurred                        | <u>13,314</u>          | <u>9,057</u> | <u>13,351</u> | <u>6,427</u>             | <u>7,348</u> |

## 6. Taxation

No provision for Hong Kong profits tax has been made as there was no assessable profits during the Relevant Periods. In 2003, the government enacted a change in profits tax rate from 16% to 17.5% for the fiscal year ending 31 March 2004.

The amount of taxation charged to the consolidated profit and loss accounts for the year ended 31 December 2002 and the six months ended 30 June 2003 represented deemed People's Republic of China ("PRC") enterprise income tax in respect of a representative office of CETV in the PRC.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 6. Taxation (continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of CETV as follows:

|   | Year ended 31 December |                  |                  | Six months ended 30 June |                 |
|---|------------------------|------------------|------------------|--------------------------|-----------------|
|   | 2000                   | 2001             | 2002             | 2002                     | 2003            |
|   | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                 | HK\$'000        |
| Loss before taxation  | <u>(57,402)</u>        | <u>(132,568)</u> | <u>(150,774)</u> | <u>(71,650)</u>          | <u>(73,273)</u> |
| Calculated at a taxation rate of 17.5%<br>(2002: 16%, 2001: 16%, 2000: 16%) | (9,184)                | (21,211)         | (24,124)         | (11,464)                 | (12,823)        |
| Effect of different taxation rates<br>in other countries                    | –                      | –                | 91               | –                        | 48              |
| Income not subject to taxation  | –                      | (1)              | –                | –                        | –               |
| Expenses not deductible for taxation purposes                               | 2,327                  | 842              | 891              | 521                      | 582             |
| Tax losses not recognised   | <u>6,857</u>           | <u>20,370</u>    | <u>23,319</u>    | <u>10,943</u>            | <u>12,296</u>   |
| Taxation charge   | <u>–</u>               | <u>–</u>         | <u>177</u>       | <u>–</u>                 | <u>103</u>      |

## 7. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of CETV to the extent of HK\$73,376,000 for the six months ended 30 June 2003 (2002: HK\$71,650,000) and HK\$150,951,000 for the year ended 31 December 2002 (2001: HK\$132,590,000, 2000: HK\$57,393,000).

## 8. Dividends

No dividends had been paid or declared by CETV during the Relevant Periods.

## 9. Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders and 30,000 ordinary shares in issue during the Relevant Periods. Diluted loss per share has not been presented as there were no dilutive potential ordinary shares outstanding during the Relevant Periods.

## 10. Staff costs, including directors' emoluments

|  | Year ended 31 December |               |               | Six months ended 30 June |               |
|--|------------------------|---------------|---------------|--------------------------|---------------|
|  | 2000                   | 2001          | 2002          | 2002                     | 2003          |
|  | HK\$'000               | HK\$'000      | HK\$'000      | HK\$'000                 | HK\$'000      |
| Wages and salaries                           | 11,206                 | 29,812        | 35,089        | 18,466                   | 18,690        |
| Pension costs                                | 42                     | 979           | 1,038         | 558                      | 598           |
| Other long-term benefits                     | –                      | –             | –             | –                        | 1,302         |
| Compensation for loss of office as directors | <u>1,988</u>           | <u>–</u>      | <u>–</u>      | <u>–</u>                 | <u>–</u>      |
|  | <u>13,236</u>          | <u>30,791</u> | <u>36,127</u> | <u>19,024</u>            | <u>20,590</u> |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 11. Directors' and senior management's emoluments

## (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of CETV during the Relevant Periods are as follows:

|  | Year ended 31 December |              |              | Six months ended 30 June |            |
|--|------------------------|--------------|--------------|--------------------------|------------|
|  | 2000                   | 2001         | 2002         | 2002                     | 2003       |
|  | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000                 | HK\$'000   |
| Basic salaries, housing allowances,<br>other allowances and benefits in kind | 1,145                  | 1,454        | 1,598        | 913                      | 978        |
| Discretionary bonuses  | 100                    | 371          | 232          | 116                      | –          |
| Compensation for loss of office<br>as directors                              | 1,988                  | –            | –            | –                        | –          |
|  | <u>3,233</u>           | <u>1,825</u> | <u>1,830</u> | <u>1,029</u>             | <u>978</u> |

One director of CETV received emoluments amounting to HK\$373,000, HK\$1,825,000 and HK\$1,830,000 for the years ended 31 December 2000, 2001 and 2002, respectively, and HK\$1,029,000 and HK\$978,000 for the six months ended 30 June 2002 and 2003, respectively. In addition, during the year ended 31 December 2000, two directors of CETV received emoluments amounting to HK\$2,588,000 and HK\$272,000, respectively. Apart from the above, no other emoluments had been paid or payable to the directors during the Relevant Periods.

During the year ended 31 December 2000, two directors waived emoluments of HK\$288,000 (2001, 2002 and six months ended 30 June 2003: HK\$Nil).

## (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

|               | Number of individuals  |      |      |                          |      |
|---------------|------------------------|------|------|--------------------------|------|
|               | Year ended 31 December |      |      | Six months ended 30 June |      |
|               | 2000                   | 2001 | 2002 | 2002                     | 2003 |
| Directors     | 1                      | 1    | 1    | 1                        | 1    |
| Non-directors | 4                      | 4    | 4    | 4                        | 4    |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 11. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals (continued)

Total emoluments of a director after resignation in 2000 and the other non-director individuals are as follows:

|  | Year ended 31 December |              |              | Six months ended 30 June |              |
|--|------------------------|--------------|--------------|--------------------------|--------------|
|  | 2000                   | 2001         | 2002         | 2002                     | 2003         |
|  | HK\$'000               | HK\$'000     | HK\$'000     | HK\$'000                 | HK\$'000     |
| Basic salaries, housing allowances,<br>other allowances and benefits in kind | 2,681                  | 5,755        | 5,366        | 2,739                    | 2,574        |
| Bonuses  | –                      | 354          | 237          | 147                      | –            |
| Pensions   | 8                      | 269          | 246          | 129                      | 119          |
| Compensation for loss of office:<br>– contractual payments                   | –                      | –            | 526          | –                        | –            |
|  | <u>2,689</u>           | <u>6,378</u> | <u>6,375</u> | <u>3,015</u>             | <u>2,693</u> |

The emoluments of the individuals fell within the following bands:

| Emolument bands               | Number of individuals  |          |          |                          |          |
|-------------------------------|------------------------|----------|----------|--------------------------|----------|
|                               | Year ended 31 December |          |          | Six months ended 30 June |          |
|                               | 2000                   | 2001     | 2002     | 2002                     | 2003     |
| HK\$nil – HK\$1,000,000       | 3                      | –        | –        | 3                        | 3        |
| HK\$1,000,001 – HK\$1,500,000 | 1                      | 3        | 3        | 1                        | 1        |
| HK\$2,000,001 – HK\$2,500,000 | –                      | 1        | 1        | –                        | –        |
|                               | <u>–</u>               | <u>1</u> | <u>1</u> | <u>–</u>                 | <u>–</u> |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 12. Fixed assets – Group and CETV

|                          | Leasehold<br>improvements<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Studio and<br>broadcasting<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------|---------------------------------------|---|---|-------------------------------|-------------------|
| Cost                     |                                       |   |   |                               |                   |
| At 1 January 2000        | 386                                   | 1,644   | 19,118  | 1,403                         | 22,551            |
| Additions                | 3,025                                 | 573   | 6,849   | –                             | 10,447            |
| Disposals/write-off      | (386)                                 | (1,644)   | (3,852)   | (1,000)                       | (6,882)           |
| At 31 December 2000      | 3,025                                 | 573   | 22,115  | 403                           | 26,116            |
| Additions                | 295                                   | 897   | 200   | –                             | 1,392             |
| Disposals/write-off      | (3,320)                               | –   | (16,592)  | –                             | (19,912)          |
| At 31 December 2001      | –                                     | 1,470   | 5,723   | 403                           | 7,596             |
| Additions                | –                                     | 785   | 364   | –                             | 1,149             |
| Disposals/write-off      | –                                     | (66)  | –   | –                             | (66)              |
| At 31 December 2002      | –                                     | 2,189   | 6,087   | 403                           | 8,679             |
| Additions                | –                                     | 19  | 977   | –                             | 996               |
| Disposals/write-off      | –                                     | (304)   | –   | –                             | (304)             |
| At 30 June 2003          | –                                     | 1,904   | 7,064   | 403                           | 9,371             |
| Accumulated depreciation |                                       |   |   |                               |                   |
| At 1 January 2000        | 378                                   | 1,252   | 8,578   | 872                           | 11,080            |
| Charge for the year      | 97                                    | 249   | 2,748   | 156                           | 3,250             |
| Disposals/write-off      | (386)                                 | (1,485)   | (2,119)   | (625)                         | (4,615)           |
| At 31 December 2000      | 89                                    | 16  | 9,207   | 403                           | 9,715             |
| Charge for the year      | 1,491                                 | 405   | 3,193   | –                             | 5,089             |
| Disposals/write-off      | (1,580)                               | –   | (11,180)  | –                             | (12,760)          |
| At 31 December 2001      | –                                     | 421   | 1,220   | 403                           | 2,044             |
| Charge for the year      | –                                     | 565   | 1,176   | –                             | 1,741             |
| Disposals/write-off      | –                                     | (10)  | –   | –                             | (10)              |
| At 31 December 2002      | –                                     | 976   | 2,396   | 403                           | 3,775             |
| Charge for the period    | –                                     | 327   | 651   | –                             | 978               |
| Disposals/write-off      | –                                     | (169)   | –   | –                             | (169)             |
| At 30 June 2003          | –                                     | 1,134   | 3,047   | 403                           | 4,584             |
| Net book value           |                                       |   |   |                               |                   |
| At 31 December 2000      | 2,936                                 | 557   | 12,908  | –                             | 16,401            |
| At 31 December 2001      | –                                     | 1,049   | 4,503   | –                             | 5,552             |
| At 31 December 2002      | –                                     | 1,213   | 3,691   | –                             | 4,904             |
| At 30 June 2003          | –                                     | 770   | 4,017   | –                             | 4,787             |

As at 31 December 2000, 2001 and 2002 and 30 June 2003, all fixed assets under finance lease were fully depreciated.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 13. Purchased program and film rights – Group and CETV

|                                       | 2000         | 31 December<br>2001 | 2002          | 30 June<br>2003 |
|---------------------------------------|--------------|---------------------|---------------|-----------------|
|                                       | HK\$'000     | HK\$'000            | HK\$'000      | HK\$'000        |
| Cost                                  |              |                     |               |                 |
| Balance at 1 January                  | 2,480        | 5,468               | 34,693        | 73,147          |
| Additions                             | 2,988        | 29,225              | 38,454        | 11,901          |
|                                       | <u>5,468</u> | <u>34,693</u>       | <u>73,147</u> | <u>85,048</u>   |
| Balance at 31 December/30 June        | 5,468        | 34,693              | 73,147        | 85,048          |
| Accumulated amortisation              |              |                     |               |                 |
| Balance at 1 January                  | 2,099        | 2,798               | 28,052        | 57,943          |
| Amortisation                          | 699          | 25,254              | 29,891        | 16,347          |
|                                       | <u>2,798</u> | <u>28,052</u>       | <u>57,943</u> | <u>74,290</u>   |
| Net book value at 31 December/30 June | <u>2,670</u> | <u>6,641</u>        | <u>15,204</u> | <u>10,758</u>   |

## 14. Subsidiary – CETV

|                                | 2000      | 31 December<br>2001 | 2002     | 30 June<br>2003 |
|--------------------------------|-----------|---------------------|----------|-----------------|
|                                | HK\$'000  | HK\$'000            | HK\$'000 | HK\$'000        |
| Unlisted shares, at cost       | 6         | –                   | –        | –               |
| Amount due from the subsidiary | 16        | –                   | –        | –               |
|                                | <u>22</u> | <u>–</u>            | <u>–</u> | <u>–</u>        |

The subsidiary, Xinhua Entertainment Television/Film International Company Limited, incorporated in Hong Kong as limited liability company on 15 October 1996, had been dormant since incorporation and was deregistered on 16 November 2001.

## 15. Trade receivables – Group and CETV

The turnover of the Group is on open account terms. The ageing analysis of the trade receivables as at 31 December 2000, 2001 and 2002 and 30 June 2003 is as follows:

|              | 2000     | 31 December<br>2001 | 2002         | 30 June<br>2003 |
|--------------|----------|---------------------|--------------|-----------------|
|              | HK\$'000 | HK\$'000            | HK\$'000     | HK\$'000        |
| Current      | –        | 928                 | 661          | 415             |
| 30 – 60 days | –        | 93                  | 754          | 654             |
| 61 – 90 days | –        | 122                 | 58           | 430             |
| Over 90 days | –        | 169                 | 887          | 3,725           |
|              | <u>–</u> | <u>1,312</u>        | <u>2,360</u> | <u>5,224</u>    |

## 16. Amounts due from/to related companies – Group and CETV

The balances with related companies are derived from operations of CETV. They are unsecured, interest free and have no fixed terms of repayment.

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 17. Other long-term loans – Group and CETV

|   | 31 December  |              |              | 30 June      |
|---|--------------|--------------|--------------|--------------|
|   | 2000         | 2001         | 2002         | 2003         |
|   | HK\$'000     | HK\$'000     | HK\$'000     | HK\$'000     |
| Loans from third parties, unsecured   |              |              |              |              |
| – Loan bearing interest at 5.0625% per annum,<br>and interest accrued thereon | 5,112        | 5,365        | 5,626        | 5,753        |
| – Interest free loans   | 1,725        | 1,725        | 1,725        | 1,725        |
|   | <u>6,837</u> | <u>7,090</u> | <u>7,351</u> | <u>7,478</u> |
| Less: current portion of other long-term loans                                | –            | –            | –            | (2,440)      |
|   | <u>6,837</u> | <u>7,090</u> | <u>7,351</u> | <u>5,038</u> |

The repayment of the interest bearing loan is guaranteed by Turner International Asia Pacific Limited, a fellow subsidiary of Turner Broadcasting System Asia Pacific Inc. ("TBSAP"). All loan balances are repayable in 24 equal monthly installments commencing from 1 January 2004.

The other long-term loans are repayable as follows:

|                             | 31 December  |              |              | 30 June      |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 2000         | 2001         | 2002         | 2003         |
|                             | HK\$'000     | HK\$'000     | HK\$'000     | HK\$'000     |
| Within one year             | –            | –            | –            | 2,440        |
| In the second year          | –            | –            | 3,992        | 3,359        |
| In the third to fifth years | 6,837        | 7,090        | 3,359        | 1,679        |
|                             | <u>6,837</u> | <u>7,090</u> | <u>7,351</u> | <u>7,478</u> |

As detailed in Note 25(b), according to the Share Purchase Agreement in respect of the acquisition of CETV's equity interest by TOM, the loan from third parties will be repaid by TBSAP on behalf of CETV on the completion date of the acquisition.

## 18. Loan from the immediate holding company – Group and CETV

The loan from the immediate holding company, TBSAP, is unsecured, interest bearing at HIBOR plus 2% per annum and not repayable before 30 June 2004.

As detailed in Note 25(b), according to the Share Purchase Agreement in respect of the acquisition of CETV's equity interest by TOM, the loan from TBSAP will be released by TBSAP upon the completion of the acquisition.

## 19. Share capital

|                                       | 31 December |          |          | 30 June  |
|---------------------------------------|-------------|----------|----------|----------|
|                                       | 2000        | 2001     | 2002     | 2003     |
|                                       | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000 |
| Authorised, issued and fully paid:    |             |          |          |          |
| 30,000 ordinary share of HK\$0.3 each | <u>9</u>    | <u>9</u> | <u>9</u> | <u>9</u> |

V. NOTES TO THE FINANCIAL INFORMATION *(continued)*

## 20. Accumulated losses

## Group

|  | <i>HK\$'000</i>  |
|--|------------------|
| At 1 January 2000                      | (373,428)        |
| Loss for the year                      | (57,402)         |
| Contribution from owners <i>(note)</i> | <u>325,067</u>   |
| At 31 December 2000                    | (105,763)        |
| Loss for the year                      | <u>(132,568)</u> |
| At 31 December 2001                    | (238,331)        |
| Loss for the year                      | <u>(150,951)</u> |
| At 31 December 2002                    | (389,282)        |
| Loss for the period                    | <u>(73,376)</u>  |
| At 30 June 2003                        | <u>(462,658)</u> |
| At 1 January 2002                      | (238,331)        |
| Loss for the period                    | <u>(71,650)</u>  |
| At 30 June 2002                        | <u>(309,981)</u> |

## CETV

|  | <i>HK\$'000</i>  |
|--|------------------|
| At 1 January 2000                      | (373,415)        |
| Loss for the year                      | (57,393)         |
| Contribution from owners <i>(note)</i> | <u>325,067</u>   |
| At 31 December 2000                    | (105,741)        |
| Loss for the year                      | <u>(132,590)</u> |
| At 31 December 2001                    | (238,331)        |
| Loss for the year                      | <u>(150,951)</u> |
| At 31 December 2002                    | (389,282)        |
| Loss for the period                    | <u>(73,376)</u>  |
| At 30 June 2003                        | <u>(462,658)</u> |
| At 1 January 2002                      | (238,331)        |
| Loss for the period                    | <u>(71,650)</u>  |
| At 30 June 2002                        | <u>(309,981)</u> |

*Note:* Pursuant to a sale and purchase agreement dated 28 April 2000 in respect of the acquisition of a 80% equity interest in CETV by TBSAP, the then shareholders of CETV agreed to waive the amounts due to them by CETV, totalling HK\$325,067,000, upon completion of the acquisition. For the purpose of this report, the amount waived has been treated as a contribution from the former owners.



V. NOTES TO THE FINANCIAL INFORMATION *(continued)*

## 21. Deferred taxation – Group and CETV

No deferred tax assets nor liabilities are shown on the consolidated balance sheets since the deferred tax assets and liabilities of CETV has been offset against each other as CETV has a legally enforceable right to set off the deferred income taxes relate to the same fiscal authority.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the Relevant Periods is as follows:

**Deferred tax assets**

|  | <b>Tax losses</b><br><i>HK\$'000</i> |
|--|--------------------------------------|
| At 1 January 2000                                | 1,458                                |
| Credited to consolidated profit and loss account | 561                                  |
|  | <u>          </u>                    |
| At 31 December 2000                              | 2,019                                |
| Charged to consolidated profit and loss account  | (1,008)                              |
|  | <u>          </u>                    |
| At 31 December 2001                              | 1,011                                |
| Credited to consolidated profit and loss account | 1,371                                |
|  | <u>          </u>                    |
| At 31 December 2002                              | 2,382                                |
| Charged to consolidated profit and loss account  | (513)                                |
|  | <u>          </u>                    |
| At 30 June 2003                                  | <u>1,869</u>                         |

Deferred tax assets arising from unused tax losses are recognised to the extent that the Group has sufficient taxable temporary differences. The Group has unrecognised tax losses of HK\$721,993,000 as at 30 June 2003 (31 December 2002, 2001 and 2000: HK\$651,731,000, HK\$505,988,000 and HK\$378,675,000, respectively) to carry forward against future taxable income. These tax losses have no expiry date.

**Deferred tax liabilities**

|   | <b>Accelerated tax<br/>depreciation</b><br><i>HK\$'000</i> | <b>Others</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|---|--|----------------------------------|---------------------------------|
| At 1 January 2000   | 1,397  | 61                               | 1,458                           |
| Charged to consolidated profit and loss account               | 195  | 366                              | 561                             |
|   | <u>          </u>  | <u>          </u>                | <u>          </u>               |
| At 31 December 2000   | 1,592  | 427                              | 2,019                           |
| (Credited)/charged to consolidated profit<br>and loss account | (1,643)  | 635                              | (1,008)                         |
|   | <u>          </u>  | <u>          </u>                | <u>          </u>               |
| At 31 December 2001   | (51)   | 1,062                            | 1,011                           |
| Charged to consolidated profit and loss account               | 1  | 1,370                            | 1,371                           |
|   | <u>          </u>  | <u>          </u>                | <u>          </u>               |
| At 31 December 2002   | (50)   | 2,432                            | 2,382                           |
| Charged/(credited) to consolidated profit<br>and loss account | 37   | (550)                            | (513)                           |
|   | <u>          </u>  | <u>          </u>                | <u>          </u>               |
| At 30 June 2003   | <u>(13)</u>  | <u>1,882</u>                     | <u>1,869</u>                    |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 22. Notes to the consolidated cash flow statements

## (a) Reconciliation of operating loss to net cash outflow from operations

|  | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|--|------------------------|-------------------|-------------------|--------------------------|-------------------|
|  | 2000                   | 2001              | 2002              | 2002                     | 2003              |
|  | HK\$'000               | HK\$'000          | HK\$'000          | HK\$'000                 | HK\$'000          |
| Operating loss   | (44,088)               | (123,511)         | (137,423)         | (65,223)                 | (65,925)          |
| Depreciation   | 3,250                  | 5,089             | 1,741             | 818                      | 978               |
| Amortisation of purchased program<br>and film rights                             | 699                    | 25,254            | 29,891            | 14,620                   | 16,347            |
| Loss on disposals/write-off of<br>fixed assets                                   | 1,772                  | 7,152             | 28                | 55                       | 135               |
| Forfeiture of amounts due to creditors   | (9,712)                | -                 | -                 | -                        | -                 |
| Forfeiture of amounts due to directors   | (8,561)                | -                 | -                 | -                        | -                 |
| Interest income  | -                      | (7)               | -                 | -                        | -                 |
|  | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |
| Operating loss before<br>working capital changes                                 | (56,640)               | (86,023)          | (105,763)         | (49,730)                 | (48,465)          |
| Increase in trade receivables,<br>prepayments, deposits and<br>other receivables | (320)                  | (1,440)           | (706)             | (5,297)                  | (2,912)           |
| Increase/(decrease) in trade payables,<br>other payables and accruals            | 946                    | 811               | 3,851             | (1,760)                  | 5,262             |
| Decrease/(increase) in net amounts<br>due from related companies                 | 2,809                  | (7,180)           | (233)             | 1,493                    | 5,280             |
| Decrease in amounts due to directors   | (460)                  | -                 | -                 | -                        | -                 |
|  | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |
| Net cash outflow from operations   | <u>(53,665)</u>        | <u>(93,832)</u>   | <u>(102,851)</u>  | <u>(55,294)</u>          | <u>(40,835)</u>   |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 22. Notes to the consolidated cash flow statements (continued)

(b) Analysis of changes in financing during the Relevant Periods

|                     | Share<br>capital<br>HK\$'000 | Obligation<br>under<br>finance lease<br>HK\$'000 | Loans from<br>third parties<br>and immediate<br>holding company<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------|------------------------------|--|---|-------------------|
| At 1 January 2000   | 9                            | 645  | 17,666  | 18,320            |
| New loans           | –                            | –  | 85,284  | 85,284            |
| Accrued interest    | –                            | –  | 3,321   | 3,321             |
| Repayments          | –                            | (596)  | (10,537)  | (11,133)          |
| Interest paid       | –                            | –  | (577)   | (577)             |
|                     | <u>9</u>                     | <u>–</u>   | <u>17,666</u>   | <u>18,320</u>     |
| At 31 December 2000 | 9                            | 49   | 95,157  | 95,215            |
| New loans           | –                            | –  | 131,048   | 131,048           |
| Accrued interest    | –                            | –  | 9,055   | 9,055             |
| Repayments          | –                            | (49)   | –   | (49)              |
|                     | <u>9</u>                     | <u>–</u>   | <u>95,157</u>   | <u>95,215</u>     |
| At 31 December 2001 | 9                            | –  | 235,260   | 235,269           |
| New loans           | –                            | –  | 136,077   | 136,077           |
| Accrued interest    | –                            | –  | 13,351  | 13,351            |
|                     | <u>9</u>                     | <u>–</u>   | <u>235,260</u>  | <u>235,269</u>    |
| At 31 December 2002 | 9                            | –  | 384,688   | 384,697           |
| New loans           | –                            | –  | 54,112  | 54,112            |
| Accrued interest    | –                            | –  | 7,348   | 7,348             |
|                     | <u>9</u>                     | <u>–</u>   | <u>384,688</u>  | <u>384,697</u>    |
| At 30 June 2003     | <u>9</u>                     | <u>–</u>   | <u>446,148</u>  | <u>446,157</u>    |
| At 1 January 2002   | 9                            | –  | 235,260   | 235,269           |
| New loans           | –                            | –  | 69,861  | 69,861            |
| Accrued interest    | –                            | –  | 6,427   | 6,427             |
|                     | <u>9</u>                     | <u>–</u>   | <u>235,260</u>  | <u>235,269</u>    |
| At 30 June 2002     | <u>9</u>                     | <u>–</u>   | <u>311,548</u>  | <u>311,557</u>    |

## 23. Operating lease commitments

At 31 December 2000, 2001 and 2002 and 30 June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|   | 2000<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 | 2002<br>HK\$'000 | 30 June<br>2003<br>HK\$'000 |
|---|------------------|---------------------------------|------------------|-----------------------------|
| Land and buildings expiring:              |                  |                                 |                  |                             |
| – Within one year                         | 1,764            | 1,323                           | 961              | 961                         |
| – In the second to fifth years, inclusive | 1,323            | –                               | 303              | 43                          |
|   | <u>3,087</u>     | <u>1,323</u>                    | <u>1,264</u>     | <u>1,004</u>                |
| Transmitting equipment expiring:          |                  |                                 |                  |                             |
| – Within one year                         | 23,858           | 24,982                          | 25,587           | 25,515                      |
| – In the second to fifth years, inclusive | 103,911          | 107,617                         | 112,153          | 114,951                     |
| – After five years                        | 125,035          | 96,347                          | 66,225           | 50,442                      |
|   | <u>252,804</u>   | <u>228,946</u>                  | <u>203,965</u>   | <u>190,908</u>              |
| Total                                     | <u>255,891</u>   | <u>230,269</u>                  | <u>205,229</u>   | <u>191,912</u>              |

## V. NOTES TO THE FINANCIAL INFORMATION (continued)

## 24. Related party transactions

In the opinion of the directors of CETV, the following is a summary of significant related party transactions of the Group during the Relevant Periods, in addition to those disclosed in Notes 16 to 18:

|   | Note   | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|---|--------|------------------------|------------------|------------------|--------------------------|------------------|
|   |        | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000         | 2003<br>HK\$'000 |
| License fees receivable from  |        |                        |                  |                  |                          |                  |
| – Turner Broadcasting Sales Southeast Asia, Inc (“TBSSEA”) – a subsidiary TBSAP | (i)    | –                      | (1,652)          | (203)            | –                        | (525)            |
| Subscription fee receivable from  |        |                        |                  |                  |                          |                  |
| – TBSAP   | (ii)   | –                      | (37)             | (116)            | (37)                     | (73)             |
| Uplink fee payable to   |        |                        |                  |                  |                          |                  |
| – TBSAP   | (iii)  | 575                    | 1,380            | 1,380            | 690                      | 690              |
| Rental on transmitting equipment payable to                                     |        |                        |                  |                  |                          |                  |
| – TBSAP   | (iii)  | 21,426                 | 22,907           | 23,682           | 11,856                   | 12,363           |
| Film rights license fee payable to  |        |                        |                  |                  |                          |                  |
| – Turner Entertainment Networks Asia, Inc. (“TENA”) – a subsidiary of TBS       | (iv)   | –                      | 398              | 502              | –                        | –                |
| – TBSAP   | (iv)   | –                      | 1,170            | 468              | 425                      | –                |
| – Time Warner Entertainment Company, L.P. (“TWEC”) – a fellow subsidiary of TBS | (iv)   | –                      | –                | 175              | –                        | 2,145            |
| Post-production expenses payable to   |        |                        |                  |                  |                          |                  |
| – TENA  | (iv)   | –                      | 2,056            | 733              | 226                      | 98               |
| Service fees payable to   |        |                        |                  |                  |                          |                  |
| – TENA  | (v)    | 2,777                  | 1,170            | 1,170            | 585                      | 585              |
| – TBS Advertising China, Inc (“TBSAC”) – a subsidiary of TBSAP                  | (vi)   | –                      | 3,899            | 138              | 138                      | –                |
| Management fee payable to   |        |                        |                  |                  |                          |                  |
| – AOL Time Warner Hong Kong Limited (“AOLTWHKL”) – a fellow subsidiary of TBS   | (vii)  | –                      | 240              | 910              | 120                      | 1,094            |
| System maintenance fee payable to   |        |                        |                  |                  |                          |                  |
| – TBSAP   | (viii) | –                      | 413              | 476              | 239                      | 239              |
| Office rental payable to  |        |                        |                  |                  |                          |                  |
| – Time Inc., a fellow subsidiary of TBS   | (ix)   | –                      | –                | 2,845            | 1,143                    | –                |
| Interest expense payable to   |        |                        |                  |                  |                          |                  |
| – TBSAP   | 18     | <u>3,036</u>           | <u>8,802</u>     | <u>13,097</u>    | <u>6,304</u>             | <u>7,220</u>     |

**V. NOTES TO THE FINANCIAL INFORMATION** *(continued)***24. Related party transactions** *(continued)*

*Note:*

- (i) CETV received license fee from TBSSEA for the right to manage and conduct sale of advertising inventory in the South East Asia region. License fee is charged at 85% of net advertising revenue billed by TBSSEA and accounted for as turnover.
- (ii) CETV received subscription fee from TBSAP for the right to distribute its television services in the Asia Pacific region. Distribution fee is charged at 75% of the gross receipts billed by TBSAP and accounted for as turnover.
- (iii) CETV is charged by TBSAP for the usage by CETV of the uplink services and transponder equipment provided by third parties to TBS. The fees were charged based on the actual cost charged on TBSAP through TBS. Details of operating lease commitments are disclosed in note 23 of the accounts.
- (iv) The programs licensed from and post-production services provided by TENA, TBSAP and TWEC were made according to the published prices and conditions offered by the related companies to their major customers.
- (v) CETV appointed TENA to provide management support services in relation to the provision of television services in the Asia Pacific region. The services were conducted on terms determined by TBSAP's management.
- (vi) CETV appointed TBSAC to provide coordination and support services in China. The services were conducted on terms determined by TBSAP's management.
- (vii) The management fee was charged by AOLTWHKL for the provision of administration and facilities support to CETV. The services were conducted on terms determined by TBSAP's management.
- (viii) The system maintenance fee was charged by TBSAP for provision of technical support services in relation to the advertising sales traffic system used by CETV. The services were conducted on terms determined by TBSAP's management.
- (ix) CETV was charged for the rights of using the office premises leased by the related company, based on a market rental.

**25. Subsequent events**

- (a) On 2 July 2003, the TOM Group entered into a Share Purchase Agreement with TBSAP in respect of the acquisition by TOM of 64.07% of the issued share capital of CETV by issuance of 21,250,000 shares of TOM at HK\$2.535 per share.
- (b) Pursuant to the Share Purchase Agreement, upon the completion of the acquisition of CETV's equity interest by TOM, the loans from TBSAP (Note 18) and the third parties (Note 17) will be released and repaid by TBSAP, respectively, upon completion of the acquisition.
- (c) Upon completion of the acquisition, CETV will enter into a Transponder Sub-lease Agreement with TBS, whereby TBS will give permit to CETV to sub-utilise the transponder capacity during the period from the date of completion of the Share Purchase Agreement to 15 January 2010.

**VI. SUBSEQUENT ACCOUNTS**

No audited accounts have been prepared for CETV in respect of any period subsequent to 30 June 2003 and no dividend or other distribution has been declared by CETV in respect of any period subsequent to 30 June 2003.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

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# APPENDIX IV    **COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

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## **I.    LETTER FROM THE REPORTING ACCOUNTANTS ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP**



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central  
Hong Kong

26 August 2003

The Directors  
TOM.COM LIMITED

Dear Sirs,

We report on the Pro Forma Combined Financial Information of the enlarged TOM group for each of the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003 (the “Relevant Periods”) as set out in section II of Appendix IV of the circular of TOM.COM LIMITED (“TOM”) dated 26 August 2003 (the “Circular”), in connection with the proposed acquisition of a 64.07% equity interest in China Entertainment Television Broadcast Limited (“CETV”) by TOM. The Pro Forma Combined Financial Information has been prepared, for illustrative purposes only, on the basis set out in section II(E) note 1 of Appendix IV of the Circular, and for inclusion in the Circular. The enlarged TOM group is defined in section II(E) note 1 set out in Appendix IV of the Circular.

### **RESPONSIBILITIES**

It is the sole responsibility of the directors of TOM to prepare the Pro Forma Combined Financial Information.

It is our responsibility to form an opinion on the Pro Forma Combined Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Combined Financial Information beyond that owed to those to whom we have acknowledged responsibilities as set out in the respective relevant engagement letters or reports.

### **BASIS OF OPINION**

We conducted our work in accordance with UK Statements of Investment Circular Reporting Standards and with reference to the UK Bulletin 1998/8 “Reporting on pro forma combined financial information pursuant to the listing rules”, where applicable. Our work consisted primarily of comparing the financial information with the source documents and discussing the Pro Forma Combined Financial Information with the directors of TOM.

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**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

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Because the above work does not constitute an audit made in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, we do not express any audit assurance on the Pro Forma Combined Financial Information.

The Pro Forma Combined Financial Information of the enlarged TOM group has been prepared, based on the Accountants' Report on TOM group dated 26 August 2003 as set out in Appendix II of the Circular and the Accountants' Report on CETV dated 26 August 2003 as set out in Appendix III of the Circular, for illustrative purposes only and, because of its nature, it does not give indicative financial position or results of:

- (a) TOM group had CETV actually been acquired at the beginning of the Relevant Periods, or
- (b) the enlarged TOM group for any future period.

**OPINION**

In our opinion:

- (a) the Pro Forma Combined Financial Information has been properly compiled on the basis stated in section II(E) note 1 of Appendix IV of the Circular; and
- (b) such basis is consistent with the accounting policies of TOM.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong



**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP**

**(A). PRO FORMA COMBINED PROFIT AND LOSS ACCOUNTS OF ENLARGED TOM GROUP**

|  | Note | Year ended 31 December  |                       |                       | Six months ended 30 June |                       |
|--|------|-------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
|  |      | 2000<br>HK\$'000        | 2001<br>HK\$'000      | 2002<br>HK\$'000      | 2002<br>HK\$'000         | 2003<br>HK\$'000      |
| Turnover   | 3    | <u>89,223</u>           | <u>635,636</u>        | <u>1,627,636</u>      | <u>680,245</u>           | <u>872,293</u>        |
| Cost of sales  |      | 56,134                  | 526,092               | 1,052,543             | 458,673                  | 532,628               |
| Other revenues                                       | 3    | (80,675)                | (23,183)              | (5,909)               | (3,251)                  | (1,214)               |
| Selling and marketing expenses                       |      | 124,041                 | 100,491               | 185,513               | 92,795                   | 97,070                |
| Administrative expenses                              |      | 166,524                 | 180,457               | 287,860               | 124,851                  | 127,807               |
| Other operating income                               |      | (18,273)                | (9,828)               | –                     | –                        | –                     |
| Other operating expenses                             |      | <u>268,896</u>          | <u>215,710</u>        | <u>351,244</u>        | <u>144,993</u>           | <u>194,347</u>        |
| Operating loss                                       | 4    | 427,424                 | 354,103               | 243,615               | 137,816                  | 78,345                |
| Finance costs  | 5    | 13,314                  | 10,452                | 32,430                | 14,675                   | 16,959                |
| Provision for impairment of goodwill                 | 6    | 829,211                 | 280,936               | 197,108               | –                        | –                     |
| Provision for impairment of fixed assets             |      | –                       | 49,540                | –                     | –                        | –                     |
| Restructuring costs                                  | 7    | 37,717                  | 8,527                 | –                     | –                        | –                     |
| Share of losses of jointly controlled entities       |      | 16,190                  | 35,856                | 29,585                | 17,161                   | 4,998                 |
| Share of profits less losses of associated companies |      | <u>6,230</u>            | <u>3,164</u>          | <u>(20)</u>           | <u>312</u>               | <u>(732)</u>          |
| Loss before taxation                                 |      | 1,330,086               | 742,578               | 502,718               | 169,964                  | 99,570                |
| Taxation   | 8    | <u>3,147</u>            | <u>18,692</u>         | <u>29,257</u>         | <u>23,963</u>            | <u>1,957</u>          |
| Loss after taxation                                  |      | 1,333,233               | 761,270               | 531,975               | 193,927                  | 101,527               |
| Minority interests                                   |      | <u>(10,546)</u>         | <u>7,185</u>          | <u>28,555</u>         | <u>2,230</u>             | <u>4,523</u>          |
| Loss for the year/period                             |      | <u><u>1,322,687</u></u> | <u><u>768,455</u></u> | <u><u>560,530</u></u> | <u><u>196,157</u></u>    | <u><u>106,050</u></u> |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(B).      PRO FORMA COMBINED BALANCE SHEETS OF ENLARGED TOM GROUP**

|  |             | <b>31 December</b> |                 |                  | <b>30 June</b>   |
|--|-------------|--------------------|-----------------|------------------|------------------|
|  |             | <b>2000</b>        | <b>2001</b>     | <b>2002</b>      | <b>2003</b>      |
|  | <i>Note</i> | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i>  | <i>HK\$'000</i>  |
| Non-current assets   |             |                    |                 |                  |                  |
| Fixed assets   | 13          | 254,301            | 196,182         | 255,772          | 256,632          |
| Other non-current assets                                       | 14          | 2,670              | 33,665          | 113,985          | 108,858          |
| Goodwill   | 15          | 293,823            | 440,019         | 953,899          | 983,566          |
| Interests in jointly<br>controlled entities                    | 16          | 27,540             | 125,632         | 35,510           | 16,407           |
| Interests in associated<br>companies                           | 17          | 5,084              | 3,741           | 4,601            | 3,472            |
| Investment securities  | 18          | 10,522             | 37,005          | 126,406          | 127,302          |
|  |             | <u>593,940</u>     | <u>836,244</u>  | <u>1,490,173</u> | <u>1,496,237</u> |
| Current assets   |             |                    |                 |                  |                  |
| Inventories  | 19          | 1,407              | 92,676          | 108,260          | 98,647           |
| Trade and other receivables                                    | 20          | 104,035            | 523,845         | 652,984          | 762,807          |
| Bank balances and cash   | 28(a)       | 934,754            | 240,682         | 330,295          | 342,475          |
|  |             | <u>1,040,196</u>   | <u>857,203</u>  | <u>1,091,539</u> | <u>1,203,929</u> |
| Current liabilities  |             |                    |                 |                  |                  |
| Consideration payables<br>– current                            | 21          | 517,279            | 268,609         | 431,478          | 520,061          |
| Trade and other payables                                       | 22          | 334,788            | 501,147         | 630,841          | 672,135          |
| Obligation under<br>finance leases                             |             | 49                 | –               | –                | –                |
| Taxation payable   |             | 3,147              | 64,376          | 68,548           | 53,882           |
| Long-term liabilities – current                                | 24          | –                  | 12,228          | 561              | 3,045            |
| Short-term loans   | 23          | 1,410              | 48,405          | 14,338           | 82,279           |
|  |             | <u>856,673</u>     | <u>894,765</u>  | <u>1,145,766</u> | <u>1,331,402</u> |
| Net current assets/(liabilities)                               |             | <u>183,523</u>     | <u>(37,562)</u> | <u>(54,227)</u>  | <u>(127,473)</u> |
| Total assets less current liabilities                          |             | <u>777,463</u>     | <u>798,682</u>  | <u>1,435,946</u> | <u>1,368,764</u> |
| Non-current liabilities  |             |                    |                 |                  |                  |
| Consideration payables<br>– non-current                        | 21          | –                  | 21,120          | 130,670          | 11,560           |
| Other long-term liabilities                                    | 24          | 95,157             | 350,002         | 1,259,347        | 1,314,491        |
| Deferred tax liabilities                                       | 26(b)       | –                  | 2,721           | 9,147            | 12,338           |
|  |             | <u>95,157</u>      | <u>373,843</u>  | <u>1,399,164</u> | <u>1,338,389</u> |
| Minority interests   |             | <u>1,003</u>       | <u>84,158</u>   | <u>153,784</u>   | <u>160,614</u>   |
| Net assets/(liabilities) and<br>shareholders' funds/(deficits) |             | <u>681,303</u>     | <u>340,681</u>  | <u>(117,002)</u> | <u>(130,239)</u> |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(C).      PRO FORMA COMBINED STATEMENTS OF CHANGES IN EQUITY OF ENLARGED TOM GROUP**

|  | Year ended 31 December |                       |                         | Six months ended 30 June |                         |
|--|------------------------|-----------------------|-------------------------|--------------------------|-------------------------|
|  | 2000                   | 2001                  | 2002                    | 2002                     | 2003                    |
|  | <i>HK\$'000</i>        | <i>HK\$'000</i>       | <i>HK\$'000</i>         | <i>HK\$'000</i>          | <i>HK\$'000</i>         |
| Total (deficit)/equity as at 1 January   | <u>(397,134)</u>       | <u>681,303</u>        | <u>340,681</u>          | <u>340,681</u>           | <u>(117,002)</u>        |
| Disposal of a subsidiary   | –                      | 150                   | –                       | –                        | –                       |
| Investment revaluation deficits  | –                      | –                     | –                       | (1,796)                  | –                       |
| Exchange differences   | <u>(253)</u>           | <u>(519)</u>          | <u>(255)</u>            | <u>5,491</u>             | <u>683</u>              |
| Net (loss)/profit not recognised in the pro forma combined profit and loss accounts                  | <u>(253)</u>           | <u>(369)</u>          | <u>(255)</u>            | <u>3,695</u>             | <u>683</u>              |
| Issuance of shares by capitalisation of shareholders' loans  | 501,709                | –                     | –                       | –                        | –                       |
| Issuance of shares to the then shareholders and investors for cash                                   | 141,405                | –                     | –                       | –                        | –                       |
| Issuance of shares pursuant to initial public offering, net of issuing expenses                      | 662,611                | –                     | –                       | –                        | –                       |
| Over-allotment placement of shares   | 114,276                | –                     | –                       | –                        | –                       |
| Placement of shares in September 2000, net of issuing expenses                                       | 478,377                | –                     | –                       | –                        | –                       |
| Issuance of shares for acquisition of subsidiaries and associated companies, net of issuing expenses | 714,416                | 416,381               | 87,597                  | 31,067                   | 92,987                  |
| Exercise of share options, net of issuing expenses   | –                      | 12,912                | 19,642                  | 19,642                   | –                       |
| Goodwill eliminated against reserves   | (536,484)              | –                     | –                       | –                        | –                       |
| Loss for the year/period   | (1,322,687)            | (768,455)             | (560,530)               | (196,157)                | (106,050)               |
| Contribution from owners   | 325,067                | –                     | –                       | –                        | –                       |
| Own shares held  | <u>–</u>               | <u>(1,091)</u>        | <u>(4,137)</u>          | <u>(4,137)</u>           | <u>(857)</u>            |
| Total equity/(deficit) as at 31 December/30 June   | <u><u>681,303</u></u>  | <u><u>340,681</u></u> | <u><u>(117,002)</u></u> | <u><u>194,791</u></u>    | <u><u>(130,239)</u></u> |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(D). PRO FORMA COMBINED CASH FLOW STATEMENTS OF ENLARGED TOM GROUP**

|  | Note  | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|--|-------|------------------------|------------------|------------------|--------------------------|------------------|
|  |       | 2000                   | 2001             | 2002             | 2002                     | 2003             |
|  |       | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                 | HK\$'000         |
| Net cash outflow from operations   | 27(a) | (393,780)              | (461,007)        | (178,054)        | (220,682)                | (30,305)         |
| Interest paid  |       | (924)                  | (1,142)          | (19,205)         | (8,579)                  | (9,563)          |
| Hong Kong profits tax paid   |       | -                      | (1,718)          | (2,003)          | -                        | (393)            |
| Overseas taxation paid   |       | -                      | (1,807)          | (26,659)         | (14,536)                 | (20,372)         |
| Net cash used in operating activities  |       | <u>(394,704)</u>       | <u>(465,674)</u> | <u>(225,921)</u> | <u>(243,797)</u>         | <u>(60,633)</u>  |
| Investing activities   |       |                        |                  |                  |                          |                  |
| Interest received  |       | 80,634                 | 22,528           | 22,631           | 21,757                   | 2,231            |
| Capital expenditure  |       | (231,244)              | (93,682)         | (206,301)        | (88,916)                 | (58,435)         |
| Sale of fixed assets   |       | 6,326                  | 4,852            | 1,451            | (97)                     | 375              |
| Settlement of consideration payable for acquisition of subsidiaries in prior years |       | -                      | -                | (42,639)         | (42,639)                 | (6,271)          |
| Acquisition of subsidiaries  | 27(b) | 2,110                  | (298,974)        | (312,047)        | (191,729)                | 14,855           |
| Disposal/deconsolidation of a subsidiary   | 27(c) | -                      | 163              | (7,962)          | -                        | 135              |
| Purchase and sales of other investments, net                                       |       | (134,453)              | (58,595)         | (219)            | (35,954)                 | (3,293)          |
| Loans to related companies   |       | (19,728)               | (89,744)         | (500)            | -                        | -                |
| Loans repayment from related companies   |       | -                      | 2,261            | 3,760            | 1,692                    | -                |
| Dividends received   |       | -                      | -                | 130              | 130                      | 4,939            |
| Net cash used in investing activities  |       | <u>(296,355)</u>       | <u>(511,191)</u> | <u>(541,696)</u> | <u>(335,756)</u>         | <u>(45,464)</u>  |
| Net cash used before financing   |       | <u>(691,059)</u>       | <u>(976,865)</u> | <u>(767,617)</u> | <u>(579,553)</u>         | <u>(106,097)</u> |
| Financing  |       |                        |                  |                  |                          |                  |
| Issuance of ordinary shares, net of issuing expenses                               | 27(d) | 1,397,445              | 12,912           | 19,292           | 19,478                   | (78)             |
| Repurchase of ordinary shares  | 27(d) | (776)                  | -                | -                | -                        | -                |
| New bank and other loans   | 27(d) | 224,116                | 272,365          | 903,441          | 625,176                  | 134,487          |
| Loan repayments and capital element of finance lease payments                      | 27(d) | (11,133)               | (9,548)          | (63,737)         | (46,228)                 | (12,232)         |
| Contribution from minority shareholders  | 27(d) | 172                    | 7,064            | 1,410            | -                        | -                |
| Dividends paid to minority shareholders  |       | -                      | -                | (3,176)          | -                        | (3,900)          |
| Net cash from financing  |       | <u>1,609,824</u>       | <u>282,793</u>   | <u>857,230</u>   | <u>598,426</u>           | <u>118,277</u>   |
| Increase/(decrease) in bank balances and cash                                      |       | 918,765                | (694,072)        | 89,613           | 18,873                   | 12,180           |
| Bank balances and cash at 1 January  |       | 15,989                 | 934,754          | 240,682          | 240,682                  | 330,295          |
| Bank balances and cash at 31 December/30 June                                      |       | <u>934,754</u>         | <u>240,682</u>   | <u>330,295</u>   | <u>259,555</u>           | <u>342,475</u>   |

**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION**

**1.      Basis of preparation**

For the purposes of the Pro Forma Combined Financial Information, the enlarged TOM group referred to hereinafter includes TOM.COM LIMITED (“TOM”) and its subsidiaries (the “TOM group”) and China Entertainment Television Broadcast Limited and its subsidiaries (“CETV”) (collectively the “enlarged TOM group”).

For illustrative purposes only, the pro forma combined profit and loss accounts of the enlarged TOM group for the three years ended 31 December 2000, 2001 and 2002 and the six months ended 30 June 2002 and 2003 (the “Relevant Periods”), and the pro forma combined balance sheets as at 31 December 2000, 2001 and 2002 and 30 June 2003 as set out on pages 140 to 192 (the “Pro Forma Combined Financial Information”) have been prepared on a combination basis to present the aggregate results and financial position of the enlarged TOM group as if the enlarged TOM group had been in existence throughout the Relevant Periods.

The Pro Forma Combined Financial Information of the enlarged TOM group has been prepared based on the Accountants’ Report on TOM group as set out in Appendix II of the Circular and the Accountants’ Report on CETV as set out Appendix III of in the Circular.

Because of its nature, the Pro Forma Combined Financial Information of the enlarged TOM group does not give an indicative financial position or results of TOM group had CETV actually been acquired at the beginning of the Relevant Periods.

The Pro Forma Combined Financial Information of the enlarged TOM group is provided for information only and should not be construed as being indicative of the enlarged TOM group’s financial performance in any future period. In particular, the Pro Forma Combined Financial Information of the enlarged TOM group is prepared on a combination basis whereas the acquisition will be accounted for under acquisition accounting in the consolidated accounts of the enlarged TOM group subsequent to the acquisition of CETV. Under acquisition accounting, the consolidated accounts of the enlarged TOM group will be adjusted as follows:

- (a)    The results of CETV will only be reflected in the consolidated profit and loss account of the enlarged TOM group from the date of acquisition;
- (b)    The results of CETV up to the date of acquisition will be recognised as pre-acquisition reserves;
- (c)    All assets and liabilities of CETV will be recorded at their respective fair values as at the date of acquisition;
- (d)    An estimated goodwill of approximately HK\$85,370,000 resulting from the completion of the acquisition will be recorded in the consolidated balance sheet of the enlarged TOM group at the date of acquisition which will be amortised to the consolidated profit and loss account of the enlarged TOM group over a period of not exceeding 20 years in accordance with the accounting policy of TOM. The directors of TOM will determine the amortisation period of this estimated goodwill upon the completion of the acquisition. For illustrative purposes and assuming a 20-year amortisation period, the resulting annual amortisation charge would be approximately HK\$4,268,000.

In addition, the Pro Forma Combined Financial Information of the enlarged TOM group does not take into account of the events to be carried out at the completion date of the acquisition of the equity interest in CETV by TOM as set out in note 32(a) below.

**2.      Principal accounting policies**

The principal accounting policies adopted by the enlarged TOM group, which conform to Statements of Standard Accounting Practice (“SSAPs”) issued by Hong Kong Society of Accountants (“HKSA”) and accounting principles generally accepted in Hong Kong are as follows:

*(a)      Subsidiaries*

Subsidiaries are those entities in which the enlarged TOM group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies and to appoint or remove majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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# APPENDIX IV      **COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

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## II.    **PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

### **(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

#### **2.    Principal accounting policies** *(continued)*

##### *(b)    Jointly controlled entities*

A jointly controlled entity is a contractual arrangement whereby the enlarged TOM group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The pro forma combined profit and loss accounts include the enlarged TOM group's share of the results of jointly controlled entities for the Relevant Periods, and the pro forma combined balance sheets include the enlarged TOM group's share of the net assets of the jointly controlled entities and goodwill on acquisition, net of accumulated amortisation and provision for impairment losses, if any.

##### *(c)    Associated companies*

An associated company is a company, not being a subsidiary and a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The pro forma combined profit and loss accounts include the enlarged TOM group's share of the results of the associated companies for the Relevant Periods, and the pro forma combined balance sheets include the enlarged TOM group's share of the net assets of the associated companies.

##### *(d)    Investment securities*

Investment securities held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the pro forma combined profit and loss accounts.

Where there is objective evidence that individual investment securities are impaired, the cumulative loss recorded in the revaluation reserve is taken to the pro forma combined profit and loss accounts.

##### *(e)    Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Fixed assets are depreciated at rates sufficient to write-off their cost less accumulated impairment losses, if any, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|  |                         |
|--|-------------------------|
| Properties   | over the lease terms    |
| Leasehold improvements                                   | 15 – 30%                |
| Computer equipment                                       | 20 – 33 $\frac{1}{3}$ % |
| Studio and broadcasting equipment                        | 20%                     |
| Outdoor signboards                                       | 5 – 20%                 |
| Office equipment, furniture, fixtures and motor vehicles | 10 – 33 $\frac{1}{3}$ % |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the pro forma combined profit and loss accounts. Improvements are capitalised and depreciated over their expected useful lives to the enlarged TOM group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the pro forma combined profit and loss accounts.

**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**2.    Principal accounting policies** *(continued)*

*(f)    Construction in progress*

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as direct expenses capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to properties or outdoor signboards when subsequently all the activities necessary to prepare the assets to their intended use are completed. No depreciation is provided in respect of construction in progress.

*(g)    Other non-current assets*

*(i)    Concession rights*

Concession rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Concession rights represent the cost of acquiring operating rights for the placement of advertisements on bus shelters and unipoles in the Mainland China. Concession rights are amortised on a straight-line basis over the period of operating rights.

*(ii)    Copyrights and publishing rights*

Copyrights and publishing rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Copyrights and publishing rights represent the cost of acquiring reproduction and distribution rights for audio-visual products and publications. Copyrights and publishing rights are amortised on a systematic basis over the period of operating rights.

*(iii)    Purchased program and film rights*

Purchased program and film rights are stated at cost less amortisation and accumulated impairment losses, if any. Cost comprises direct expenditure on licensing the program and film rights. A major portion of the program and film rights costs are amortised upon the initial publicity in the first year with the remaining balance being evenly amortised over the remaining contract term. The cost of self produced programs is expensed to the pro forma combined profit and loss accounts as incurred.

*(h)    Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the enlarged TOM group's share of the net assets of the acquired subsidiary, jointly controlled entity and associated company at the date of acquisition.

Goodwill on acquisitions arising on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a maximum period of 20 years.

Goodwill on acquisition prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the pro forma combined profit and loss accounts.

*(i)    Asset impairment*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that intangible and tangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the pro forma combined profit and loss accounts.

**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**2.    Principal accounting policies** *(continued)*

*(j)    Assets under leases*

*(i)    Finance leases*

Leases that substantially transfer all the rewards and risks of ownership of assets to the enlarged TOM group are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance costs, are included in long-term liabilities. The finance costs of such leases are charged to the pro forma combined profit and loss accounts over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

*(ii)    Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the pro forma combined profit and loss accounts on a straight-line basis over the lease periods.

*(k)    Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs are calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

*(l)    Trade receivable*

Provision is made against trade receivable to the extent that it is considered to be doubtful. Trade receivable in the pro forma combined balance sheets is stated net of such provision.

*(m)    Employee benefits*

*(i)    Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(ii)    Bonus plans*

The expected cost of bonus payments are recognised as a liability when the enlarged TOM group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*(iii)    Pension obligations*

The enlarged TOM group operates a number of defined contribution and defined benefit plans and the assets of which are generally held in separate trustees-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies, taking account of the recommendations of independent qualified actuaries.



**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**2.    Principal accounting policies** *(continued)*

*(m)    Employee benefits* *(continued)*

*(iii)    Pension obligations* *(continued)*

The enlarged TOM group's contributions to the defined contribution plans are expensed as incurred.

For defined benefit plans, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the pro forma combined profit and loss accounts so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. Actuarial gains and losses are recognised over the average remaining service lives of the employee. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The enlarged TOM group's contributions to defined benefit pension plans are charged to the pro forma combined profit and loss accounts in the period to which the contributions relate.

*(iv)    Equity compensation benefits*

Pursuant to written resolutions of the shareholders of TOM dated 11 February 2000, two share option schemes namely, Pre-IPO Share Option Plan and Employee Share Option Scheme were adopted by TOM. The options are granted and exercisable at the market price of the shares on the date of grant and no compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium account.

Certain directors and employees of CETV participate in an incentive programme which offers the opportunity for the directors and employees to acquire shares of AOL Times Warner Inc., the holding company of TBS. No cost has been recognised by CETV in this regard.

*(n)    Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investment in subsidiaries, associated companies and jointly controlled entities except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

*(o)    Provisions*

Provisions are recognised when the enlarged TOM group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the enlarged TOM group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

*(p)    Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enlarged TOM group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**2.    Principal accounting policies** *(continued)*

*(p)    Contingent liabilities* *(continued)*

A contingent liability is not recognised but is disclosed in the notes to the pro forma combined accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

*(q)    Revenue recognition*

Revenue from sale of services is recognised when the services are rendered.

Revenue from sale of airtime is recognised on the actual executed portion according to media schedules.

Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Subscription revenue in respect of video program production and tape dubbing is recognised upon completion of production.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

*(r)    Borrowing costs*

All borrowing costs are charged to the pro forma combined profit and loss accounts in the period in which they are incurred.

*(s)    Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the pro forma combined profit and loss accounts.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

*(t)    Segment reporting*

In accordance with the enlarged TOM group's internal financial reporting, the enlarged TOM group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses, including depreciation and amortisation. Segment assets consist primarily of fixed assets, other non-current assets, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and pension obligations and exclude items such as consideration payables, taxation and corporate borrowings. Capital expenditure comprises additions to fixed assets, concession rights, purchased program and film rights, copyrights and publishing rights.

In respect of geographical segment reporting, sales are based on the country in which the business is operated. Total assets and capital expenditure are where the assets are located.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)

### (E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)

#### 3. Turnover, revenue and segment information

The enlarged TOM group is principally engaged in the provision of online media and telecom value-added services, advertising sales of outdoor media assets and provision of outdoor media services, advertising sales of print media and publication of magazines and books, advertising and sponsorship sales in relation to sports events and television programmes, sales of audio-visual products and broadcasting of television programs.

Turnover and revenues recognised during the Relevant Periods are as follows:

|  | Year ended 31 December |                       |                         | Six months ended<br>30 June |                       |
|--|------------------------|-----------------------|-------------------------|-----------------------------|-----------------------|
|  | 2000<br>HK\$'000       | 2001<br>HK\$'000      | 2002<br>HK\$'000        | 2002<br>HK\$'000            | 2003<br>HK\$'000      |
| Turnover   |                        |                       |                         |                             |                       |
| Provision of online media and telecom value-added services   | 54,865                 | 143,890               | 255,800                 | 109,565                     | 218,518               |
| Advertising sales of outdoor media assets and provision of outdoor media services  | –                      | 117,477               | 247,895                 | 76,115                      | 141,455               |
| Advertising sales of print media and publication of magazines and books  | –                      | 168,286               | 741,258                 | 366,609                     | 360,237               |
| Advertising and sponsorship sales in relation to sports events and television programmes, sales of audio-visual products and broadcasting of television programmes | <u>34,358</u>          | <u>205,983</u>        | <u>382,683</u>          | <u>127,956</u>              | <u>152,083</u>        |
|  | 89,223                 | 635,636               | 1,627,636               | 680,245                     | 872,293               |
| Other revenues   |                        |                       |                         |                             |                       |
| Interest income  | 80,634                 | 23,076                | 5,867                   | 3,209                       | 1,214                 |
| Others   | <u>41</u>              | <u>107</u>            | <u>42</u>               | <u>42</u>                   | <u>–</u>              |
|  | 80,675                 | 23,183                | 5,909                   | 3,251                       | 1,214                 |
| Total revenues   | <u><u>169,898</u></u>  | <u><u>658,819</u></u> | <u><u>1,633,545</u></u> | <u><u>683,496</u></u>       | <u><u>873,507</u></u> |

#### Primary reporting format – business segments

The enlarged TOM group is organised into four main business segments:

- Internet group – provision of online media and telecom value-added services
- Outdoor media group – advertising sales of outdoor media assets and provision of outdoor media services
- Publishing division – advertising sales of print media and publication of magazines and books
- Sports & entertainment division – advertising and sponsorship sales in relation to sports event and television programmes, sales of audio-visual products and broadcasting of television programmes

There are no significant sales or other transactions between the business segments.

#### Secondary reporting format – geographical segments

The enlarged TOM group's four business segments are operated in four main geographical areas:

|                     |   |   |
|---------------------|---|---|
| Hong Kong           | – | internet group, publishing division and sports & entertainment division |
| Mainland China      | – | internet group, outdoor media group and sports & entertainment division |
| Taiwan              | – | publishing division   |
| Asia Pacific region | – | sports & entertainment division   |

There are no significant sales between the geographical segments.

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**3. Turnover, revenue and segment information** *(continued)*

**Primary reporting format – business segments**

Year ended 31 December 2000

|   | <b>Internet<br/>group<br/>HK\$'000</b> | <b>Outdoor<br/>media<br/>group<br/>HK\$'000</b> | <b>Sports &amp;<br/>entertainment<br/>division<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|---|--|---|---|---------------------------|
| Turnover  | <u>54,865</u>                          | <u>–</u>  | <u>34,358</u>   | <u>89,223</u>             |
| Segment loss before amortisation and depreciation | 279,496                                | –   | 37,892  | 317,388                   |
| Amortisation and depreciation                     | <u>61,648</u>                          | <u>–</u>  | <u>4,011</u>  | <u>65,659</u>             |
| Segment loss                                      | <u>341,144</u>                         | <u>–</u>  | <u>41,903</u>   | 383,047                   |
| Unallocated costs                                 |  |   |   | <u>44,377</u>             |
| Operating loss                                    |  |   |   | 427,424                   |
| Finance costs                                     |  |   |   | 13,314                    |
| Provision for impairment of goodwill              | 829,211                                | –   | –   | 829,211                   |
| Restructuring costs                               | 37,717                                 | –   | –   | 37,717                    |
| Share of losses of jointly controlled entities    | 16,190                                 | –   | –   | 16,190                    |
| Share of losses of associated companies           | 6,230                                  | –   | –   | <u>6,230</u>              |
| Loss before taxation                              |  |   |   | 1,330,086                 |
| Taxation  |  |   |   | <u>3,147</u>              |
| Loss after taxation                               |  |   |   | 1,333,233                 |
| Minority interests                                |  |   |   | <u>(10,546)</u>           |
| Loss for the year                                 |  |   |   | <u>1,322,687</u>          |
| Segment assets                                    | 600,363                                | 56,380  | 112,620   | 769,363                   |
| Interests in jointly controlled entities          | 27,540                                 | –   | –   | 27,540                    |
| Interests in associated companies                 | 5,084                                  | –   | –   | 5,084                     |
| Investment securities                             | 8,595                                  | 1,175   | 752   | 10,522                    |
| Unallocated assets                                |  |   |   | <u>821,627</u>            |
| Total assets                                      |  |   |   | <u>1,634,136</u>          |
| Segment liabilities                               | 138,595                                | 18,721  | 215,782   | 373,098                   |
| Unallocated liabilities                           |  |   |   | 578,732                   |
| Minority interests                                |  |   |   | <u>1,003</u>              |
| Total liabilities                                 |  |   |   | <u>952,833</u>            |
| Capital expenditure                               | 217,809                                | –   | 13,435  | <u>231,244</u>            |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 3.      Turnover, revenue and segment information *(continued)*

##### Primary reporting format – business segments *(continued)*

Year ended 31 December 2001

|   | Internet<br>group<br><i>HK\$'000</i> | Outdoor<br>media<br>group<br><i>HK\$'000</i> | Publishing<br>division<br><i>HK\$'000</i> | Sports &<br>entertainment<br>division<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--------------------------------------|--|---|--|--------------------------|
| Turnover  | 143,890                              | 117,477                                      | 168,286                                   | 205,983  | 635,636                  |
| Segment loss/(profit) before<br>amortisation and depreciation | 92,388                               | (62,358)                                     | (370)                                     | 71,732   | 101,392                  |
| Amortisation and depreciation                                 | 80,432                               | 11,570                                       | 6,450                                     | 30,722   | 129,174                  |
| Segment loss/(profit)   | 172,820                              | (50,788)                                     | 6,080                                     | 102,454  | 230,566                  |
| Unallocated costs   |                                      |  |   |  | 123,537                  |
| Operating loss  |                                      |  |   |  | 354,103                  |
| Finance costs   |                                      |  |   |  | 10,452                   |
| Provision for impairment of goodwill                          | 280,936                              | –  | –   | –  | 280,936                  |
| Provision for impairment<br>of fixed assets                   | 49,540                               | –  | –   | –  | 49,540                   |
| Restructuring costs   | 8,527                                | –  | –   | –  | 8,527                    |
| Share of losses of jointly<br>controlled entities             | 35,856                               | –  | –   | –  | 35,856                   |
| Share of losses of associated companies                       | 2,428                                | –  | 736                                       | –  | 3,164                    |
| Loss before taxation  |                                      |  |   |  | 742,578                  |
| Taxation  |                                      |  |   |  | 18,692                   |
| Loss after taxation   |                                      |  |   |  | 761,270                  |
| Minority interests  |                                      |  |   |  | 7,185                    |
| Loss for the year   |                                      |  |   |  | 768,455                  |
| Segment assets  | 450,797                              | 240,592                                      | 674,601                                   | 102,279  | 1,468,269                |
| Interests in jointly<br>controlled entities                   | 125,632                              | –  | –   | –  | 125,632                  |
| Interests in associated companies                             | 2,656                                | –  | 1,085                                     | –  | 3,741                    |
| Investment securities   | –                                    | 1,485  | 34,768                                    | 752  | 37,005                   |
| Unallocated assets  |                                      |  |   |  | 58,800                   |
| Total assets  |                                      |  |   |  | 1,693,447                |
| Segment liabilities   | 152,721                              | 36,416                                       | 229,057                                   | 314,851  | 733,045                  |
| Unallocated liabilities                                       |                                      |  |   |  | 535,563                  |
| Minority interests  |                                      |  |   |  | 84,158                   |
| Total liabilities   |                                      |  |   |  | 1,352,766                |
| Capital expenditure   | 25,705                               | 20,179                                       | 3,501                                     | 31,262   | 80,647                   |
| Unallocated capital expenditure                               |                                      |  |   |  | 13,035                   |
|   |                                      |  |   |  | 93,682                   |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP (continued)**

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**3.      Turnover, revenue and segment information (continued)**

**Primary reporting format – business segments (continued)**

Year ended 31 December 2002

|   | <b>Internet<br/>group<br/>HK\$'000</b> | <b>Outdoor<br/>media<br/>group<br/>HK\$'000</b> | <b>Publishing<br/>division<br/>HK\$'000</b> | <b>Sports &amp;<br/>entertainment<br/>division<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|---|--|---|---|---|---------------------------|
| Turnover  | <u>255,800</u>                         | <u>247,895</u>                                  | <u>741,258</u>                              | <u>382,683</u>  | <u>1,627,636</u>          |
| Segment loss/(profit) before<br>amortisation and depreciation | 22,804                                 | (77,285)  | (70,484)                                    | 41,779  | (83,186)                  |
| Amortisation and depreciation                                 | <u>68,438</u>                          | <u>33,236</u>                                   | <u>40,779</u>                               | <u>35,241</u>   | <u>177,694</u>            |
| Segment loss/(profit)   | <u>91,242</u>                          | <u>(44,049)</u>                                 | <u>(29,705)</u>                             | <u>77,020</u>   | 94,508                    |
| Unallocated costs   |  |   |   |   | <u>149,107</u>            |
| Operating loss  |  |   |   |   | 243,615                   |
| Finance costs   |  |   |   |   | 32,430                    |
| Provision for impairment of goodwill                          | 100,100                                | 67,008  | 30,000                                      | –   | 197,108                   |
| Share of losses of jointly<br>continued entities              | 29,585                                 | –   | –   | –   | 29,585                    |
| Share of profits less losses<br>of associated companies       | 1,185                                  | –   | (1,205)                                     | –   | <u>(20)</u>               |
| Loss before taxation  |  |   |   |   | 502,718                   |
| Taxation  |  |   |   |   | <u>29,257</u>             |
| Loss after taxation   |  |   |   |   | 531,975                   |
| Minority interests  |  |   |   |   | <u>28,555</u>             |
| Loss for the year   |  |   |   |   | <u>560,530</u>            |
| Segment assets  | 277,277                                | 673,666   | 998,821                                     | 334,311   | 2,284,075                 |
| Interests in jointly controlled entities                      | 35,510                                 | –   | –   | –   | 35,510                    |
| Interests in associated companies                             | 1,470                                  | –   | 3,131                                       | –   | 4,601                     |
| Investment securities   | 61,292                                 | 45,205  | 19,157                                      | 752   | 126,406                   |
| Unallocated assets  |  |   |   |   | <u>131,120</u>            |
| Total assets  |  |   |   |   | <u>2,581,712</u>          |
| Segment liabilities   | 75,019                                 | 99,861  | 292,895                                     | 508,086   | 975,861                   |
| Unallocated liabilities                                       |  |   |   |   | 1,569,069                 |
| Minority interests  |  |   |   |   | <u>153,784</u>            |
| Total liabilities   |  |   |   |   | <u>2,698,714</u>          |
| Capital expenditure   | 60,847                                 | 52,368  | 13,916                                      | 72,837  | 199,968                   |
| Unallocated capital expenditure                               |  |   |   |   | <u>6,333</u>              |
|   |  |   |   |   | <u>206,301</u>            |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP (continued)**

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**3.      Turnover, revenue and segment information (continued)**

**Primary reporting format – business segments (continued)**

Six months ended 30 June 2002

|   | <b>Internet<br/>group</b> | <b>Outdoor<br/>media<br/>group</b> | <b>Publishing<br/>division</b> | <b>Sports &amp;<br/>entertainment<br/>division</b> | <b>Total</b>    |
|---|---------------------------|------------------------------------|--------------------------------|--|-----------------|
|   | <i>HK\$'000</i>           | <i>HK\$'000</i>                    | <i>HK\$'000</i>                | <i>HK\$'000</i>                                    | <i>HK\$'000</i> |
| Turnover  | <u>109,565</u>            | <u>76,115</u>                      | <u>366,609</u>                 | <u>127,956</u>                                     | <u>680,245</u>  |
| Segment loss/(profit) before<br>amortisation and depreciation | 28,994                    | (18,580)                           | (47,455)                       | 37,191   | 150             |
| Amortisation and depreciation                                 | <u>32,262</u>             | <u>11,789</u>                      | <u>19,673</u>                  | <u>15,661</u>                                      | <u>79,385</u>   |
| Segment loss/(profit)   | <u>61,256</u>             | <u>(6,791)</u>                     | <u>(27,782)</u>                | <u>52,852</u>                                      | 79,535          |
| Unallocated costs   |                           |                                    |                                |  | <u>58,281</u>   |
| Operating loss  |                           |                                    |                                |  | 137,816         |
| Finance costs   |                           |                                    |                                |  | 14,675          |
| Share of losses of jointly<br>controlled entities             | 17,161                    | –                                  | –                              | –  | 17,161          |
| Share of profits less losses<br>of associated companies       | 1,010                     | –                                  | (698)                          | –  | <u>312</u>      |
| Loss before taxation  |                           |                                    |                                |  | 169,964         |
| Taxation  |                           |                                    |                                |  | <u>23,963</u>   |
| Loss after taxation   |                           |                                    |                                |  | 193,927         |
| Minority interests  |                           |                                    |                                |  | <u>2,230</u>    |
| Loss for the period   |                           |                                    |                                |  | <u>196,157</u>  |
| Capital expenditure   | 44,223                    | 15,383                             | 6,743                          | 20,678   | 87,027          |
| Unallocated capital expenditure                               |                           |                                    |                                |  | <u>1,889</u>    |
|   |                           |                                    |                                |  | <u>88,916</u>   |

# APPENDIX IV    COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 3.    Turnover, revenue and segment information *(continued)*

##### Primary reporting format – business segments *(continued)*

Six months ended 30 June 2003

|   | Internet<br>group<br><i>HK\$'000</i> | Outdoor<br>media<br>group<br><i>HK\$'000</i> | Publishing<br>division<br><i>HK\$'000</i> | Sports &<br>entertainment<br>division<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--------------------------------------|--|---|--|--------------------------|
| Turnover  | <u>218,518</u>                       | <u>141,455</u>                               | <u>360,237</u>                            | <u>152,083</u>   | <u>872,293</u>           |
| Segment (profit)/loss before<br>amortisation and depreciation | (74,324)                             | (36,855)                                     | (25,533)                                  | 39,422   | (97,290)                 |
| Amortisation and depreciation                                 | <u>29,885</u>                        | <u>21,206</u>                                | <u>19,599</u>                             | <u>30,067</u>  | <u>100,757</u>           |
| Segment (profit)/loss   | <u>(44,439)</u>                      | <u>(15,649)</u>                              | <u>(5,934)</u>                            | <u>69,489</u>  | 3,467                    |
| Unallocated costs   |                                      |  |   |  | <u>74,878</u>            |
| Operating loss  |                                      |  |   |  | 78,345                   |
| Finance costs   |                                      |  |   |  | 16,959                   |
| Share of losses of jointly<br>controlled entities             | 4,998                                | –  | –   | –  | 4,998                    |
| Share of profits less losses<br>of associated companies       | 69                                   | –  | (801)                                     | –  | <u>(732)</u>             |
| Loss before taxation  |                                      |  |   |  | 99,570                   |
| Taxation  |                                      |  |   |  | <u>1,957</u>             |
| Loss after taxation   |                                      |  |   |  | 101,527                  |
| Minority interests  |                                      |  |   |  | <u>4,523</u>             |
| Loss for the period   |                                      |  |   |  | <u>106,050</u>           |
| Segment assets  | 339,908                              | 740,364                                      | 1,003,988                                 | 338,376  | 2,422,636                |
| Interests in jointly controlled entities                      | 16,407                               | –  | –   | –  | 16,407                   |
| Interests in associated companies                             | 1,401                                | –  | 2,071                                     | –  | 3,472                    |
| Investment securities   | 61,525                               | 45,205                                       | 19,820                                    | 752  | 127,302                  |
| Unallocated assets  |                                      |  |   |  | <u>130,349</u>           |
| Total assets  |                                      |  |   |  | <u>2,700,166</u>         |
| Segment liabilities   | 88,508                               | 101,239                                      | 288,852                                   | 603,247  | 1,081,846                |
| Unallocated liabilities                                       |                                      |  |   |  | 1,587,945                |
| Minority interests  |                                      |  |   |  | <u>160,614</u>           |
| Total liabilities   |                                      |  |   |  | <u>2,830,405</u>         |
| Capital expenditure   | 22,713                               | 20,070                                       | 3,228                                     | 13,559   | 59,570                   |
| Unallocated capital expenditure                               |                                      |  |   |  | <u>1,360</u>             |
|   |                                      |  |   |  | <u>60,930</u>            |



**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)**

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**3. Turnover, revenue and segment information (continued)**

**Secondary reporting format – geographical segments**

|                               | Turnover               |                |                  |                          |                  | Segment loss/(profit)      |                  |                |                          |                |
|-------------------------------|------------------------|----------------|------------------|--------------------------|------------------|----------------------------|------------------|----------------|--------------------------|----------------|
|                               | Year ended 31 December |                |                  | Six months ended 30 June |                  | Year ended 31 December     |                  |                | Six months ended 30 June |                |
|                               | 2000                   | 2001           | 2002             | 2002                     | 2003             | 2000                       | 2001             | 2002           | 2002                     | 2003           |
|                               | HK\$'000               | HK\$'000       | HK\$'000         | HK\$'000                 | HK\$'000         | HK\$'000                   | HK\$'000         | HK\$'000       | HK\$'000                 | HK\$'000       |
| Hong Kong                     | 31,909                 | 96,085         | 137,068          | 37,581                   | 37,346           | 217,520                    | 44,331           | (300)          | 15,675                   | 19,338         |
| Mainland China                | 57,314                 | 413,350        | 796,685          | 298,559                  | 494,481          | 59,729                     | (22,399)         | (99,744)       | (9,780)                  | (125,003)      |
| Taiwan                        | -                      | 117,189        | 690,373          | 343,078                  | 335,115          | -                          | (13,708)         | (88,933)       | (55,530)                 | (40,225)       |
| Asia Pacific region           | -                      | 9,012          | 3,510            | 1,027                    | 5,351            | 40,139                     | 93,168           | 105,791        | 49,785                   | 48,600         |
|                               | <u>89,223</u>          | <u>635,636</u> | <u>1,627,636</u> | <u>680,245</u>           | <u>872,293</u>   | 317,388                    | 101,392          | (83,186)       | 150                      | (97,290)       |
| Amortisation and depreciation |                        |                |                  |                          |                  | 65,659                     | 129,174          | 177,694        | 79,385                   | 100,757        |
| Unallocated costs             |                        |                |                  |                          |                  | 44,377                     | 123,537          | 149,107        | 58,281                   | 74,878         |
| Operating loss                |                        |                |                  |                          |                  | <u>427,424</u>             | <u>354,103</u>   | <u>243,615</u> | <u>137,816</u>           | <u>78,345</u>  |
|                               |                        |                |                  |                          |                  | <b>Total assets</b>        |                  |                |                          |                |
|                               |                        |                |                  |                          |                  | <b>31 December</b>         |                  |                |                          | <b>30 June</b> |
|                               |                        |                |                  |                          | <b>2000</b>      | <b>2001</b>                | <b>2002</b>      |                | <b>2003</b>              |                |
|                               |                        |                |                  |                          | <i>HK\$'000</i>  | <i>HK\$'000</i>            | <i>HK\$'000</i>  |                | <i>HK\$'000</i>          |                |
| Hong Kong                     |                        |                |                  |                          | 1,037,600        | 322,664                    | 253,390          |                | 218,026                  |                |
| Mainland China                |                        |                |                  |                          | 576,166          | 717,825                    | 1,312,496        |                | 1,461,238                |                |
| Taiwan                        |                        |                |                  |                          | -                | 626,954                    | 987,477          |                | 998,629                  |                |
| Asia Pacific region           |                        |                |                  |                          | 20,370           | 26,004                     | 28,349           |                | 22,273                   |                |
| Total                         |                        |                |                  |                          | <u>1,634,136</u> | <u>1,693,447</u>           | <u>2,581,712</u> |                | <u>2,700,166</u>         |                |
|                               |                        |                |                  |                          |                  | <b>Capital expenditure</b> |                  |                |                          |                |
|                               |                        |                |                  |                          |                  | <b>31 December</b>         |                  |                |                          |                |
|                               |                        |                |                  |                          | <b>2000</b>      | <b>2001</b>                | <b>2002</b>      |                | <b>30 June</b>           |                |
|                               |                        |                |                  |                          | <i>HK\$'000</i>  | <i>HK\$'000</i>            | <i>HK\$'000</i>  |                | <b>2003</b>              |                |
|                               |                        |                |                  |                          |                  |                            |                  |                | <i>HK\$'000</i>          |                |
| Hong Kong                     |                        |                |                  |                          | 201,883          | 15,832                     | 3,949            |                | 1,451                    |                |
| Mainland China                |                        |                |                  |                          | 15,926           | 43,732                     | 149,565          |                | 43,394                   |                |
| Taiwan                        |                        |                |                  |                          | -                | 3,501                      | 13,184           |                | 3,188                    |                |
| Asia Pacific region           |                        |                |                  |                          | 13,435           | 30,617                     | 39,603           |                | 12,897                   |                |
| Total                         |                        |                |                  |                          | <u>231,244</u>   | <u>93,682</u>              | <u>206,301</u>   |                | <u>60,930</u>            |                |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**4. Operating loss**

Operating loss is stated after crediting and charging the following:

|  | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|--|------------------------|-------------------|-------------------|--------------------------|-------------------|
|  | 2000                   | 2001              | 2002              | 2002                     | 2003              |
|  | HK\$'000               | HK\$'000          | HK\$'000          | HK\$'000                 | HK\$'000          |
| <b>Crediting:</b>  |                        |                   |                   |                          |                   |
| Forfeiture of amounts due to creditors                         | 9,712                  | –                 | –                 | –                        | –                 |
| Forfeiture of amounts due to directors                         | 8,561                  | –                 | –                 | –                        | –                 |
| Write-back of unrealised airtime deposit                       | –                      | 8,313             | –                 | –                        | –                 |
|  | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |
| <b>Charging:</b>   |                        |                   |                   |                          |                   |
| Depreciation   |                        |                   |                   |                          |                   |
| – Owned fixed assets   | 38,890                 | 93,355            | 106,592           | 48,915                   | 55,668            |
| – Leased fixed assets  | 156                    | –                 | –                 | –                        | –                 |
| Amortisation   |                        |                   |                   |                          |                   |
| – Goodwill   | 25,914                 | 20,416            | 49,514            | 21,195                   | 26,177            |
| – Other non-current assets                                     | 699                    | 25,637            | 35,723            | 15,983                   | 29,200            |
| Staff costs (including directors' emoluments) <i>(Note 11)</i> | 133,228                | 222,532           | 321,875           | 148,510                  | 217,183           |
| Cost of inventories  | –                      | 92,175            | 423,173           | 97,005                   | 252,872           |
| Operating leases   |                        |                   |                   |                          |                   |
| – Land and buildings   | 22,858                 | 26,506            | 48,576            | 17,360                   | 21,286            |
| – Transmitting equipment                                       | 25,832                 | 27,364            | 27,013            | 13,521                   | 13,437            |
| – Other assets   | –                      | 1,448             | 35,626            | 1,258                    | 22,386            |
| Auditors' remuneration   | 2,720                  | 4,266             | 4,960             | 2,689                    | 3,594             |
| Loss on disposals/write-off of fixed assets                    | 20,684                 | 8,254             | 1,418             | 225                      | 311               |
| Provision for contract termination                             | –                      | –                 | 20,630            | –                        | –                 |
| Provision for loan to a related company                        | –                      | –                 | 13,260            | –                        | –                 |
| Provision for diminution in value of investment securities     | 7,190                  | 6,334             | –                 | 132                      | –                 |
|  | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |

**5. Finance costs**

|   | Year ended 31 December |                   |                   | Six months ended 30 June |                   |
|---|------------------------|-------------------|-------------------|--------------------------|-------------------|
|   | 2000                   | 2001              | 2002              | 2002                     | 2003              |
|   | HK\$'000               | HK\$'000          | HK\$'000          | HK\$'000                 | HK\$'000          |
| Interest on bank loans and bank overdrafts                  | 306                    | 671               | 1,847             | 938                      | 879               |
| Interest on other loans, wholly repayable within five years | 12,967                 | 9,779             | 30,583            | 13,737                   | 16,080            |
| Finance lease interest                                      | 41                     | 2                 | –                 | –                        | –                 |
|   | <u>          </u>      | <u>          </u> | <u>          </u> | <u>          </u>        | <u>          </u> |
| Total borrowing costs incurred                              | <u>13,314</u>          | <u>10,452</u>     | <u>32,430</u>     | <u>14,675</u>            | <u>16,959</u>     |

**6. Provision for impairment of goodwill**

The enlarged TOM group performed an assessment of the fair value of goodwill, including goodwill that had previously been eliminated against reserves, at the balance sheet dates. The assessment was based on value in use of the assets as determined at the cash generating unit (the individual business operations) based on the present value of estimated future cash flows.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 7.    Restructuring costs

These represented mainly costs of termination and redundancy incurred in connection with the realignment of resources exercise for the online operations.

#### 8.    Taxation

The amount of taxation charged to the pro forma combined profit and loss account represents:

|   | Year ended 31 December |                 |                 | Six months<br>ended 30 June |                 |
|---|------------------------|-----------------|-----------------|-----------------------------|-----------------|
|   | 2000                   | 2001            | 2002            | 2002                        | 2003            |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>             | <i>HK\$'000</i> |
| Hong Kong profits tax                   | 161                    | 2,496           | 6,098           | 793                         | –               |
| Overseas taxation                       | 2,986                  | 15,342          | 40,479          | 18,466                      | 11,783          |
| Over-provision in prior years           | –                      | –               | (11,081)        | –                           | (1,637)         |
| Deferred taxation ( <i>Note 26(c)</i> ) | –                      | 854             | (6,239)         | 4,704                       | (8,189)         |
|   | <u>3,147</u>           | <u>18,692</u>   | <u>29,257</u>   | <u>23,963</u>               | <u>1,957</u>    |

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%, 2001: 16%, 2000: 16%) on the estimated assessable profits for the Relevant Periods. In 2003, the government enacted a change in profits tax rate from 16% to 17.5% for the fiscal year ending 31 March 2004.

Taxation on overseas profits has been calculated on the estimated assessable profits for the Relevant Periods at the rates of taxation prevailing in the countries in which the enlarged TOM group operates.

The taxation on the enlarged TOM group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the enlarged TOM group as follows:

|   | Year ended 31 December |                  |                  | Six months<br>ended 30 June |                 |
|---|------------------------|------------------|------------------|-----------------------------|-----------------|
|   | 2000                   | 2001             | 2002             | 2002                        | 2003            |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i>  | <i>HK\$'000</i>  | <i>HK\$'000</i>             | <i>HK\$'000</i> |
| Loss before taxation  | <u>(1,330,086)</u>     | <u>(742,578)</u> | <u>(502,718)</u> | <u>(169,964)</u>            | <u>(99,570)</u> |
| Calculated at a taxation rate of 17.5%<br>(2002: 16%, 2001: 16%, 2000: 16%) | (212,813)              | (118,813)        | (80,435)         | (27,194)                    | (17,425)        |
| Effect of different taxation rates<br>in other countries                    | 2,750                  | 4,292            | (11,871)         | 8,151                       | (25,926)        |
| Income not subject to taxation  | (12,740)               | (3,808)          | (3,274)          | (932)                       | (1,871)         |
| Expenses not deductible for<br>taxation purposes                            | 145,742                | 49,436           | 43,658           | 10,461                      | 13,899          |
| Withholding tax   | –                      | 854              | 9,147            | 4,704                       | 3,141           |
| Utilisation of previously<br>unrecognised tax losses                        | –                      | –                | (137)            | –                           | (2,902)         |
| Tax losses not recognised   | <u>80,208</u>          | <u>86,731</u>    | <u>72,169</u>    | <u>28,773</u>               | <u>33,041</u>   |
| Taxation charge   | <u>3,147</u>           | <u>18,692</u>    | <u>29,257</u>    | <u>23,963</u>               | <u>1,957</u>    |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 9.      Dividends

No dividend had been paid or declared by TOM and CETV during the Relevant Periods.

#### 10.     Loss per share

No loss per share information is presented as its inclusion would not be meaningful due to the preparation of the results for the Relevant Periods on the basis set out in Note 1 above.

#### 11.     Staff costs, including directors' emoluments

|  | Year ended 31 December |                 |                 | Six months ended 30 June |                 |
|--|------------------------|-----------------|-----------------|--------------------------|-----------------|
|  | 2000                   | 2001            | 2002            | 2002                     | 2003            |
|  | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Wages and salaries   | 129,634                | 212,100         | 309,867         | 141,994                  | 207,637         |
| Pension costs – defined contribution plans                   | 3,594                  | 7,267           | 6,846           | 3,935                    | 3,807           |
| Pension costs – defined benefit plans<br><i>(Note 25(b))</i> | –                      | 3,165           | 5,162           | 2,581                    | 4,437           |
| Other long-term employee benefits                            | –                      | –               | –               | –                        | 1,302           |
|  | <u>133,228</u>         | <u>222,532</u>  | <u>321,875</u>  | <u>148,510</u>           | <u>217,183</u>  |

The TOM group's Hong Kong employees are members of a defined benefit retirement scheme. All contributions are made by the TOM group at either 7.5% or 10% of the employees' basic salaries. Benefits are equal to the vested contribution plus a minimum interest of 5% per annum thereon. Where an employee leaves the scheme before the employer's contribution has fully vested, such forfeited contributions may be used by the employer to reduce its existing level of contributions.

Commencing 1 December 2000, the enlarged TOM group's Hong Kong employees may elect to join the Mandatory Provident Fund. Contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower.

The enlarged TOM group's subsidiaries in Mainland China participate in the provincial/municipal retirement schemes managed by the respective provincial/municipal bureau. Pursuant to the relevant provision, the enlarged TOM group's Mainland China subsidiaries are required to make monthly contributions at rates prevailing in the relevant provinces on the employee's monthly salaries. The bureaus are responsible for pension payments to the retired employees of the enlarged TOM group.

The enlarged TOM group's subsidiaries in Taiwan operate certain retirement schemes providing benefits to all eligible employees based on final pay. The subsidiaries have an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. Certain assets of the scheme are deposited with the Central Trust of China in Taiwan and held separately from those of the enlarged TOM group.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 12.    Directors' and senior management's emoluments

##### *(a)    Directors' emoluments*

The aggregate amounts of emoluments payable to the directors of TOM during the Relevant Periods are as follow:

|   | Year ended 31 December |                 |                 | Six months ended 30 June |                 |
|---|------------------------|-----------------|-----------------|--------------------------|-----------------|
|   | 2000                   | 2001            | 2002            | 2002                     | 2003            |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Fees  | 466                    | 550             | 549             | 275                      | 275             |
| Basic salaries, housing allowances, other allowances and benefits in kind             | 7,598                  | 7,847           | 8,427           | 3,685                    | 6,686           |
| Benefit from share options exercised  | 6,932                  | 1,681           | –               | –                        | –               |
| Discretionary bonuses   | 1,958                  | 5,685           | 3,789           | –                        | –               |
| Contributions to retirement benefit schemes for directors (and past directors) of TOM | 436                    | 468             | 581             | 289                      | 274             |
|   | <u>17,390</u>          | <u>16,231</u>   | <u>13,346</u>   | <u>4,249</u>             | <u>7,235</u>    |

Details of the emoluments of individual directors are as follow:

|                                      | Year ended 31 December |                 |                 | Six months ended 30 June |                 |
|--------------------------------------|------------------------|-----------------|-----------------|--------------------------|-----------------|
|                                      | 2000                   | 2001            | 2002            | 2002                     | 2003            |
|                                      | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Director 1                           | 2,088                  | 6,376           | 7,080           | 1,506                    | 3,388           |
| Director 2                           | –                      | –               | –               | –                        | 1,669           |
| Director 3                           | 1,726                  | 3,462           | 2,702           | 1,206                    | 811             |
| Director 4                           | –                      | 1,902           | 2,856           | 1,262                    | 641             |
| Director 5                           | 3,017                  | 3,941           | –               | –                        | –               |
| Director 6                           | 10,093                 | –               | –               | –                        | –               |
| Director 7                           | 32                     | 50              | 46              | 25                       | –               |
| Director 8                           | –                      | –               | 162             | –                        | 476             |
| Director 9                           | 44                     | 50              | 50              | 25                       | 25              |
| Director 10                          | 44                     | 50              | 50              | 25                       | 25              |
| Director 11                          | 44                     | 50              | 50              | 25                       | 25              |
| Director 12                          | 44                     | 50              | 50              | 25                       | 25              |
| Director 13                          | 44                     | 50              | 50              | 25                       | 25              |
| Director 14                          | 38                     | 50              | 50              | 25                       | 25              |
| Independent non-executive director 1 | 88                     | 100             | 100             | 50                       | 50              |
| Independent non-executive director 2 | 88                     | 100             | 100             | 50                       | 50              |
|                                      | <u>17,390</u>          | <u>16,231</u>   | <u>13,346</u>   | <u>4,249</u>             | <u>7,235</u>    |

During the Relevant Periods, no emoluments were paid by the enlarged TOM group to the directors of TOM as an inducement to join or upon joining the enlarged TOM group or as compensation for loss of office.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the Relevant Periods.

None of the directors of CETV was a director of the TOM group.

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)**

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**12. Directors' and senior management's emoluments (continued)**

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the enlarged TOM group are as follows:

|               | Number of individuals  |      |      |                          |      |
|---------------|------------------------|------|------|--------------------------|------|
|               | Year ended 31 December |      |      | Six months ended 30 June |      |
|               | 2000                   | 2001 | 2002 | 2002                     | 2003 |
| Directors     | 3                      | 3    | 3    | 3                        | 2    |
| Non-directors | 2                      | 2    | 2    | 2                        | 3    |

The emoluments payable to the non-director individuals are as follows:

|   | Six months ended 30 June |              |              |               |              |
|---|--------------------------|--------------|--------------|---------------|--------------|
|   | Year ended 31 December   |              |              | ended 30 June |              |
|   | 2000                     | 2001         | 2002         | 2002          | 2003         |
|   | HK\$'000                 | HK\$'000     | HK\$'000     | HK\$'000      | HK\$'000     |
| Basic salaries, housing allowances, other allowances and benefits in kind | 3,569                    | 2,673        | 2,691        | 1,665         | 3,465        |
| Benefit from share options exercised                                      | –                        | 3,805        | 5,434        | 5,434         | –            |
| Discretionary bonuses   | 2,333                    | 2,286        | 1,136        | 2             | –            |
| Contributions to retirement benefit schemes                               | 104                      | 215          | 199          | 36            | 98           |
|   | <u>6,006</u>             | <u>8,979</u> | <u>9,460</u> | <u>7,137</u>  | <u>3,563</u> |

The emoluments of the non-directors fell within the following bands:

| Emolument bands               | Number of individuals  |      |      |                          |      |
|-------------------------------|------------------------|------|------|--------------------------|------|
|                               | Year ended 31 December |      |      | Six months ended 30 June |      |
|                               | 2000                   | 2001 | 2002 | 2002                     | 2003 |
| HK\$1,000,001 – HK\$1,500,000 | –                      | –    | –    | 1                        | 3    |
| HK\$1,500,001 – HK\$2,000,000 | 1                      | –    | –    | –                        | –    |
| HK\$3,500,001 – HK\$4,000,000 | –                      | –    | 1    | –                        | –    |
| HK\$4,000,001 – HK\$4,500,000 | 1                      | 1    | –    | –                        | –    |
| HK\$4,500,001 – HK\$5,000,000 | –                      | 1    | –    | –                        | –    |
| HK\$5,500,001 – HK\$6,000,000 | –                      | –    | 1    | 1                        | –    |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 13.    Fixed assets

|  | Properties<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Computer<br>equipment<br><i>HK\$'000</i> | Studio and<br>broadcasting<br>equipment<br><i>HK\$'000</i> | Outdoor<br>signboards<br><i>HK\$'000</i> | Other assets<br><i>HK\$'000</i> | Construction<br>in progress<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------|--|--|--|--|---------------------------------|--|--------------------------|
| Cost   |                               |  |  |  |  |                                 |  |                          |
| At 1 January 2000                                      | –                             | 3,264  | 32,806                                   | 19,118   | –  | 4,680                           | –  | 59,868                   |
| Additions  | –                             | 44,893                                       | 161,008                                  | 6,849  | –  | 15,506                          | –  | 228,256                  |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>     | –                             | 1,439  | 29,436                                   | –  | 27,600                                   | 7,956                           | 11,233   | 77,664                   |
| Disposals/write-off                                    | –                             | (12,171)                                     | (10,646)                                 | (3,852)  | –  | (5,605)                         | –  | (32,274)                 |
| At 31 December 2000                                    | –                             | 37,425                                       | 212,604                                  | 22,115   | 27,600                                   | 22,537                          | 11,233   | 333,514                  |
| Exchange adjustment                                    | –                             | (98)   | (202)                                    | –  | –  | (142)                           | –  | (442)                    |
| Additions  | 339                           | 3,057  | 33,961                                   | 200  | 442                                      | 6,862                           | 5,449  | 50,310                   |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>     | –                             | 6,744  | 16,476                                   | –  | 27,982                                   | 16,633                          | 5,706  | 73,541                   |
| Transfers upon completion                              | 11,719                        | –  | –  | –  | 8,084                                    | –                               | (19,803)                                       | –                        |
| Disposals/write-off                                    | –                             | (7,020)                                      | (3,387)                                  | (16,592)   | (167)                                    | (3,144)                         | (1,676)  | (31,986)                 |
| At 31 December 2001                                    | 12,058                        | 40,108                                       | 259,452                                  | 5,723  | 63,941                                   | 42,746                          | 909  | 424,937                  |
| Exchange adjustment                                    | (7)                           | 82   | 199                                      | –  | –  | 182                             | –  | 456                      |
| Additions  | 868                           | 6,313  | 76,150                                   | 364  | 14,760                                   | 7,268                           | 17,410   | 123,133                  |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>     | –                             | 1,659  | 22,436                                   | –  | 52,160                                   | 12,133                          | 5,945  | 94,333                   |
| Transfers upon completion                              | –                             | –  | –  | –  | 14,076                                   | 67                              | (14,143)                                       | –                        |
| Disposals/write-off                                    | –                             | (3,649)                                      | (9,146)                                  | –  | (801)                                    | (4,326)                         | –  | (17,922)                 |
| Deconsolidation of a subsidiary<br><i>(Note 27(c))</i> | –                             | –  | (504)                                    | –  | (16,035)                                 | (309)                           | (8,448)  | (25,296)                 |
| At 31 December 2002                                    | 12,919                        | 44,513                                       | 348,587                                  | 6,087  | 128,101                                  | 57,761                          | 1,673  | 599,641                  |
| Exchange adjustment                                    | 5                             | 225  | 124                                      | –  | –  | 167                             | –  | 521                      |
| Additions  | –                             | 1,598  | 26,878                                   | 977  | 10,314                                   | 2,055                           | 2,622  | 44,444                   |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>     | –                             | 698  | 24,468                                   | –  | –  | 1,442                           | –  | 26,608                   |
| Transfers upon completion                              | –                             | 94   | –  | –  | 1,859                                    | –                               | (1,953)  | –                        |
| Disposals/write-off                                    | –                             | (3)  | (735)                                    | –  | (159)                                    | (821)                           | –  | (1,718)                  |
| Disposal of a subsidiary<br><i>(Note 27(c))</i>        | –                             | (509)  | (16,658)                                 | –  | –  | (116)                           | –  | (17,283)                 |
| At 30 June 2003  | 12,924                        | 46,616                                       | 382,664                                  | 7,064  | 140,115                                  | 60,488                          | 2,342  | 652,213                  |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 13.    Fixed assets *(continued)*

|   | Properties<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Computer<br>equipment<br><i>HK\$'000</i> | Studio and<br>broadcasting<br>equipment<br><i>HK\$'000</i> | Outdoor<br>signboards<br><i>HK\$'000</i> | Other assets<br><i>HK\$'000</i> | Construction<br>in progress<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------|--|--|--|--|---------------------------------|--|--------------------------|
| Accumulated depreciation<br>and impairment losses         |                               |  |  |  |  |                                 |  |                          |
| At 1 January 2000   | –                             | 1,994  | 10,807                                   | 8,578  | –  | 2,459                           | –  | 23,838                   |
| Acquisition of<br>subsidiaries<br><i>(Note 27(b))</i>     | –                             | 341  | 4,199                                    | –  | 13,948                                   | 3,105                           | –  | 21,593                   |
| Charge for the year                                       | –                             | 4,755  | 30,068                                   | 2,748  | –  | 1,475                           | –  | 39,046                   |
| Disposals/write-off                                       | –                             | (386)  | (474)                                    | (2,119)  | –  | (2,285)                         | –  | (5,264)                  |
| At 31 December 2000                                       | –                             | 6,704  | 44,600                                   | 9,207  | 13,948                                   | 4,754                           | –  | 79,213                   |
| Exchange adjustment                                       | –                             | (77)   | (99)                                     | –  | –  | (66)                            | –  | (242)                    |
| Acquisition of<br>subsidiaries<br><i>(Note 27(b))</i>     | –                             | 5,083  | 8,335                                    | –  | 2,158                                    | 10,193                          | –  | 25,769                   |
| Charge for the year                                       | 131                           | 6,587  | 69,641                                   | 3,193  | 6,795                                    | 7,008                           | –  | 93,355                   |
| Impairment charge   | –                             | 6,930  | 39,790                                   | –  | –  | 2,820                           | –  | 49,540                   |
| Disposals/write-off                                       | –                             | (3,173)                                      | (1,836)                                  | (11,180)   | (140)                                    | (2,551)                         | –  | (18,880)                 |
| At 31 December 2001                                       | 131                           | 22,054                                       | 160,431                                  | 1,220  | 22,761                                   | 22,158                          | –  | 228,755                  |
| Exchange adjustment                                       | 1                             | 47   | 101                                      | –  | –  | 67                              | –  | 216                      |
| Acquisition of<br>subsidiaries<br><i>(Note 27(b))</i>     | –                             | 769  | 12,911                                   | –  | 8,480                                    | 5,966                           | –  | 28,126                   |
| Charge for the year                                       | 260                           | 6,750  | 77,201                                   | 1,176  | 13,941                                   | 7,264                           | –  | 106,592                  |
| Disposals/write-off                                       | –                             | (3,494)                                      | (7,013)                                  | –  | (564)                                    | (3,972)                         | –  | (15,043)                 |
| Deconsolidation of<br>a subsidiary<br><i>(Note 27(c))</i> | –                             | –  | (341)                                    | –  | (4,381)                                  | (55)                            | –  | (4,777)                  |
| At 31 December 2002                                       | 392                           | 26,126                                       | 243,290                                  | 2,396  | 40,237                                   | 31,428                          | –  | 343,869                  |
| Exchange adjustment                                       | –                             | 109  | 77                                       | –  | –  | –                               | –  | 186                      |
| Acquisition of<br>subsidiaries<br><i>(Note 27(b))</i>     | –                             | 104  | 12,530                                   | –  | –  | 480                             | –  | 13,114                   |
| Charge for the period                                     | 233                           | 3,764  | 39,488                                   | 651  | 7,206                                    | 4,326                           | –  | 55,668                   |
| Disposals/write-off                                       | –                             | –  | (215)                                    | –  | (110)                                    | (686)                           | –  | (1,011)                  |
| Disposal<br>of a subsidiary<br><i>(Note 27(c))</i>        | –                             | (506)  | (15,677)                                 | –  | –  | (62)                            | –  | (16,245)                 |
| At 30 June 2003   | 625                           | 29,597                                       | 279,493                                  | 3,047  | 47,333                                   | 35,486                          | –  | 395,581                  |
| Net book value  |                               |  |  |  |  |                                 |  |                          |
| At 31 December 2000                                       | –                             | 30,721                                       | 168,004                                  | 12,908   | 13,652                                   | 17,783                          | 11,233   | 254,301                  |
| At 31 December 2001                                       | 11,927                        | 18,054                                       | 99,021                                   | 4,503  | 41,180                                   | 20,588                          | 909  | 196,182                  |
| At 31 December 2002                                       | 12,527                        | 18,387                                       | 105,297                                  | 3,691  | 87,864                                   | 26,333                          | 1,673  | 255,772                  |
| At 30 June 2003   | 12,299                        | 17,019                                       | 103,171                                  | 4,017  | 92,782                                   | 25,002                          | 2,342  | 256,632                  |



**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**13.      Fixed assets** *(continued)*

The enlarged TOM group's interests in properties at their net book values are analysed as follows:

|                                  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|----------------------------------|--------------------|-----------------|-----------------|-----------------|
|                                  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|                                  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Outside Hong Kong, held on       |                    |                 |                 |                 |
| Leases of over 50 years          | –                  | 11,719          | 12,340          | 12,123          |
| Leases of between 10 to 50 years | –                  | 208             | 187             | 176             |
|                                  | <u>–</u>           | <u>11,927</u>   | <u>12,527</u>   | <u>12,299</u>   |

As at 31 December 2000, 2001 and 2002 and 30 June 2003, all fixed assets under finance leases were fully depreciated.

**14.      Other non-current assets**

|   | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|---|--------------------|-----------------|-----------------|-----------------|
|   | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Concession rights <i>(Note a)</i>                 | –                  | 13,764          | 43,348          | 44,012          |
| Copyrights <i>(Note a)</i>                        | –                  | –               | 39,523          | 27,173          |
| Purchased program and film rights <i>(Note a)</i> | 2,670              | 6,641           | 15,204          | 10,758          |
| Publishing rights <i>(Note a)</i>                 | –                  | –               | 1,911           | 1,514           |
| Loan to a related company <i>(Note b)</i>         | –                  | 13,260          | –               | –               |
| Pension assets <i>(Note 25(a))</i>                | –                  | –               | 1,349           | 1,349           |
| Deferred tax assets <i>(Note 26(a))</i>           | –                  | –               | 12,650          | 24,052          |
|   | <u>2,670</u>       | <u>33,665</u>   | <u>113,985</u>  | <u>108,858</u>  |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 14.    Other non-current assets *(continued)*

*Note:*

- (a)    Movement in concession rights, copyrights, purchased program and film rights and publishing rights is set out below:

|  | Concession<br>rights<br><i>HK\$'000</i> | Copyrights<br><i>HK\$'000</i> | Purchased<br>program<br>and film<br>rights<br><i>HK\$'000</i> | Publishing<br>rights<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|---|-------------------------------|---|---|--------------------------|
| <b>Cost</b>  |   |                               |   |   |                          |
| At 1 January 2000                                  | –                                       | –                             | 2,480   | –                                       | 2,480                    |
| Additions  | –                                       | –                             | 2,988   | –                                       | 2,988                    |
| At 31 December 2000                                | –                                       | –                             | 5,468   | –                                       | 5,468                    |
| Additions  | 14,147                                  | –                             | 29,225  | –                                       | 43,372                   |
| At 31 December 2001                                | 14,147                                  | –                             | 34,693  | –                                       | 48,840                   |
| Additions  | 9,622                                   | 32,359                        | 38,454  | 2,733                                   | 83,168                   |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i> | 26,062                                  | 8,457                         | –   | –                                       | 34,519                   |
| At 31 December 2002                                | 49,831                                  | 40,816                        | 73,147  | 2,733                                   | 166,527                  |
| Exchange adjustment                                | –                                       | –                             | –   | 16                                      | 16                       |
| Additions  | 4,585                                   | –                             | 11,901  | –                                       | 16,486                   |
| Disposals  | (348)                                   | (3,550)                       | –   | –                                       | (3,898)                  |
| At 30 June 2003                                    | 54,068                                  | 37,266                        | 85,048  | 2,749                                   | 179,131                  |
| <b>Accumulated amortisation</b>                    |   |                               |   |   |                          |
| At 1 January 2000                                  | –                                       | –                             | 2,099   | –                                       | 2,099                    |
| Amortisation charge for the year                   | –                                       | –                             | 699   | –                                       | 699                      |
| At 31 December 2000                                | –                                       | –                             | 2,798   | –                                       | 2,798                    |
| Amortisation charge for the year                   | 383                                     | –                             | 25,254  | –                                       | 25,637                   |
| At 31 December 2001                                | 383                                     | –                             | 28,052  | –                                       | 28,435                   |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i> | 1,386                                   | 997                           | –   | –                                       | 2,383                    |
| Amortisation charge for the year                   | 4,714                                   | 296                           | 29,891  | 822                                     | 35,723                   |
| At 31 December 2002                                | 6,483                                   | 1,293                         | 57,943  | 822                                     | 66,541                   |
| Exchange adjustment                                | –                                       | –                             | –   | 8                                       | 8                        |
| Amortisation charge for the period                 | 3,648                                   | 8,800                         | 16,347  | 405                                     | 29,200                   |
| Disposals  | (75)                                    | –                             | –   | –                                       | (75)                     |
| At 30 June 2003                                    | 10,056                                  | 10,093                        | 74,290  | 1,235                                   | 95,674                   |
| <b>Net book value</b>                              |   |                               |   |   |                          |
| At 31 December 2000                                | –                                       | –                             | 2,670   | –                                       | 2,670                    |
| At 31 December 2001                                | 13,764                                  | –                             | 6,641   | –                                       | 20,405                   |
| At 31 December 2002                                | 43,348                                  | 39,523                        | 15,204  | 1,911                                   | 99,986                   |
| At 30 June 2003                                    | 44,012                                  | 27,173                        | 10,758  | 1,514                                   | 83,457                   |

# APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)

### (E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)

#### 14. Other non-current assets (continued)

(b) This represented loan to a minority shareholder of a subsidiary, which was interest bearing at Hong Kong prime rate per annum, repayable by 31 December 2003 and secured by the pledge of the minority shareholder's interest in the subsidiary and a corporate guarantee provided by the minority's shareholder. The loan was subsequently fully provided for in 2002.

#### 15. Goodwill

|  | 31 December    |                |                  | 30 June          |
|--|----------------|----------------|------------------|------------------|
|  | 2000           | 2001           | 2002             | 2003             |
|  | HK\$'000       | HK\$'000       | HK\$'000         | HK\$'000         |
| Cost   |                |                |                  |                  |
| At 1 January                                   | 309,564        | 319,737        | 767,284          | 1,516,346        |
| Additions (Note 27(b))                         | 10,173         | 446,240        | 749,049          | 6,110            |
| Consideration adjustment                       | –              | –              | –                | 49,726           |
| Exchange adjustment                            | –              | (21)           | 13               | 8                |
| Acquisition of subsidiaries (Note 27(b))       | –              | 1,328          | –                | –                |
|  | <u>319,737</u> | <u>767,284</u> | <u>1,516,346</u> | <u>1,572,190</u> |
| At 31 December/30 June                         | 319,737        | 767,284        | 1,516,346        | 1,572,190        |
| Accumulated amortisation and impairment losses |                |                |                  |                  |
| At 1 January                                   | –              | 25,914         | 327,265          | 562,447          |
| Amortisation charge                            | 25,914         | 20,416         | 49,514           | 26,177           |
| Exchange adjustment                            | –              | (1)            | –                | –                |
| Impairment charge                              | –              | 280,936        | 185,668          | –                |
|  | <u>25,914</u>  | <u>327,265</u> | <u>562,447</u>   | <u>588,624</u>   |
| At 31 December/30 June                         | 25,914         | 327,265        | 562,447          | 588,624          |
| Net book value                                 |                |                |                  |                  |
| At 31 December/30 June                         | <u>293,823</u> | <u>440,019</u> | <u>953,899</u>   | <u>983,566</u>   |

#### 16. Interests in jointly controlled entities

|   | 31 December   |                |               | 30 June       |
|---|---------------|----------------|---------------|---------------|
|   | 2000          | 2001           | 2002          | 2003          |
|   | HK\$'000      | HK\$'000       | HK\$'000      | HK\$'000      |
| Share of net assets – unlisted shares                                       | 16,269        | 47,272         | 35,510        | 16,407        |
| Goodwill on acquisition less accumulated amortisation and impairment losses | –             | 11,956         | –             | –             |
|   | <u>16,269</u> | <u>59,228</u>  | <u>35,510</u> | <u>16,407</u> |
| Loans to jointly controlled entities  | 11,271        | 87,755         | –             | –             |
| Less: provisions  | –             | (21,351)       | –             | –             |
|   | <u>27,540</u> | <u>125,632</u> | <u>35,510</u> | <u>16,407</u> |

The loans to jointly controlled entities as at 31 December 2000 were unsecured, interest bearing at 6.5% per annum and repayable on demand. The loans to jointly controlled entities as at 31 December 2001 were unsecured, of which HK\$53,926,000 was interest free and repayable on demand, and the remaining balances of HK\$33,829,000 were interest bearing at rates ranging from 6% to 6.5% per annum and were repayable on or before 30 April 2011.

During the year ended 31 December 2002, a jointly controlled entity was reclassified as an investment security since the enlarged TOM group no longer has significant influence on the entity's operations. The loans to the entity of HK\$61,292,000, net of provisions, were transferred to loans and advances to investee companies (Note 18).

**APPENDIX IV    COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**17.    Interests in associated companies**

|                                       | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|
|                                       | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|                                       | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets – unlisted shares | <u>5,084</u>       | <u>3,741</u>    | <u>4,601</u>    | <u>3,472</u>    |

**18.    Investment securities**

|  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--|--------------------|-----------------|-----------------|-----------------|
|  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted equity shares outside Hong Kong,<br>at fair value | 2,065              | 37,005          | 35,265          | 36,158          |
| Loans and advances to investee companies                   | <u>8,457</u>       | <u>–</u>        | <u>91,141</u>   | <u>91,144</u>   |
|  | <u>10,522</u>      | <u>37,005</u>   | <u>126,406</u>  | <u>127,302</u>  |

The loans and advances to investee companies as at 30 June 2003 were unsecured, of which amounts totalling HK\$30,069,000 (31 December 2002: HK\$30,069,000) were interest bearing at rates ranging from 6% to 6.5% per annum and were repayable on or before 30 April 2011. The remaining balances were interest free and repayable on demand.

**19.    Inventories**

|                  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|------------------|--------------------|-----------------|-----------------|-----------------|
|                  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|                  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Merchandise      | 1,407              | 1,949           | 10,503          | 9,601           |
| Finished goods   | –                  | 77,932          | 82,566          | 77,419          |
| Raw materials    | –                  | 1,078           | 5,597           | 4,416           |
| Work in progress | <u>–</u>           | <u>11,717</u>   | <u>9,594</u>    | <u>7,211</u>    |
|                  | <u>1,407</u>       | <u>92,676</u>   | <u>108,260</u>  | <u>98,647</u>   |

As at 30 June 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$Nil (31 December 2002, 2001, 2000: HK\$Nil, HK\$77,000 and HK\$838,000, respectively).

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)**

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**20. Trade and other receivables**

|  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--|--------------------|-----------------|-----------------|-----------------|
|  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables (Note a)                           | 44,586             | 259,148         | 383,314         | 440,784         |
| Prepayments, deposits and other receivables (Note b) | 59,449             | 264,697         | 269,670         | 322,023         |
|  | <u>104,035</u>     | <u>523,845</u>  | <u>652,984</u>  | <u>762,807</u>  |

Note:

- (a) Majority of the enlarged TOM group's turnover is on open account terms and in accordance with terms specified in the contracts governing the relevant transactions.

The ageing analysis of the enlarged TOM group's trade receivables is as follows:

|              | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--------------|--------------------|-----------------|-----------------|-----------------|
|              | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|              | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current      | 14,330             | 103,390         | 202,449         | 146,930         |
| 31 – 60 days | 14,049             | 39,209          | 76,475          | 120,704         |
| 61 – 90 days | 15,592             | 27,592          | 37,606          | 53,452          |
| Over 90 days | 615                | 88,957          | 66,784          | 119,698         |
|              | <u>44,586</u>      | <u>259,148</u>  | <u>383,314</u>  | <u>440,784</u>  |

Included in trade receivables are amounts receivable from related companies as follows:

|   | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|---|--------------------|-----------------|-----------------|-----------------|
|   | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hutchison Whampoa Limited ("HWL") and<br>Cheung Kong (Holdings) Limited ("CKH"),<br>substantial shareholders of TOM | –                  | –               | 674             | 483             |
| Minority shareholders of subsidiaries of TOM  | –                  | –               | 33,245          | 50,043          |
| Shareholders of investee companies  | –                  | 7,833           | 7,833           | –               |
| An associated company   | –                  | –               | –               | 209             |
|   | <u>–</u>           | <u>7,833</u>    | <u>41,752</u>   | <u>50,735</u>   |

- (b) Included in prepayments, deposits and other receivables are balances with related companies as follows:

|   | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|---|--------------------|-----------------|-----------------|-----------------|
|   | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Jointly controlled entities   | 1,669              | 10,308          | 1,706           | 4,401           |
| Associated companies  | 560                | 516             | 68              | 230             |
| Related companies   |                    |                 |                 |                 |
| – HWL, CKH and Cranwood Company Limited<br>("Cranwood"), substantial shareholders<br>of TOM | 908                | 10,147          | 3,546           | 1,083           |
| – Minority shareholders of subsidiaries of TOM  | –                  | 8,461           | 39,628          | 42,152          |
| – Group companies of Turner Broadcasting<br>System Asia Pacific, Inc. ("TBSAP")<br>at CETV  | –                  | 4,517           | 4,636           | –               |
|   | <u>3,137</u>       | <u>33,949</u>   | <u>49,584</u>   | <u>47,866</u>   |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 20.    Trade and other receivables *(continued)*

The balances due from jointly controlled entities and associated companies represent expenses paid by the enlarged TOM group on behalf of the companies and are unsecured, interest free and repayable on demand.

The balances due from related companies represent expenses paid on behalf of the related companies and advertising revenue received by the related companies on behalf of the enlarged TOM group and are unsecured, interest free and repayable on demand.

#### 21.    Consideration payables

|   | 31 December     |                 |                 | 30 June         |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2000            | 2001            | 2002            | 2003            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Acquisition of subsidiaries <i>(Note a)</i>           | 322,279         | 94,729          | 367,148         | 336,621         |
| Acquisition of an investment security <i>(Note b)</i> | 195,000         | 195,000         | 195,000         | 195,000         |
|   | 517,279         | 289,729         | 562,148         | 531,621         |
| Represented by:                                       |                 |                 |                 |                 |
| – Current   | 517,279         | 268,609         | 431,478         | 520,061         |
| – Non-current   | –               | 21,120          | 130,670         | 11,560          |
|   | 517,279         | 289,729         | 562,148         | 531,621         |

*Note:*

- (a) This represents consideration payables with respect to the acquisition of subsidiaries that will be satisfied by cash and/or the issuance of shares of TOM pursuant to the terms of the respective acquisition agreements.
- (b) This represents the balance of the consideration payable with respect to the acquisition of a 50% equity interest of Shanghai Maya Online Broadband Network Company Limited. The directors of TOM intend to issue equity shares to settle the consideration payable, subject to further negotiation in respect of share price and time schedule.

#### 22.    Trade and other payables

|   | 31 December     |                 |                 | 30 June         |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2000            | 2001            | 2002            | 2003            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables <i>(Note a)</i>              | 87,000          | 188,754         | 207,069         | 237,209         |
| Other payables and accruals <i>(Note b)</i> | 247,788         | 312,393         | 423,772         | 434,926         |
|   | 334,788         | 501,147         | 630,841         | 672,135         |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**22. Trade and other payables** *(continued)*

*Note:*

(a) The ageing analysis of the enlarged TOM group's trade payables is as follows:

|              | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--------------|--------------------|-----------------|-----------------|-----------------|
|              | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|              | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current      | 13,498             | 102,682         | 86,554          | 72,659          |
| 31 – 60 days | 12,180             | 20,177          | 31,278          | 51,087          |
| 61 – 90 days | 23,214             | 21,208          | 26,382          | 39,073          |
| Over 90 days | 38,108             | 44,687          | 62,855          | 74,390          |
|              | <u>87,000</u>      | <u>188,754</u>  | <u>207,069</u>  | <u>237,209</u>  |

(b) Included in other payables and accruals are balances with related companies as follows:

|  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--|--------------------|-----------------|-----------------|-----------------|
|  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Associated companies                                     | –                  | 1,112           | –               | –               |
| Related companies  |                    |                 |                 |                 |
| – HWL, CKH and Cranwood, substantial shareholders of TOM | 19,472             | 5,006           | 6,414           | 6,499           |
| – Minority shareholders of subsidiaries of TOM           | –                  | –               | 50,258          | 47,264          |
| – Group companies of TBSAP at CETV                       | 2,777              | 114             | –               | 644             |
|  | <u>22,249</u>      | <u>6,232</u>    | <u>56,672</u>   | <u>54,407</u>   |

The amounts due to associated companies and related companies represent expenses paid on behalf of the enlarged TOM group by certain associated companies and related companies and are unsecured, interest free and repayable on demand.

**23. Short-term loans**

|             | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|-------------|--------------------|-----------------|-----------------|-----------------|
|             | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|             | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank loans  |                    |                 |                 |                 |
| Secured     | –                  | 29,979          | 3,164           | 53,920          |
| Unsecured   | 1,410              | 2,522           | 9,400           | 27,456          |
|             | <u>1,410</u>       | <u>32,501</u>   | <u>12,564</u>   | <u>81,376</u>   |
| Other loans |                    |                 |                 |                 |
| Secured     | –                  | 13,486          | 876             | –               |
| Unsecured   | –                  | 2,418           | 898             | 903             |
|             | <u>–</u>           | <u>15,904</u>   | <u>1,774</u>    | <u>903</u>      |
|             | <u>1,410</u>       | <u>48,405</u>   | <u>14,338</u>   | <u>82,279</u>   |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**24. Other long-term liabilities**

|   | <b>31 December</b>   |                       |                         | <b>30 June</b>          |
|---|----------------------|-----------------------|-------------------------|-------------------------|
|   | <b>2000</b>          | <b>2001</b>           | <b>2002</b>             | <b>2003</b>             |
|   | <i>HK\$'000</i>      | <i>HK\$'000</i>       | <i>HK\$'000</i>         | <i>HK\$'000</i>         |
| Long-term bank loans <i>(Note a)</i>                                      | –                    | 14,451                | 2,804                   | 2,532                   |
| Loans from shareholders <i>(Note b)</i>                                   | –                    | 100,000               | 850,000                 | 850,000                 |
| Loans from third parties <i>(Note c)</i>                                  | 6,837                | 7,090                 | 7,351                   | 7,478                   |
| Loans from minority shareholders <i>(Note d)</i>                          | 88,320               | 230,036               | 381,187                 | 438,670                 |
| Pension obligations <i>(Note 25(a))</i>                                   | –                    | 10,653                | 18,566                  | 18,856                  |
|   | <u>95,157</u>        | <u>362,230</u>        | <u>1,259,908</u>        | <u>1,317,536</u>        |
| Less: current portion of long-term liabilities<br><i>(Note a, Note c)</i> | –                    | (12,228)              | (561)                   | (3,045)                 |
|   | <u><u>95,157</u></u> | <u><u>350,002</u></u> | <u><u>1,259,347</u></u> | <u><u>1,314,491</u></u> |

*Note:*

*(a) Long-term bank loans*

|           | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|-----------|--------------------|-----------------|-----------------|-----------------|
|           | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|           | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Secured   | –                  | 14,451          | 559             | 559             |
| Unsecured | –                  | –               | 2,245           | 1,973           |
|           | <u>–</u>           | <u>14,451</u>   | <u>2,804</u>    | <u>2,532</u>    |

|  | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|--|--------------------|-----------------|-----------------|-----------------|
|  | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The bank loans are repayable as follows: |                    |                 |                 |                 |

|                            |          |               |              |              |
|----------------------------|----------|---------------|--------------|--------------|
| Within one year            | –        | 12,228        | 561          | 605          |
| In the second year         | –        | 2,223         | 40           | 605          |
| In the third to fifth year | –        | –             | 1,804        | 887          |
| After the fifth year       | –        | –             | 399          | 435          |
|                            | <u>–</u> | <u>14,451</u> | <u>2,804</u> | <u>2,532</u> |

*(b) Loans from shareholders*

|          | <b>31 December</b> |                 |                 | <b>30 June</b>  |
|----------|--------------------|-----------------|-----------------|-----------------|
|          | <b>2000</b>        | <b>2001</b>     | <b>2002</b>     | <b>2003</b>     |
|          | <i>HK\$'000</i>    | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| HWL      | –                  | 40,000          | 340,000         | 340,000         |
| CKH      | –                  | 20,000          | 170,000         | 170,000         |
| Cranwood | –                  | 40,000          | 340,000         | 340,000         |
|          | <u>–</u>           | <u>100,000</u>  | <u>850,000</u>  | <u>850,000</u>  |

The loans from HWL, CKH and Cranwood, the substantial shareholders of TOM, were granted in accordance with the Facility Letters dated 10 December 2001 and Supplemental Facility Letters dated 12 March 2003. The loans are unsecured, interest bearing at a rate of 50 basis points over 3 months HIBOR and will be repayable by the end of 2004.



**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**24.      Other long-term liabilities** *(continued)*

*(c)      Loans from third parties*

Except for interest-free loans totaled HK\$1,725,000 during the Relevant Periods, the remaining balances of the loans from third parties were interest bearing at 5.0625% per annum and guaranteed by Turner International Asia Pacific Limited, a fellow subsidiary of TBSAP. The loans are unsecured and repayable in 24 equal monthly installments commencing 1 January 2004.

The loans from third parties are repayable as follow:

|                            | <b>31 December</b>  |                     |                     | <b>30 June</b>      |
|----------------------------|---------------------|---------------------|---------------------|---------------------|
|                            | <b>2000</b>         | <b>2001</b>         | <b>2002</b>         | <b>2003</b>         |
|                            | <i>HK\$'000</i>     | <i>HK\$'000</i>     | <i>HK\$'000</i>     | <i>HK\$'000</i>     |
| Within one year            | –                   | –                   | –                   | 2,440               |
| In the second year         | –                   | –                   | 3,992               | 3,359               |
| In the third to fifth year | 6,837               | 7,090               | 3,359               | 1,679               |
|                            | <u>6,837</u>        | <u>7,090</u>        | <u>3,359</u>        | <u>1,679</u>        |
|                            | <u><u>6,837</u></u> | <u><u>7,090</u></u> | <u><u>7,351</u></u> | <u><u>7,478</u></u> |

As detailed in Note 32(a), according to the Share Purchase Agreement in respect of the acquisition of CETV's equity interest by TOM, the loans from third parties will be repaid by TBSAP on behalf of CETV on the completion date of the acquisition.

*(d)      Loans from minority shareholders*

Except for a loan from a minority shareholder, TBSAP, in the amount of HK\$438,670,000 (31 December 2002, 2001 and 2000: HK\$377,337,000, HK\$228,170,000 and HK\$88,320,000, respectively) which is interest bearing at HIBOR plus 2% per annum, other loans from minority shareholders are interest free. All loans from minority shareholders are unsecured and not repayable within the next twelve months from the balance sheet date.

As detailed in Note 32(a), according to the Share Purchase Agreement in respect of the acquisition of CETV's equity interest by TOM, the loan from TBSAP will be released by TBSAP upon the completion of the acquisition.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 25.    Pension assets and obligations

The enlarged TOM group operates certain defined benefit pension plans in Hong Kong and Taiwan. These pension plans are either final salary defined benefit plans or with minimum guaranteed return rate on plan assets. The assets of the funded plans are generally held independently of the enlarged TOM group's assets in separate trustee administered funds. The enlarged TOM group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefit plans as at 31 December 2002 in Hong Kong and Taiwan are valued by Watson Wyatt Hong Kong Limited and KPMG Consulting Co., Ltd., respectively.

- (a)    The pension assets/obligations recognised in the pro forma combined balance sheet are determined as follows:

|   | 31 December     |                 |                 | 30 June         |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2000            | 2001            | 2002            | 2003            |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Present value of funded obligations                 | –               | 12,569          | 29,805          | 29,805          |
| Fair value of plan assets                           | –               | (1,472)         | (9,536)         | (9,536)         |
|   | <u>–</u>        | <u>(1,472)</u>  | <u>(9,536)</u>  | <u>(9,536)</u>  |
| Deficits  | –               | 11,097          | 20,269          | 20,269          |
| Unrecognised actuarial losses                       | –               | (444)           | (3,052)         | (3,052)         |
| Exchange adjustment                                 | –               | –               | –               | 290             |
|   | <u>–</u>        | <u>–</u>        | <u>–</u>        | <u>290</u>      |
| Recognised in the pro forma combined balance sheets | <u>–</u>        | <u>10,653</u>   | <u>17,217</u>   | <u>17,507</u>   |
| Represented by:                                     |                 |                 |                 |                 |
| Pension assets <i>(Note 14 and Note c)</i>          | –               | –               | (1,349)         | (1,349)         |
| Pension obligations <i>(Note 24 and Note d)</i>     | –               | 10,653          | 18,566          | 18,856          |
|   | <u>–</u>        | <u>10,653</u>   | <u>17,217</u>   | <u>17,507</u>   |

- (b)    The amounts recognised in the pro forma combined profit and loss account are as follows:

|  | Year ended 31 December |                 |                 | Six months ended 30 June |                 |
|--|------------------------|-----------------|-----------------|--------------------------|-----------------|
|  | 2000                   | 2001            | 2002            | 2002                     | 2003            |
|  | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>          | <i>HK\$'000</i> |
| Current service cost                           | –                      | 2,647           | 5,860           | 2,930                    | 4,132           |
| Interest cost                                  | –                      | 534             | 984             | 492                      | 602             |
| Expected return on plan assets                 | –                      | (59)            | (596)           | (298)                    | (365)           |
| Net actuarial losses recognised                | –                      | 43              | 48              | 24                       | 68              |
| Recognition of transitional liability          | –                      | –               | (1,134)         | (567)                    | –               |
|  | <u>–</u>               | <u>–</u>        | <u>(1,134)</u>  | <u>(567)</u>             | <u>–</u>        |
| Total, included in staff cost <i>(Note 11)</i> | <u>–</u>               | <u>3,165</u>    | <u>5,162</u>    | <u>2,581</u>             | <u>4,437</u>    |
| Represented by:                                |                        |                 |                 |                          |                 |
| Pension assets <i>(Note c)</i>                 | –                      | –               | 913             | –                        | 1,752           |
| Pension obligations <i>(Note d)</i>            | –                      | 3,165           | 4,249           | 2,581                    | 2,685           |
|  | <u>–</u>               | <u>3,165</u>    | <u>5,162</u>    | <u>2,581</u>             | <u>4,437</u>    |
| Actual return on plan assets:                  |                        |                 |                 |                          |                 |
| Recognised as an asset                         | –                      | 16              | –               | –                        | –               |
| Recognised as a liability                      | –                      | –               | 407             | 204                      | 365             |
|  | <u>–</u>               | <u>–</u>        | <u>407</u>      | <u>204</u>               | <u>365</u>      |

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**25. Pension assets and obligations** *(continued)*

(c) Movements in the pension assets recognised in the pro forma combined balance sheet are as follows:

|                                | 31 December |          |                | 30 June        |
|--------------------------------|-------------|----------|----------------|----------------|
|                                | 2000        | 2001     | 2002           | 2003           |
|                                | HK\$'000    | HK\$'000 | HK\$'000       | HK\$'000       |
| At 1 January                   | –           | –        | –              | (1,349)        |
| Total expenses <i>(Note b)</i> | –           | –        | 913            | 1,752          |
| Contributions paid             | –           | –        | (2,262)        | (1,752)        |
|                                | <u>–</u>    | <u>–</u> | <u>(1,349)</u> | <u>(1,349)</u> |
| At 31 December/30 June         | <u>–</u>    | <u>–</u> | <u>(1,349)</u> | <u>(1,349)</u> |

(d) Movements in the pension obligations recognised in the pro forma combined balance sheet are as follows:

|   | 31 December |               |               | 30 June       |
|---|-------------|---------------|---------------|---------------|
|   | 2000        | 2001          | 2002          | 2003          |
|   | HK\$'000    | HK\$'000      | HK\$'000      | HK\$'000      |
| At 1 January                                    | –           | –             | 10,653        | 18,566        |
| Exchange adjustment                             | –           | –             | –             | 104           |
| Acquisition of subsidiaries <i>(Note 27(b))</i> | –           | 8,080         | 4,795         | –             |
| Total expenses <i>(Note b)</i>                  | –           | 3,165         | 4,249         | 2,685         |
| Contributions paid                              | –           | (592)         | (1,131)       | (2,499)       |
|   | <u>–</u>    | <u>10,653</u> | <u>18,566</u> | <u>18,856</u> |
| At 31 December/30 June                          | <u>–</u>    | <u>10,653</u> | <u>18,566</u> | <u>18,856</u> |

(e) The principal actuarial assumptions used are as follows:

|  | 31 December |           |                | 30 June        |
|--|-------------|-----------|----------------|----------------|
|  | 2000        | 2001      | 2002           | 2003           |
| Discount rate                            | N/A         | 4.25%     | 4% – 5%        | 4% – 5%        |
| Expected rate of return on plan assets   | N/A         | 4%        | 3.25% – 8%     | 3.25% – 8%     |
| Expected rate of future salary increases | N/A         | 3%        | 3% – 5%        | 3% – 5%        |
|  | <u>N/A</u>  | <u>3%</u> | <u>3% – 5%</u> | <u>3% – 5%</u> |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP (continued)**

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**26.      Deferred taxation**

*(a)      Deferred tax assets*

|   | 31 December      |                  |                  | 30 June          |
|---|------------------|------------------|------------------|------------------|
|   | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 |
| At 1 January  | -                | -                | -                | 12,650           |
| Credited to pro forma combined profit<br>and loss accounts (Note c) | -                | -                | 12,650           | 11,330           |
| Exchange adjustment   | -                | -                | -                | 72               |
| At 31 December/30 June (Note 14)                                    | <u>-</u>         | <u>-</u>         | <u>12,650</u>    | <u>24,052</u>    |
| Amount to be recovered after more<br>than one year                  | <u>-</u>         | <u>-</u>         | <u>-</u>         | <u>2,476</u>     |

*(b)      Deferred tax liabilities*

|  | 31 December      |                  |                  | 30 June          |
|--|------------------|------------------|------------------|------------------|
|  | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 |
| At 1 January   | -                | -                | 2,721            | 9,147            |
| Acquisition of subsidiaries (Note 27(b))                           | -                | 1,887            | -                | -                |
| Charged to pro forma combined profit<br>and loss accounts (Note c) | -                | 854              | 6,411            | 3,141            |
| Exchange adjustment  | -                | (20)             | 15               | 50               |
| At 31 December/30 June   | <u>-</u>         | <u>2,721</u>     | <u>9,147</u>     | <u>12,338</u>    |
| Amount to be payable after more<br>than one year                   | <u>-</u>         | <u>2,721</u>     | <u>9,147</u>     | <u>12,338</u>    |

*(c)      Deferred taxation charged/(credited) to pro forma combined profit and loss accounts*

|   | Year ended 31 December |                  |                  | Six months<br>ended 30 June |                  |
|---|------------------------|------------------|------------------|-----------------------------|------------------|
|   | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000            | 2003<br>HK\$'000 |
| Deferred tax assets (Note a)  | -                      | -                | (12,650)         | -                           | (11,330)         |
| Deferred tax liabilities (Note b)   | -                      | 854              | 6,411            | 4,704                       | 3,141            |
| Deferred taxation charged/(credited) to<br>pro forma combined profit and<br>loss account (Note 8) | <u>-</u>               | <u>854</u>       | <u>(6,239)</u>   | <u>4,704</u>                | <u>(8,189)</u>   |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**26.      Deferred taxation** *(continued)*

*(d)      Movements of deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the Relevant Periods:*

| <b>Deferred tax assets</b>                                       | <b>Tax losses</b>   | <b>Others</b>        | <b>Total</b>         |
|--|---------------------|----------------------|----------------------|
|  | <i>HK\$'000</i>     | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| At 1 January 2000  | 1,458               | –                    | 1,458                |
| Credited to pro forma combined profit and loss account           | <u>19,008</u>       | <u>–</u>             | <u>19,008</u>        |
| At 31 December 2000  | 20,466              | –                    | 20,466               |
| Charged to pro forma combined profit and loss account            | <u>(10,503)</u>     | <u>–</u>             | <u>(10,503)</u>      |
| At 31 December 2001  | 9,963               | –                    | 9,963                |
| (Charged)/credited to pro forma combined profit and loss account | <u>(6,093)</u>      | <u>12,650</u>        | <u>6,557</u>         |
| At 31 December 2002  | 3,870               | 12,650               | 16,520               |
| Credited to pro forma combined profit and loss account           | 214                 | 9,115                | 9,329                |
| Exchange adjustment  | <u>–</u>            | <u>72</u>            | <u>72</u>            |
| At 30 June 2003  | <u><u>4,084</u></u> | <u><u>21,837</u></u> | <u><u>25,921</u></u> |

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The enlarged TOM group has unrecognised tax losses as at 30 June 2003 of HK\$2,065,076,000 (31 December 2002, 2001 and 2000: HK\$1,876,274,000, HK\$1,425,221,000 and HK\$883,154,000, respectively) to carry forward against future taxable income. The tax losses will expire according to the tax laws and regulations in the countries in which the enlarged TOM group operates.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 26.    Deferred taxation *(continued)*

(d)    *Movements of deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the Relevant Periods (continued)*

#### Deferred tax liabilities

|  | Accelerated tax<br>depreciation<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--------------------|-------------------|
| At 1 January 2000  | 1,397                                       | 61                 | 1,458             |
| Charged to pro forma combined profit and loss account            | 18,642                                      | 366                | 19,008            |
| At 31 December 2000  | 20,039                                      | 427                | 20,466            |
| Acquisition of subsidiaries <i>(Note 27(b))</i>                  | –   | 1,887              | 1,887             |
| (Credited)/charged to pro forma combined profit and loss account | (11,138)                                    | 1,489              | (9,649)           |
| Exchange adjustment  | –   | (20)               | (20)              |
| At 31 December 2001  | 8,901                                       | 3,783              | 12,684            |
| (Credited)/charged to pro forma combined profit and loss account | (7,463)                                     | 7,781              | 318               |
| Exchange adjustment  | –   | 15                 | 15                |
| At 31 December 2002  | 1,438                                       | 11,579             | 13,017            |
| (Credited)/charged to pro forma combined profit and loss account | (1,451)                                     | 2,591              | 1,140             |
| Exchange adjustment  | –   | 50                 | 50                |
| At 30 June 2003  | (13)  | 14,220             | 14,207            |

Deferred income tax liabilities as at 30 June 2003 of HK\$36,965,000 (31 December 2002, 2001 and 2000: HK\$24,121,000, HK\$4,827,000 and HK\$Nil, respectively) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of certain subsidiaries since the enlarged TOM group has determined that the earnings of the subsidiaries will not be distributed in the foreseeable future. Such unremitted earnings as at 30 June 2003 totalled HK\$184,825,000 (31 December 2002, 2001 and 2000: HK\$120,603,000, HK\$24,133,000 and HK\$Nil, respectively).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the pro forma combined balance sheet:

|                          | 31 December |          |          | 30 June  |
|--------------------------|-------------|----------|----------|----------|
|                          | 2000        | 2001     | 2002     | 2003     |
|                          | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000 |
| Deferred tax assets      | –           | –        | 12,650   | 24,052   |
| Deferred tax liabilities | –           | (2,721)  | (9,147)  | (12,338) |
|                          | –           | (2,721)  | 3,503    | 11,714   |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP** *(continued)*

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**27.      Notes to the pro forma combined cash flow statements**

*(a)      Reconciliation of operating loss to net cash outflow from operations*

|   | Year ended 31 December |                  |                  | Six months<br>ended 30 June |                 |
|---|------------------------|------------------|------------------|-----------------------------|-----------------|
|   | 2000                   | 2001             | 2002             | 2002                        | 2003            |
|   | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                    | HK\$'000        |
| Operating loss  | (427,424)              | (354,103)        | (243,615)        | (137,816)                   | (78,345)        |
| Restructuring costs   | (37,717)               | (8,527)          | –                | –                           | –               |
| Provision for diminution in value<br>of investment securities | 7,190                  | 6,334            | –                | 132                         | –               |
| Provision for loan to a related company                       | –                      | –                | 13,260           | –                           | –               |
| Amortisation and depreciation                                 | 65,659                 | 139,408          | 191,829          | 86,093                      | 111,045         |
| Loss on disposals/write-off<br>of fixed assets                | 20,684                 | 8,254            | 1,418            | 225                         | 311             |
| Loss on disposal of other<br>non-current assets               | –                      | –                | –                | –                           | 3,823           |
| Gain on disposal of a subsidiary                              | –                      | (13)             | –                | –                           | (856)           |
| Gain on disposal of other investments                         | –                      | –                | (30)             | –                           | –               |
| Forfeiture of amounts due to creditors                        | (9,712)                | –                | –                | –                           | –               |
| Forfeiture of amounts due to directors                        | (8,561)                | –                | –                | –                           | –               |
| Operating (loss)/profit before working<br>capital changes     | (389,881)              | (208,647)        | (37,138)         | (51,366)                    | 35,978          |
| Increase in pension assets                                    | –                      | –                | (1,349)          | –                           | –               |
| (Increase)/decrease in inventories                            | (838)                  | 2,486            | 7,027            | (6,592)                     | 10,154          |
| Decrease/(increase) in trade<br>and other receivables         | 22,648                 | (126,808)        | (130,272)        | (128,014)                   | (110,423)       |
| Increase/(decrease) in trade<br>and other payables            | 55,178                 | (106,528)        | (11,183)         | (37,318)                    | 34,462          |
| Increase in pension obligations                               | –                      | 2,697            | 3,218            | 1,013                       | 185             |
| Interest income   | (80,634)               | (23,076)         | (5,867)          | (3,209)                     | (1,214)         |
| Exchange adjustment   | (253)                  | (1,131)          | (2,490)          | 4,804                       | 553             |
| Net cash outflow from operations                              | <u>(393,780)</u>       | <u>(461,007)</u> | <u>(178,054)</u> | <u>(220,682)</u>            | <u>(30,305)</u> |

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**27. Notes to the pro forma combined cash flow statements** *(continued)*

*(b) Acquisition of subsidiaries*

|   | Year ended 31 December  |                       |                       | Six months ended 30 June |                      |
|---|-------------------------|-----------------------|-----------------------|--------------------------|----------------------|
|   | 2000                    | 2001                  | 2002                  | 2002                     | 2003                 |
|   | HK\$'000                | HK\$'000              | HK\$'000              | HK\$'000                 | HK\$'000             |
| Net assets acquired:  |                         |                       |                       |                          |                      |
| Fixed assets  | 56,071                  | 47,772                | 66,207                | 34,064                   | 13,494               |
| Other non-current assets  | –                       | 1,328                 | 32,136                | 5,342                    | –                    |
| Interests in associated companies                                   | –                       | 1,822                 | 1,620                 | 1,620                    | –                    |
| Investment securities   | 2,430                   | 34,687                | 10,698                | 10,710                   | –                    |
| Inventories   | 569                     | 93,755                | 21,766                | 1,095                    | 43                   |
| Trade and other receivables   | 117,071                 | 292,858               | 98,956                | 62,825                   | 1,383                |
| Bank balances and cash  | 54,529                  | 45,721                | 124,027               | 112,154                  | 19,855               |
| Trade and other payables  | (226,285)               | (278,768)             | (175,714)             | (83,409)                 | (3,458)              |
| Taxation payable  | –                       | (41,086)              | (12,131)              | (1,605)                  | –                    |
| Bank and other loans  | (1,410)                 | (29,947)              | –                     | –                        | –                    |
| Loans from minority shareholders                                    | –                       | (1,895)               | (2,350)               | (2,350)                  | –                    |
| Pension obligations   | –                       | (8,080)               | (4,795)               | (4,795)                  | –                    |
| Deferred tax liabilities  | –                       | (1,887)               | –                     | –                        | –                    |
| Minority interests  | (1,204)                 | (68,993)              | (57,398)              | (48,909)                 | –                    |
|   | <u>1,771</u>            | <u>87,287</u>         | <u>103,022</u>        | <u>86,742</u>            | <u>31,317</u>        |
| Goodwill  |                         |                       |                       |                          |                      |
| – included in intangible assets                                     | 10,173                  | 446,240               | 749,049               | 490,082                  | 6,110                |
| – eliminated against reserve  | <u>1,039,077</u>        | <u>–</u>              | <u>–</u>              | <u>–</u>                 | <u>–</u>             |
|   | <u><u>1,051,021</u></u> | <u><u>533,527</u></u> | <u><u>852,071</u></u> | <u><u>576,824</u></u>    | <u><u>37,427</u></u> |
| Satisfied by:   |                         |                       |                       |                          |                      |
| Cash  | 52,419                  | 344,695               | 436,074               | 303,883                  | 5,000                |
| Allotment of shares   | 676,323                 | 107,836               | 58,091                | 15,108                   | –                    |
| Consideration payables  | 322,279                 | 80,996                | 344,913               | 241,839                  | 18,322               |
| Interests in jointly controlled entities held prior to acquisitions | –                       | –                     | 1,104                 | 1,104                    | 14,105               |
| Investment securities held prior to acquisitions                    | –                       | –                     | 11,889                | 14,890                   | –                    |
|   | <u><u>1,051,021</u></u> | <u><u>533,527</u></u> | <u><u>852,071</u></u> | <u><u>576,824</u></u>    | <u><u>37,427</u></u> |



**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**27. Notes to the pro forma combined cash flow statements** *(continued)*

*(b) Acquisition of subsidiaries (continued)*

The contributions to cash flows of the enlarged TOM group by the subsidiaries acquired are as follows:

|  | Year ended 31 December |               |                | Six months ended 30 June |               |
|--|------------------------|---------------|----------------|--------------------------|---------------|
|  | 2000                   | 2001          | 2002           | 2002                     | 2003          |
|  | HK\$'000               | HK\$'000      | HK\$'000       | HK\$'000                 | HK\$'000      |
| Contribution to net operating cash flows   | 7,771                  | 15,197        | 63,405         | 6,159                    | –             |
| Received/(paid) in respect of net returns on investment and servicing of finance | 468                    | (267)         | (913)          | 67                       | –             |
| Utilised for investing activities  | (4,185)                | (6,608)       | (93,742)       | (71,048)                 | –             |
| Post acquisition (loss)/profit   | (7,445)                | 6,015         | 50,389         | 8,770                    | –             |
| Net (liabilities)/assets – as at end of the Relevant Periods                     | <u>(5,674)</u>         | <u>92,482</u> | <u>152,887</u> | <u>99,624</u>            | <u>31,318</u> |

Analysis of the net cash inflow/(outflow) in respect of acquisition of subsidiaries is as follows:

|   | Year ended 31 December |                  |                  | Six months ended 30 June |               |
|---|------------------------|------------------|------------------|--------------------------|---------------|
|   | 2000                   | 2001             | 2002             | 2002                     | 2003          |
|   | HK\$'000               | HK\$'000         | HK\$'000         | HK\$'000                 | HK\$'000      |
| Cash consideration  | (52,419)               | (344,695)        | (436,074)        | (303,883)                | (5,000)       |
| Bank balances and cash acquired                                     | <u>54,529</u>          | <u>45,721</u>    | <u>124,027</u>   | <u>112,154</u>           | <u>19,855</u> |
| Net cash inflow/(outflow) in respect of acquisition of subsidiaries | <u>2,110</u>           | <u>(298,974)</u> | <u>(312,047)</u> | <u>(191,729)</u>         | <u>14,855</u> |

**APPENDIX IV COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)**

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**27. Notes to the pro forma combined cash flow statements (continued)**

(c) Disposal/deconsolidation of subsidiaries

|   | Year ended 31 December |                   |                      | Six months ended 30 June |                     |
|---|------------------------|-------------------|----------------------|--------------------------|---------------------|
|   | 2000                   | 2001              | 2002                 | 2002                     | 2003                |
|   | HK\$'000               | HK\$'000          | HK\$'000             | HK\$'000                 | HK\$'000            |
| Net assets disposed/deconsolidated of:    |                        |                   |                      |                          |                     |
| Fixed assets                              | -                      | -                 | 20,529               | -                        | 1,038               |
| Investment securities                     | -                      | -                 | 122                  | -                        | -                   |
| Trade and other receivables               | -                      | 17                | 37,884               | -                        | 2,199               |
| Bank balances and cash                    | -                      | -                 | 7,962                | -                        | 1,798               |
| Trade and other payables                  | -                      | (17)              | (36,954)             | -                        | (2,615)             |
| Taxation payable                          | -                      | -                 | (7,291)              | -                        | -                   |
| Loans from minority shareholders          | -                      | -                 | -                    | -                        | (4,350)             |
| Minority interests                        | -                      | -                 | (11,126)             | -                        | 3,705               |
| Goodwill                                  | -                      | 150               | -                    | -                        | -                   |
|   | <u>-</u>               | <u>150</u>        | <u>-</u>             | <u>-</u>                 | <u>-</u>            |
| Profit on disposal                        | -                      | 150               | 11,126               | -                        | 1,775               |
|   | <u>-</u>               | <u>13</u>         | <u>-</u>             | <u>-</u>                 | <u>856</u>          |
|   | <u><u>-</u></u>        | <u><u>163</u></u> | <u><u>11,126</u></u> | <u><u>-</u></u>          | <u><u>2,631</u></u> |
| Satisfied by:                             |                        |                   |                      |                          |                     |
| Reclassification as investment securities | -                      | -                 | 11,126               | -                        | 231                 |
| Consideration receivable                  | -                      | -                 | -                    | -                        | 467                 |
| Cash                                      | -                      | 163               | -                    | -                        | 1,933               |
|   | <u>-</u>               | <u>163</u>        | <u>-</u>             | <u>-</u>                 | <u>1,933</u>        |
|   | <u><u>-</u></u>        | <u><u>163</u></u> | <u><u>11,126</u></u> | <u><u>-</u></u>          | <u><u>2,631</u></u> |

Analysis of the net cash inflow/(outflow) in respect of the disposal/deconsolidation of subsidiaries is as follows:

|  | Year ended 31 December |            |                | Six months ended 30 June |            |
|--|------------------------|------------|----------------|--------------------------|------------|
|  | 2000                   | 2001       | 2002           | 2002                     | 2003       |
|  | HK\$'000               | HK\$'000   | HK\$'000       | HK\$'000                 | HK\$'000   |
| Cash consideration   | -                      | 163        | -              | -                        | 1,933      |
| Bank balances and cash disposed/deconsolidated                                   | -                      | -          | (7,962)        | -                        | (1,798)    |
| Net cash inflow/(outflow) in respect of disposal/deconsolidation of subsidiaries | <u>-</u>               | <u>163</u> | <u>(7,962)</u> | <u>-</u>                 | <u>135</u> |

A subsidiary was excluded from consolidation during the year ended 31 December 2002 since there were severe restrictions that impair the enlarged TOM group's ability to exercise control over its operations. The subsidiary was reclassified as an investment security of the enlarged TOM group.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 27.    Notes to the pro forma combined cash flow statements *(continued)*

*(d)    Analysis of changes in financing during the Relevant Periods*

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br><i>HK\$ '000</i> | Bank loans<br><i>HK\$ '000</i> | Loans from<br>shareholders<br><i>HK\$ '000</i> | Loans from<br>minority<br>shareholders<br>and<br>other loans<br><i>HK\$ '000</i> | Obligation<br>under<br>finance leases<br><i>HK\$ '000</i> | Minority<br>interests<br><i>HK\$ '000</i> | Total<br><i>HK\$ '000</i> |
|--|---|--------------------------------|--|--|---|---|---------------------------|
| At 1 January 2000  | 52,743  | –                              | 362,877  | 17,666   | 645   | –   | 433,931                   |
| Issuance of ordinary shares,<br>net of issuing expenses  | 1,397,445   | –                              | –  | –  | –   | –   | 1,397,445                 |
| Repurchase of shares   | (776)   | –                              | –  | –  | –   | –   | (776)                     |
| New bank and other loans   | –   | –                              | 138,832  | 85,284   | –   | –   | 224,116                   |
| Loan repayments  | –   | –                              | –  | (10,537)   | (596)   | –   | (11,133)                  |
| Contribution from a minority<br>shareholder  | –   | –                              | –  | –  | –   | 172                                       | 172                       |
| Net cash from/(used in)<br>financing activities  | 1,396,669   | –                              | 138,832  | 74,747   | (596)   | 172                                       | 1,609,824                 |
| Accrued interest   | –   | –                              | –  | 3,321  | –   | –   | 3,321                     |
| Interest paid  | –   | –                              | –  | (577)  | –   | –   | (577)                     |
| Capitalisation of shareholders'<br>loans   | 501,709   | –                              | (501,709)                                      | –  | –   | –   | –                         |
| Shares issued for acquisition<br>of subsidiaries, jointly<br>controlled entities and<br>associated companies | 714,416   | –                              | –  | –  | –   | –   | 714,416                   |
| Goodwill eliminated against<br>reserves  | (536,484)   | –                              | –  | –  | –   | –   | (536,484)                 |
| Minority's share of losses<br>of subsidiaries  | –   | –                              | –  | –  | –   | (10,546)                                  | (10,546)                  |
| Minority's share<br>of net assets of subsidiaries  | –   | –                              | –  | –  | –   | 10,173                                    | 10,173                    |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>   | –   | 1,410                          | –  | –  | –   | 1,204                                     | 2,614                     |
|  | 679,641   | 1,410                          | (501,709)                                      | 2,744  | –   | 831                                       | 182,917                   |
| At 31 December 2000  | 2,129,053   | 1,410                          | –  | 95,157   | 49  | 1,003                                     | 2,226,672                 |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**27.      Notes to the pro forma combined cash flow statements** *(continued)*

*(d)      Analysis of changes in financing during the Relevant Periods (continued)*

|   | Share capital<br>including<br>premium<br>and capital<br>reserve<br><i>HK\$'000</i> | Bank loans<br><i>HK\$'000</i> | Loans from<br>shareholders<br><i>HK\$'000</i> | Loans from<br>minority<br>shareholders<br>and<br>other loans<br><i>HK\$'000</i> | Obligation<br>under<br>finance leases<br><i>HK\$'000</i> | Minority<br>interests<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--|-------------------------------|---|---|--|--|--------------------------|
| At 1 January 2001                                       | 2,129,053  | 1,410                         | –   | 95,157  | 49   | 1,003                                    | 2,226,672                |
| Issuance of ordinary shares,<br>net of issuing expenses | 12,912   | –                             | –   | –   | –  | –  | 12,912                   |
| New bank and other loans                                | –  | 30,423                        | 100,000                                       | 141,942   | –  | –  | 272,365                  |
| Loan repayments   | –  | (2,223)                       | –   | (7,276)   | (49)   | –  | (9,548)                  |
| Contribution from<br>a minority shareholder             | –  | –                             | –   | –   | –  | 7,064                                    | 7,064                    |
| Net cash from/(used in)<br>financing activities         | 12,912   | 28,200                        | 100,000                                       | 134,666   | (49)   | 7,064                                    | 282,793                  |
| Accrued interest  | –  | –                             | –   | 9,055   | –  | –  | 9,055                    |
| Shares issued for acquisition<br>of subsidiaries        | 416,381  | –                             | –   | –   | –  | –  | 416,381                  |
| Minority's share of profits<br>of subsidiaries          | –  | –                             | –   | –   | –  | 7,185                                    | 7,185                    |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>      | –  | 17,585                        | –   | 14,257  | –  | 68,993                                   | 100,835                  |
| Disposal of a subsidiary<br><i>(Note 27(c))</i>         | 150  | –                             | –   | –   | –  | –  | 150                      |
| Elimination of own shares held                          | (1,091)  | –                             | –   | –   | –  | –  | (1,091)                  |
| Exchange adjustment                                     | –  | (243)                         | –   | (105)   | –  | (87)                                     | (435)                    |
|   | 415,440  | 17,342                        | –   | 23,207  | –  | 76,091                                   | 532,080                  |
| At 31 December 2001                                     | 2,557,405  | 46,952                        | 100,000                                       | 253,030   | –  | 84,158                                   | 3,041,545                |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 27.    Notes to the pro forma combined cash flow statements *(continued)*

*(d)    Analysis of changes in financing during the Relevant Periods (continued)*

|   | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank loans<br>HK\$'000 | Loans from<br>shareholders<br>HK\$'000 | Loans from<br>minority<br>shareholders<br>and<br>other loans<br>HK\$'000 | Obligation<br>under<br>finance leases<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|------------------------|--|--|---|-----------------------------------|-------------------|
| At 1 January 2002                                       | 2,557,405   | 46,952                 | 100,000                                | 253,030  | –   | 84,158                            | 3,041,545         |
| Issuance of ordinary shares,<br>net of issuing expenses | 19,292  | –                      | –                                      | –  | –   | –                                 | 19,292            |
| New bank and other loans                                | –   | 14,966                 | 750,000                                | 138,475  | –   | –                                 | 903,441           |
| Loan repayments   | –   | (46,692)               | –                                      | (17,045)   | –   | –                                 | (63,737)          |
| Contribution from minority<br>shareholders              | –   | –                      | –                                      | –  | –   | 1,410                             | 1,410             |
| Dividends paid to minority<br>shareholders              | –   | –                      | –                                      | –  | –   | (3,176)                           | (3,176)           |
| Net cash from/(used in)<br>financing activities         | 19,292  | (31,726)               | 750,000                                | 121,430  | –   | (1,766)                           | 857,230           |
| Accrued interest  | –   | –                      | –                                      | 13,351   | –   | –                                 | 13,351            |
| Shares issued for acquisition<br>of subsidiaries        | 87,947  | –                      | –                                      | –  | –   | –                                 | 87,947            |
| Minority's share of profits<br>of subsidiaries          | –   | –                      | –                                      | –  | –   | 28,555                            | 28,555            |
| Acquisition of subsidiaries<br><i>(Note 27(b))</i>      | –   | –                      | –                                      | 2,350  | –   | 57,398                            | 59,748            |
| Deconsolidation of a subsidiary<br><i>(Note 27(c))</i>  | –   | –                      | –                                      | –  | –   | (11,126)                          | (11,126)          |
| Elimination of own<br>shares held                       | (4,137)   | –                      | –                                      | –  | –   | –                                 | (4,137)           |
| Dividends declared<br>to minority shareholders          | –   | –                      | –                                      | –  | –   | (3,900)                           | (3,900)           |
| Exchange adjustment                                     | –   | 142                    | –                                      | 151  | –   | 465                               | 758               |
|   | 83,810  | 142                    | –                                      | 15,852   | –   | 71,392                            | 171,196           |
| At 31 December 2002                                     | 2,660,507   | 15,368                 | 850,000                                | 390,312  | –   | 153,784                           | 4,069,971         |

**APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED  
FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

**II.      PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM  
GROUP (continued)**

**(E).      NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)**

**27.      Notes to the pro forma combined cash flow statements (continued)**

(d)      *Analysis of changes in financing during the Relevant Periods (continued)*

|   | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank loans<br>HK\$'000 | Loans from<br>shareholders<br>HK\$'000 | Loans from<br>minority<br>shareholders<br>and<br>other loans<br>HK\$'000 | Obligation<br>under<br>finance leases<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|------------------------|--|--|---|-----------------------------------|-------------------|
| At 1 January 2002                                       | 2,557,405   | 46,952                 | 100,000                                | 253,030  | -   | 84,158                            | 3,041,545         |
| Issuance of ordinary shares,<br>net of issuing expenses | 19,478  | -                      | -                                      | -  | -   | -                                 | 19,478            |
| New bank and other loans                                | -   | 3,381                  | 550,000                                | 71,795   | -   | -                                 | 625,176           |
| Loan repayments   | -   | (33,458)               | -                                      | (12,770)   | -   | -                                 | (46,228)          |
| Net cash from/(used in)<br>financing activities         | 19,478  | (30,077)               | 550,000                                | 59,025   | -   | -                                 | 598,426           |
| Accrued interest  | -   | -                      | -                                      | 6,427  | -   | -                                 | 6,427             |
| Shares issued for acquisition<br>of subsidiaries        | 31,231  | -                      | -                                      | -  | -   | -                                 | 31,231            |
| Minority's share of profits<br>of subsidiaries          | -   | -                      | -                                      | -  | -   | 2,230                             | 2,230             |
| Acquisition of subsidiaries<br>(Note 27(b))             | -   | -                      | -                                      | 2,350  | -   | 48,909                            | 51,259            |
| Elimination of own<br>shares held                       | (4,137)   | -                      | -                                      | -  | -   | -                                 | (4,137)           |
| Dividends declared<br>to minority shareholders          | -   | -                      | -                                      | -  | -   | (2,867)                           | (2,867)           |
| Exchange adjustment                                     | -   | 754                    | -                                      | 795  | -   | 762                               | 2,311             |
|   | 27,094  | 754                    | -                                      | 9,572  | -   | 49,034                            | 86,454            |
| At 30 June 2002   | 2,603,977   | 17,629                 | 650,000                                | 321,627  | -   | 133,192                           | 3,726,425         |

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP (continued)

### (E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION (continued)

#### 27. Notes to the pro forma combined cash flow statements (continued)

(d) Analysis of changes in financing during the Relevant Periods (continued)

|  | Share capital<br>including<br>premium<br>and capital<br>reserve<br>HK\$'000 | Bank loans<br>HK\$'000 | Loans from<br>shareholders<br>HK\$'000 | Loans from<br>minority<br>shareholders<br>and<br>other loans<br>HK\$'000 | Obligation<br>under<br>finance leases<br>HK\$'000 | Minority<br>interests<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|------------------------|--|--|---|-----------------------------------|-------------------|
| At 1 January 2003  | 2,660,507   | 15,368                 | 850,000                                | 390,312  | -   | 153,784                           | 4,069,971         |
| Issuance of ordinary shares,<br>net of issuing expenses    | (78)  | -                      | -                                      | -  | -   | -                                 | (78)              |
| New bank and other loans                                   | -   | 79,875                 | -                                      | 54,612   | -   | -                                 | 134,487           |
| Loan repayments  | -   | (11,352)               | -                                      | (880)  | -   | -                                 | (12,232)          |
| Net cash (used in)/from<br>financing activities            | (78)  | 68,523                 | -                                      | 53,732   | -   | -                                 | 122,177           |
| Accrued interest   | -   | -                      | -                                      | 7,348  | -   | -                                 | 7,348             |
| Shares issued for acquisition<br>of subsidiaries           | 93,065  | -                      | -                                      | -  | -   | -                                 | 93,065            |
| Minority's share of profits<br>of subsidiaries             | -   | -                      | -                                      | -  | -   | 4,523                             | 4,523             |
| Minority interests in other reserve                        | -   | -                      | -                                      | -  | -   | (13)                              | (13)              |
| Restructuring of Taiwan<br>print media group               | -   | -                      | -                                      | -  | -   | (1,243)                           | (1,243)           |
| Disposal of a subsidiary<br>(note 27(c))                   | -   | -                      | -                                      | (4,350)  | -   | 3,705                             | (645)             |
| Elimination of own shares held<br>to minority shareholders | (857)   | -                      | -                                      | -  | -   | -                                 | (857)             |
| Exchange adjustment  | -   | 17                     | -                                      | 9  | -   | 243                               | 269               |
|  | 92,208  | 17                     | -                                      | 3,007  | -   | 6,830                             | 102,062           |
| At 30 June 2003  | 2,752,637   | 83,908                 | 850,000                                | 447,051  | -   | 160,614                           | 4,294,210         |

#### 28. Pledge of assets

- (a) As at 30 June 2003, bank deposits and cash totaling HK\$64,681,000 (31 December 2002, 2001 and 2000: HK\$10,981,000, HK\$63,230,000 and HK\$Nil, respectively) were pledged to banks for securing banking facilities granted to the enlarged TOM group's subsidiaries and an investee company.
- (b) As at 30 June 2003, concession rights and properties of HK\$9,317,000 (31 December 2002, 2001 and 2000: HK\$2,760,000, HK\$Nil and HK\$Nil, respectively) and HK\$607,000 (31 December 2002, 2001 and 2000: HK\$560,000, HK\$Nil and HK\$Nil, respectively) respectively were pledged to banks for securing banking facilities granted to the enlarged TOM group's subsidiaries.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 29.    Contingent liabilities

As at 30 June 2003, the enlarged TOM group had contingent liabilities amounting to approximately HK\$9,400,000 (31 December 2002, 2001 and 2000: HK\$9,400,000, HK\$81,371,000 and HK\$Nil, respectively) comprising of:

- (a) the provision of fixed deposits amounting to approximately HK\$9,400,000 (31 December 2002, 2001 and 2000: HK\$9,400,000, HK\$9,400,000 and HK\$Nil, respectively) as securities for bank loans granted to an investee company in which the enlarged TOM group has 50% equity interest, and
- (b) the contingent liabilities in respect of a litigation proceeding with International Merchandising Corporation on dispute over termination of a Sponsorship Contract which had been settled in 2002.

#### 30.    Commitments

##### (a)    Capital commitments

The capital commitments of the enlarged TOM group at the end of the Relevant Periods comprise:

|                                     | 2000            | 31 December<br>2001 | 2002            | 30 June<br>2003 |
|-------------------------------------|-----------------|---------------------|-----------------|-----------------|
|                                     | <i>HK\$'000</i> | <i>HK\$'000</i>     | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Acquisition of new investments      |                 |                     |                 |                 |
| – Contracted but not provided for   | 171,366         | 370,287             | 52,006          | 49,001          |
| Acquisition of capital expenditure  |                 |                     |                 |                 |
| – Contracted but not provided for   | 1,290           | 45,545              | 19,349          | 82,337          |
| – Authorised but not contracted for | –               | –                   | 7,757           | 94,457          |
|                                     | <u>172,656</u>  | <u>415,832</u>      | <u>79,112</u>   | <u>225,795</u>  |

- (b) As at 30 June 2003, the enlarged TOM group had commitments in respect of contributions to registered capital of certain investments in Mainland China amounted to approximately HK\$46,530,000 (31 December 2002, 2001 and 2000: HK\$Nil, HK\$174,027,000 and HK\$198,900,000, respectively).

##### (c)    Commitments under operating leases

As at 31 December 2000, 2001 and 2002 and 30 June 2003, the enlarged TOM group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|  | 2000                  |                 | 31 December<br>2001   |                 | 2002                  |                 | 30 June<br>2003       |                 |
|--|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
|  | Land and<br>buildings | Other<br>assets | Land and<br>buildings | Other<br>assets | Land and<br>buildings | Other<br>assets | Land and<br>buildings | Other<br>assets |
|  | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i>       | <i>HK\$'000</i> | <i>HK\$'000</i>       | <i>HK\$'000</i> |
| Not later than<br>one year                         | 28,083                | 25,738          | 31,103                | 48,876          | 35,234                | 55,887          | 16,704                | 47,734          |
| Later than one year<br>and not later<br>five years | 57,650                | 103,911         | 44,924                | 191,565         | 39,809                | 191,834         | 2,124                 | 167,078         |
| Later than<br>five years                           | –                     | 125,035         | –                     | 254,510         | 747                   | 132,533         | –                     | 66,154          |
|  | <u>85,733</u>         | <u>254,684</u>  | <u>76,027</u>         | <u>494,951</u>  | <u>75,790</u>         | <u>380,254</u>  | <u>18,828</u>         | <u>280,966</u>  |



# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 31. Related party transactions

- (a) In the opinion of the directors of TOM, the following is a summary of significant related party transactions of the TOM group during the Relevant Periods, in addition to those disclosed in Notes 16, 18, 20, 22 and 24.

|   | Note  | Year ended 31 December |                  |                  | Six months ended 30 June |                  |
|---|-------|------------------------|------------------|------------------|--------------------------|------------------|
|   |       | 2000<br>HK\$'000       | 2001<br>HK\$'000 | 2002<br>HK\$'000 | 2002<br>HK\$'000         | 2003<br>HK\$'000 |
| Sales to  | (i)   |                        |                  |                  |                          |                  |
| – HWL and its subsidiaries  |       | –                      | 1,440            | 1,354            | –                        | 368              |
| – a joint venture of HWL  |       | –                      | 2,300            | 32               | –                        | –                |
| – Metro Broadcast Corporation Limited (“Metro”), an associated company of HWL and CKH |       | 834                    | 598              | 547              | –                        | 690              |
| – CKH and its subsidiaries  |       | –                      | –                | 867              | –                        | 128              |
| – a jointly controlled entity   |       | –                      | –                | 1,676            | –                        | 4,308            |
| – minority shareholders and their subsidiaries  |       | –                      | 7,834            | 72,859           | –                        | 62,614           |
| Cost of sales payable to  | (ii)  |                        |                  |                  |                          |                  |
| – minority shareholders of subsidiaries   |       | –                      | 41,933           | 51,296           | 19,645                   | 19,332           |
| Internet content supply, event air-time and advertising expenses payable to Metro     |       | 7,100                  | 3,641            | 3,435            | 1,919                    | –                |
| Office rental receivable from Metro   | (iii) | –                      | 1,655            | 1,580            | 894                      | 472              |
| Office and warehouse rental and service fees payable to related companies             | (iv)  |                        |                  |                  |                          |                  |
| – an equity joint venture of HWL and CKH  |       | 3,610                  | 5,390            | 3,607            | 2,275                    | 2,039            |
| – a subsidiary of CKH   |       | 16,515                 | 12,807           | 10,356           | 5,178                    | 6,156            |
| – minority shareholders and their subsidiaries  |       | –                      | –                | 921              | 300                      | 814              |
| Service fees payable to   | (v)   |                        |                  |                  |                          |                  |
| – a subsidiary of HWL   |       | 4,197                  | 4,812            | 5,712            | –                        | 2,003            |
| Service fees payable to   | (vi)  |                        |                  |                  |                          |                  |
| – HWL and its subsidiaries  |       | 4,212                  | 1,510            | 3,414            | 426                      | 921              |
| – an investee company   |       | –                      | 3,442            | 6,821            | 6,821                    | –                |
| – subsidiaries of minority shareholders   |       | –                      | 3,357            | 6,391            | 3,025                    | 4,463            |
| – a company owned by a past non-executive director                                    |       | 2,489                  | –                | 468              | –                        | –                |
| Interest income receivable from loans to  | (vii) |                        |                  |                  |                          |                  |
| – an investee company   |       | –                      | 1,608            | 1,886            | 935                      | –                |
| – a minority shareholder of a subsidiary  |       | –                      | 250              | 677              | 337                      | –                |
| Interest expenses payable to  | 24(b) |                        |                  |                  |                          |                  |
| – a subsidiary of HWL   |       | –                      | 47               | 6,145            | 2,438                    | 3,169            |
| – a subsidiary of CKH   |       | –                      | 23               | 3,073            | 1,219                    | 1,584            |
| – Cranwood  |       | –                      | 47               | 6,145            | 2,438                    | 3,169            |
| Database sub-license fee payable to China Travel Network Company Limited              |       | 2,340                  | –                | –                | –                        | –                |

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## APPENDIX IV      **COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

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### II.    **PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

#### **(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

##### **31.    Related party transactions** *(continued)*

*Note:*

- (i)      Sales to related companies are principally at terms no less favourable than those sales to third party customers of the TOM group.
- (ii)     Cost of sales were payable to the minority shareholders of subsidiaries at market rates.
- (iii)    Rental of office premises was charged to Metro based on the floor areas occupied.
- (iv)    The rental and service fees were payable to the related companies for office premises and warehouses leased to the TOM group. The office premises and warehouses were leased to the TOM group at market rates.
- (v)     The service fees were recharged by a subsidiary of HWL on cost reimbursement basis for the provision of administrative, information technology and consultancy services.
- (vi)    The service fees were payable to related companies for the provision of goods and services rendered at market rates.
- (vii)   Interests on loans to related companies were calculated at interest rates comparable to market.

# APPENDIX IV      COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP

## II.    PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP *(continued)*

### (E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION *(continued)*

#### 31.    Related party transactions *(continued)*

(b)    In the opinion of the directors of TOM, the following is a summary of significant related party transactions of CETV during the Relevant Periods, in addition to those disclosed in Notes 20, 22 and 24.

|   |        | Year ended 31 December |          |          | Six months<br>ended 30 June |          |
|---|--------|------------------------|----------|----------|-----------------------------|----------|
|   |        | 2000                   | 2001     | 2002     | 2002                        | 2003     |
|   | Note   | HK\$'000               | HK\$'000 | HK\$'000 | HK\$'000                    | HK\$'000 |
| License fees receivable from  |        |                        |          |          |                             |          |
| – Turner Broadcasting<br>Sales Southeast Asia,<br>Inc. (“TBSSEA”),<br>a subsidiary of TBSAP | (i)    | –                      | (1,652)  | (203)    | –                           | (525)    |
| Subscription fee receivable<br>from   |        |                        |          |          |                             |          |
| – TBSAP   | (ii)   | –                      | (37)     | (116)    | (37)                        | (73)     |
| Uplink fee payable to   |        |                        |          |          |                             |          |
| – TBSAP   | (iii)  | 575                    | 1,380    | 1,380    | 690                         | 690      |
| Rental on transmitting<br>equipment payable to  |        |                        |          |          |                             |          |
| – TBSAP   | (iii)  | 21,426                 | 22,907   | 23,682   | 11,856                      | 12,363   |
| Film rights license fee<br>payable to   |        |                        |          |          |                             |          |
| – Turner Entertainment<br>Networks Asia, Inc<br>(“TENA”),<br>a subsidiary of TBS            | (iv)   | –                      | 398      | 502      | –                           | –        |
| – TBSAP   | (iv)   | –                      | 1,170    | 468      | 425                         | –        |
| – Time Warner<br>Entertainment<br>Company L.P.<br>(“TWEC”), a fellow<br>subsidiary of TBS   | (iv)   | –                      | –        | 175      | –                           | 2,145    |
| Post-production expenses<br>payable to  |        |                        |          |          |                             |          |
| – TENA  | (iv)   | –                      | 2,056    | 733      | 226                         | 98       |
| Service fees payable to   |        |                        |          |          |                             |          |
| – TENA  | (v)    | 2,777                  | 1,170    | 1,170    | 585                         | 585      |
| – TBS Advertising China,<br>Inc. (“TBSAC”),<br>a subsidiary of TBSAP                        | (vi)   | –                      | 3,899    | 138      | 138                         | –        |
| Management fee payable to   |        |                        |          |          |                             |          |
| – AOL Time Warner<br>Hong Kong Limited<br>(“AOLTWHKL”),<br>a fellow subsidiary<br>of TBS    | (vii)  | –                      | 240      | 910      | 120                         | 1,094    |
| System maintenance fee<br>payable to  |        |                        |          |          |                             |          |
| – TBSAP   | (viii) | –                      | 413      | 476      | 239                         | 239      |
| Office rental payable to  |        |                        |          |          |                             |          |
| – Time Inc., a fellow<br>subsidiary of TBS  | (ix)   | –                      | –        | 2,845    | 1,143                       | –        |
| Interest expense payable to   |        |                        |          |          |                             |          |
| – TBSAP   | 24(d)  | 3,036                  | 8,802    | 13,097   | 6,304                       | 7,220    |

**II. PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

**(E). NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

**31. Related party transactions** *(continued)*

*Note:*

- (i) CETV received license fee from TBSSEA for the right to manage and conduct sale of advertising inventory in the South East Asia region. License fee is charged at 85% of net advertising revenue billed by TBSSEA and accounted for as turnover.
- (ii) CETV received subscription fee from TBSAP for the right to distribute its television services in the Asia Pacific region. Distribution fee is charged at 75% of the gross receipts billed by TBSAP and accounted for as turnover.
- (iii) CETV is charged by TBSAP for the usage by CETV of the uplink services and transponder equipment provided by third parties to TBS. The fees were charged based on the actual cost charged on TBSAP through TBS. Details of operating lease commitments are disclosed in note 30 (c) of the accounts.
- (iv) The programs licensed from and post-production services provided by TENA, TBSAP and TWEC were made according to the published prices and conditions offered by the related companies to their major customers.
- (v) CETV appointed TENA to provide management support services in relation to the provision of television services in the Asia Pacific region. The services were conducted on terms determined by TBSAP's management.
- (vi) CETV appointed TBSAC to provide coordination and support services in China. The services were conducted on terms determined by TBSAP's management.
- (vii) The management fee was charged by AOLTWHKL for the provision of administration and facilities support to CETV. The services were conducted on terms determined by TBSAP's management.
- (viii) The system maintenance fee was charged by TBSAP for provision of technical support services in relation to the advertising sales traffic system used by CETV. The services were conducted on terms determined by TBSAP's management.
- (ix) CETV was charged for the rights of using the office premises leased by the related company, based on a market rental.

**32. Subsequent events**

- (a) On 2 July 2003, the TOM group entered into a Share Purchase Agreement with TBSAP in respect of the acquisition by TOM of 64.07% of the issued share capital of CETV by issuance of 21,250,000 shares of TOM at HK\$2.535 per share. Under the terms of the agreement, TOM has committed to assume all funding obligations of the businesses of not less than a total of US\$30 million (approximately HK\$234 million) over a period of 30 months, subject to the terms and conditions stipulated in the agreement.

Pursuant to the Share Purchase Agreement, upon the completion of the acquisition of CETV's equity interest by TOM, the loans from TBSAP (Note 24(d)) and third parties (Note 24(c)) in the accounts of CETV will be released and repaid by TBSAP, respectively, upon completion of the acquisition.

Upon completion of the acquisition, CETV will enter into a Transponder Sub-lease Agreement with TBS, whereby TBS will give permit to CETV to sub-utilise the transponder capacity during the period from the date of completion of the Share Purchase Agreement to 15 January 2010.

- (b) On 3 July 2003, the TOM group entered into the placing and subscription agreements for placing and allotment of 450,000,000 shares of TOM for a net proceed of approximately HK\$995 million. The completion of the placing and subscription took place on 7 July 2003 and 8 July 2003, respectively.

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## APPENDIX IV      **COMPILATION REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION OF ENLARGED TOM GROUP**

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### II.    **PRO FORMA COMBINED FINANCIAL INFORMATION OF THE ENLARGED TOM GROUP** *(continued)*

#### **(E).    NOTES TO THE PRO FORMA COMBINED FINANCIAL INFORMATION** *(continued)*

##### **32.    Subsequent events** *(continued)*

- (c)    On 10 July 2003, four Taiwan subsidiaries of the TOM group entered into the Financing Facility Agreement with five financial institutions pursuant to which the said subsidiaries have been granted a syndicated loan facility in an aggregate amount of up to NT\$1,875 million (approximately HK\$426 million).
  
- (d)    On 12 July 2003, the TOM group completed the restructuring of Taiwan print media group through the acquisition of approximately 6.13% of the issued share capital of Cité Publishing Holding Limited (“Cité Publishing Holding”), the holding company of Taiwan print media companies, by issuance of 20,632,106 shares of TOM and booked at HK\$2.375 per share which was the fair value calculated based on the closing price of TOM as quoted on the Stock Exchange at the date of acquisition. The shareholding of the Tom group in Cité Publishing Holding increased from approximately 77.32% to approximately 83.45%.
  
- (e)    On 31 July 2003, the TOM group completed the acquisition of approximately 0.39% of the issued share capital of Cité Publishing Holding from a previously non-selling party (who subsequently agreed to sell his 1.55% of the issued share capital of Home Media Group Limited and to subscribe 0.78% of the issued capital of Cité Publishing Holding), by issuance of 1,319,998 shares of TOM and booked at HK\$2.1 per share which was the fair value calculated based on the closing price of TOM as quoted on the Stock Exchange at the date of acquisition. The shareholding of the Tom group in Cité Publishing Holding changed to approximately 83.19%.

## 1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS AND NET ASSETS OF THE ENLARGED TOM GROUP

The following is the unaudited pro forma statement of adjusted combined net tangible assets and net assets of the Enlarged TOM Group. It is based on the audited consolidated negative net tangible assets and net assets of the TOM Group as at 30 June 2003, adjusted to reflect certain significant events which have taken place since 30 June 2003 and the effect of the acquisitions announced by TOM, including the CETV Acquisition.

|  | <i>HK\$'000</i> |
|--|-----------------|
| Audited net assets of the TOM Group as at 30 June 2003 ( <i>Note 1</i> )   | 332,410         |
| Allotment of shares pursuant to the share placing and subscription agreements ( <i>Note 2</i> )                        | 996,500         |
| Allotment of shares relating to acquisition of subsidiaries ( <i>Note 3</i> )  | 18,323          |
| <i>The Cité Acquisition (Note 4)</i>   |                 |
| Unaudited net tangible assets of the Cité Publishing Holding Limited as at 30 June 2003, attributable to the TOM Group | 12,820          |
| Consideration payable for the Cité Acquisition ( <i>Note 5</i> )   | (57,773)        |
| Allotment of TOM Shares relating to the Cité Acquisition ( <i>Note 5</i> )   | 51,773          |
|  | 6,820           |
| Add: Intangible assets arising from the Cité Acquisition ( <i>Note 6</i> )   | 44,953          |
| Unaudited adjusted net assets of the TOM Group as at the Latest Practicable Date                                       | 1,399,006       |
| Less: Intangible assets of the TOM Group as at 30 June 2003 ( <i>Note 7</i> )  | (1,081,666)     |
| Intangible assets arising from the Cité Acquisition  | (44,953)        |
|  | (1,126,619)     |
| Unaudited adjusted net tangible assets of the TOM Group as at the Latest Practicable Date                              | 272,387         |
| <i>The Other Acquisition announced prior to the Latest Practicable Date (Note 8)</i>                                   |                 |
| Unaudited net tangible assets of the Other Acquisition as at 30 June 2003, attributable to the TOM Group               | 13,630          |
| Consideration payable for the Other Acquisition  | (25,030)        |
|  | (11,400)        |
| Unaudited pro forma adjusted combined net tangible assets of the TOM Group before the Completion of CETV Acquisition   | 260,987         |

HK\$'000

*The CETV Acquisition*

|   |          |
|---|----------|
| Audited combined negative net tangible assets of CETV as at 30 June 2003,<br>as adjusted, attributable to the TOM Group ( <i>Note 9</i> ) | (27,259) |
| Consideration payable for the CETV Acquisition ( <i>Note 10</i> )   | (68,869) |
| Allotment of TOM Shares relating to the CETV Acquisition ( <i>Note 10</i> )   | 53,869   |
|   | (42,259) |

|  |         |
|--|---------|
| Unaudited pro forma adjusted combined net tangible assets of the Enlarged<br>TOM Group immediately following the Completion of the Other Acquisition<br>and the CETV Acquisition | 218,728 |
|--|---------|

## Add:

|   |           |
|---|-----------|
| Intangible assets of the TOM Group as at 30 June 2003                   | 1,081,666 |
| Intangible assets arising from the Cité Acquisition                     | 44,953    |
| Intangible assets arising from the Other Acquisition ( <i>Note 11</i> ) | 11,400    |
| Intangible assets arising from the CETV Acquisition ( <i>Note 11</i> )  | 96,128    |
|   | 1,234,147 |

|   |                  |
|---|------------------|
| Unaudited pro forma adjusted combined net assets of the Enlarged TOM Group<br>immediately following the Completion of the Other Acquisition and<br>the CETV Acquisition | <u>1,452,875</u> |
|---|------------------|

|   |                   |
|---|-------------------|
| Unaudited adjusted net tangible asset value per TOM Share as at<br>the Latest Practicable Date ( <i>Note 12</i> ) | <u>7.12 cents</u> |
|---|-------------------|

|  |                    |
|--|--------------------|
| Unaudited adjusted net asset value per TOM Share as at<br>the Latest Practicable Date ( <i>Note 12</i> ) | <u>36.57 cents</u> |
|--|--------------------|

|  |                   |
|--|-------------------|
| Unaudited pro forma adjusted combined net tangible asset value per TOM Share<br>immediately following the Completion of the Other Acquisition and the CETV<br>Acquisition ( <i>Note 13</i> ) | <u>5.69 cents</u> |
|--|-------------------|

|   |                    |
|---|--------------------|
| Unaudited pro forma adjusted combined net asset value per TOM Share<br>immediately following the Completion of the Other Acquisition and the<br>CETV Acquisition ( <i>Note 13</i> ) | <u>37.77 cents</u> |
|---|--------------------|

*Notes:*

1. The audited consolidated net assets of the TOM Group is extracted from the accountants' report of the TOM Group as at 30 June 2003 set out in Appendix II of this circular.
2. This represents the placing and allotment of 450,000,000 TOM Shares pursuant to the share placing and subscription agreements announced on 3 July 2003. The completion of the placing and subscription took place on 7 July 2003 and 8 July 2003, respectively.
3. This represents the issue and allotment of 7,714,702 TOM Shares in aggregate towards the settlement of the considerations payable in respect of the acquisitions made prior to 30 June 2003.
4. This represents the acquisition of approximately 5.87% equity interests in Cité Publishing Holding Limited and the Cité Acquisition was completed in phases on 12 July and 31 July 2003 respectively.
5. Consideration payable of Cité Acquisition represents the allotment of 20,632,106 and 1,319,998 TOM Shares at HK\$2.375 each and HK\$2.1 each, respectively, which were the fair value calculated based on the closing price quoted on the Stock Exchange of Hong Kong Limited at the date of acquisition, together with the estimated expenses relating to the Cité Acquisition.
6. This represent the estimated goodwill arising from the Cité Acquisition, representing the difference between the consideration payable together with estimated expenses relating to the Cité Acquisition of HK\$57,773,000 and the unaudited net tangible assets of the Cité Publishing Holding Limited attributable to the TOM Group of HK\$12,820,000.
7. Intangible assets include the carrying value of goodwill and other non-current assets as set out in Appendix II of this circular.
8. The Other Acquisition announced prior to the Latest Practicable Date represents the acquisition of 49% equity interests in Sanlian Joint Venture, which was announced on 9 September 2002.
9. This represents the acquisition of 64.07% equity interests in CETV, representing the negative net tangible asset of CETV as at 30 June 2003 set out in Appendix III of this circular of HK\$473,407,000 offset by the amount of loan from TBSAP and other unsecured borrowings of HK\$446,148,000 which will be released and repaid by TBSAP respectively upon completion of the acquisition. According to the terms of Share Purchase Agreement, the TOM Group will assume all funding obligations of CETV upon completion and therefore, the Group will account for 100% of the adjusted negative net tangible assets of CETV for consolidation purpose.
10. Consideration payable for CETV Acquisition represents the allotment of 21,250,000 TOM Shares at HK\$2.535 each for the amount of HK\$53,869,000, according to the terms of the Share Purchase Agreement, together with the estimated expenses relating to the CETV Acquisition of HK\$15,000,000.
11. These represent the estimated goodwill and intangible assets arising from the Other Acquisition, representing the difference between the considerable payable of HK\$25,030,000 and the unaudited net tangible assets of the Other Acquisition attributable to the TOM Group of HK\$13,630,000, and the CETV Acquisition, representing the difference between the consideration payable of HK\$68,869,000 and the audited combined negative net tangible assets of CETV as at 30 June 2003 attributable to the TOM Group of HK\$27,259,000.
12. The unaudited adjusted net tangible asset value and net asset value per TOM Share as at the Latest Practicable Date are calculated on the basis of 3,825,703,450 TOM Shares in issue as at the Latest Practicable Date.
13. The unaudited pro forma adjusted combined net tangible asset value and net asset value per TOM Share immediately following the Completion of the Other Acquisition and the CETV Acquisition are calculated on the basis of 3,846,953,450 TOM Shares in issue as at the Latest Practicable Date and after taking into consideration the 21,250,000 TOM Shares to be allotted for the CETV Acquisition.



## 2. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED TOM GROUP

The following is a summary of the unaudited pro forma statement of adjusted combined assets and liabilities of the Enlarged TOM Group, based on the audited consolidated net assets of the TOM Group as at 30 June 2003 and the audited combined net assets of the CETV as at 30 June 2003, as extracted from the accountants' report on the CETV set out in Appendix III to this circular, adjusted to reflect certain significant events which have been taken place since 30 June 2003 and the effect of the acquisitions announced by TOM, including the CETV Acquisition.

|  | <b>TOM<br/>Group</b> | <b>Other<br/>Acquisition</b> | <b>CETV<br/>Acquisition</b> | <b>Adjustments</b> | <i>Note</i> | <b>Enlarged<br/>TOM Group</b> |
|--|----------------------|------------------------------|-----------------------------|--------------------|-------------|-------------------------------|
|  | <i>HK\$'000</i>      | <i>HK\$'000</i>              | <i>HK\$'000</i>             | <i>HK\$'000</i>    |             | <i>HK\$'000</i>               |
|  | <i>(Note 1)</i>      |                              |                             |                    |             |                               |
| Fixed assets and other                   |                      |                              |                             |                    |             |                               |
| non-current assets                       | 349,945              | 9,400                        | 15,545                      |                    |             | 374,890                       |
| Goodwill                                 | 983,566              | –                            | –                           | 132,323            | 2           | 1,115,889                     |
| Long term investments                    | 147,181              | –                            | –                           |                    |             | 147,181                       |
| Current assets                           | 1,197,201            | 37,600                       | 6,728                       | 950,470            | 3           | 2,191,999                     |
| Current liabilities                      | (1,290,188)          | –                            | (41,214)                    | 20,763             | 4           | (1,310,639)                   |
| Net current (liabilities)/<br>assets     | (92,987)             | 37,600                       | (34,486)                    |                    |             | 881,360                       |
| Total assets less<br>current liabilities | 1,387,705            | 47,000                       | (18,941)                    |                    |             | 2,519,320                     |
| Minority interests                       | (160,614)            | –                            | –                           | (11,150)           |             | (171,764)                     |
| Non-current liabilities                  | (894,681)            | –                            | (443,708)                   | 443,708            | 5           | (894,681)                     |
| Net assets                               | 332,410              | 47,000                       | (462,649)                   |                    |             | 1,452,875                     |

### Notes:

- The audited consolidated net assets of the TOM Group as at 30 June 2003 included the audited consolidated net assets of Cité Publishing Holding Limited as at 30 June 2003.
- This represents the estimated goodwill arising from the Cité Acquisition, the Other Acquisition and the CETV Acquisition.
- This represents the net cash proceeds received from the placing and subscription of TOM Shares totalling HK\$996,500,000 and the cash consideration and estimated expenses paid for the Cité Acquisition, the Other Acquisition and the CETV Acquisition totalling HK\$46,030,000.
- This represents the settlement of consideration payable in respect of acquisitions made prior to 30 June 2003 by the allotment of TOM Shares of HK\$18,323,000 and the repayment of CETV's third party loans amounted to HK\$2,440,000 according to the Share Purchase Agreement.
- This represents the release and repayment of CETV's shareholders and third party loans at Completion Date according to the Share Purchase Agreement.

### 3. INDEBTEDNESS

#### **Borrowings**

As at the close of business on 30 June 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged TOM Group had total outstanding borrowings of approximately HK\$1,380,959,000, comprising unsecured loans from substantial shareholders of TOM of HK\$850,000,000, unsecured loans from TBSAP to CETV of HK\$438,670,000, unsecured bank and other borrowings of HK\$37,810,000 and secured bank borrowings of HK\$54,479,000. The Enlarged TOM Group's secured bank borrowings were secured by charges on the bank deposits and certain assets of the Enlarged TOM Group. According to the Share Purchase Agreement in respect of the CETV acquisition, the unsecured loans from TBSAP to CETV and unsecured other borrowings in relation to CETV will be released and repaid by TBSAP at Completion Date, respectively. As at 30 June 2003, such amounts were HK\$446,148,000.

#### **Contingent liabilities**

As at 30 June 2003, the Enlarged TOM Group had contingent liabilities amounting to approximately HK\$9,400,000 in respect of the provision of fixed deposits as securities to bank loans granted to an investee company in which the Enlarged TOM Group has a 50% equity interest.

#### **Capital commitments**

As at 30 June 2003, the Enlarged TOM Group had capital commitments in respect of the acquisition of new investments amounting to approximately HK\$49,001,000.

As at 30 June 2003, the Enlarged TOM Group had capital commitments in respect of acquisition of fixed assets and other non-current assets amounting to approximately HK\$176,794,000.

As at 30 June 2003, the Enlarged TOM Group had capital commitments in respect of the contributions to the registered capital of certain investments amounting to approximately HK\$46,530,000.

#### **Pledge of assets**

As at 30 June 2003, bank deposits and cash totalling approximately HK\$64,681,000 were pledged to banks for securing banking facilities granted to the Enlarged TOM Group and an investee company.

As at 30 June 2003, concession rights and properties of HK\$9,317,000 and HK\$607,000 respectively were pledged to banks for securing banking facilities granted to the Enlarged TOM Group.

**Disclaimer**

Save as disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Enlarged TOM Group, the Enlarged TOM Group did not have any outstanding charges or bank overdrafts, loans and other similar indebtedness or acceptance of credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 30 June 2003.

Save as disclosed above, the Directors have confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Enlarged TOM Group since 30 June 2003.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 June 2003.

**4. WORKING CAPITAL**

Taking into account the financial resources available to the Enlarged TOM Group, including internally generated funds, the available banking facilities and loans available from the substantial shareholders of TOM, in the absence of unforeseen circumstances, the Directors are of the opinion that the Enlarged TOM Group will have sufficient working capital for its present requirements.

**5. MATERIAL ADVERSE CHANGES**

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the TOM Group since 31 December 2002, the date to which the latest published audited accounts of the TOM Group were made up.

Set out below are summaries of the results and balance sheets of PC Home Publications Inc. (“PC Home”), Cité Publishing Limited (“Cité”), Business Weekly Publishing Inc. (“Business Weekly”) and Sharp Point Publishing Company Limited (“Sharp Point”), together with the relevant notes to the accounts, as extracted from the accountants’ reports on each of the companies included in the circular of TOM already submitted to the Shareholders on 9 April 2003 in respect of the acquisition of an aggregate of 11.645% of the issued share capital of Cité Publishing Holding Limited. The disclosure of the information below is in compliance of the relevant provision under the GEM Listing Rules.

## A. FINANCIAL INFORMATION ON PC HOME

### 1. CONSOLIDATED RESULTS OF OPERATIONS

The following is the consolidated results of the Acquired Business of the PC Home Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|  | <i>Note</i> | <b>For the year ended 31 December</b> |                       |                      |
|--|-------------|---------------------------------------|-----------------------|----------------------|
|  |             | <b>2000</b>                           | <b>2001</b>           | <b>2002</b>          |
|  |             | <i>NT\$'000</i>                       | <i>NT\$'000</i>       | <i>NT\$'000</i>      |
| Turnover                                 | 8(a)        | 981,225                               | 825,530               | 961,725              |
| Cost of sales                            |             | <u>(538,247)</u>                      | <u>(399,658)</u>      | <u>(422,027)</u>     |
| Gross profit                             |             | 442,978                               | 425,872               | 539,698              |
| Other revenues                           | 8(a)        | 2,595                                 | 5,158                 | 1,766                |
| Selling and administrative expenses      |             | <u>(539,783)</u>                      | <u>(447,913)</u>      | <u>(444,188)</u>     |
| Other operating income                   |             | <u>5,840</u>                          | <u>14,276</u>         | <u>5,489</u>         |
| Operating (loss)/profit                  | 8(b)        | (88,370)                              | (2,607)               | 102,765              |
| Finance costs                            | 8(c)        | (1,097)                               | (1,954)               | (1,227)              |
| Share of results of associated companies |             | <u>6,521</u>                          | <u>375</u>            | <u>555</u>           |
| (Loss)/profit before taxation            |             | (82,946)                              | (4,186)               | 102,093              |
| Taxation                                 | 8(d)        | <u>(19,878)</u>                       | <u>(5,101)</u>        | <u>(12,242)</u>      |
| (Loss)/profit for the year               |             | (102,824)                             | (9,287)               | 89,851               |
| Minority interests                       |             | <u>2,198</u>                          | <u>2,764</u>          | <u>(2,329)</u>       |
| (Loss)/profit after minority interests   |             | <u><u>(100,626)</u></u>               | <u><u>(6,523)</u></u> | <u><u>87,522</u></u> |

## 2. CONSOLIDATED BALANCE SHEETS

The following is the consolidated balance sheets of the Acquired Business of the PC Home Group as at 31 December 2000, 2001 and 2002 prepared on the basis set out in Section 6 below:

|  | Note      | As at 31 December |                  |                  |
|--|-----------|-------------------|------------------|------------------|
|  |           | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(h)      | 45,030            | 39,971           | 34,366           |
| <b>Goodwill</b>                              | 8(i)      | –                 | 8,962            | 7,702            |
| <b>Associated companies</b>                  | 8(l)      | 3,643             | 1,881            | 2,342            |
| <b>Investment securities</b>                 | 8(k), (s) | 169,701           | 140,426          | 63,034           |
| <b>Deferred tax assets</b>                   | 8(u)      | –                 | –                | 20,222           |
|  |           | <u>218,374</u>    | <u>191,240</u>   | <u>127,666</u>   |
| <b>Current assets</b>                        |           |                   |                  |                  |
| Inventories                                  | 8(m)      | 22,743            | 16,284           | 17,142           |
| Amounts due from fellow subsidiaries         | 8(n)      | –                 | 3,884            | 85,564           |
| Amount due from immediate holding company    | 8(n)      | –                 | –                | 4,013            |
| Accounts receivable                          | 8(p)      | 182,782           | 184,304          | 224,073          |
| Tax recoverable                              |           | –                 | 5,507            | –                |
| Other receivables, deposits and prepayments  |           | 63,554            | 48,643           | 39,375           |
| Trading securities                           | 8(o)      | 1,164             | 1,630            | 1,630            |
| Bank balances and cash                       |           | 35,707            | 90,930           | 175,419          |
|  |           | <u>305,950</u>    | <u>351,182</u>   | <u>547,216</u>   |
| <b>Current liabilities</b>                   |           |                   |                  |                  |
| Amounts due to fellow subsidiaries           | 8(n)      | –                 | (2,503)          | (13,139)         |
| Amount due to immediate holding company      | 8(n)      | –                 | (5,046)          | –                |
| Accounts payable                             | 8(q)      | (164,029)         | (102,121)        | (127,517)        |
| Other payables and accrued charges           |           | (118,562)         | (81,143)         | (96,040)         |
| Subscriptions received in advance            |           | (144,946)         | (120,296)        | (113,589)        |
| Taxation payable                             |           | (13,385)          | (956)            | (28,144)         |
| Loan from a related party                    | 8(r)      | –                 | –                | (4,000)          |
| Short term loans                             | 8(s)      | (21,393)          | (12,716)         | –                |
|  |           | <u>(462,315)</u>  | <u>(324,781)</u> | <u>(382,429)</u> |
| <b>Net current (liabilities)/assets</b>      |           | <u>(156,365)</u>  | <u>26,401</u>    | <u>164,787</u>   |
| <b>Total assets less current liabilities</b> |           | <u>62,009</u>     | <u>217,641</u>   | <u>292,453</u>   |
| <b>Represented/financed by:</b>              |           |                   |                  |                  |
| <b>Equity /(deficit)</b>                     | 8(v)      | <u>35,235</u>     | <u>(1,220)</u>   | <u>64,704</u>    |
| <b>Minority interests</b>                    |           | <u>13,977</u>     | <u>4,349</u>     | <u>6,678</u>     |
| <b>Non-current liabilities</b>               |           |                   |                  |                  |
| Pension obligations                          | 8(t)      | 12,797            | 19,142           | 25,701           |
| Loan from immediate holding company          | 8(n)      | –                 | 195,370          | 195,370          |
|  |           | <u>12,797</u>     | <u>214,512</u>   | <u>221,071</u>   |
|  |           | <u>62,009</u>     | <u>217,641</u>   | <u>292,453</u>   |

## 3. BALANCE SHEETS

The following is the balance sheets of the Acquired Business of PC Home as at 31 December 2000, 2001 and 2002 prepared on the basis set out in Section 6 below:

|  | Note      | As at 31 December |                  |                  |
|--|-----------|-------------------|------------------|------------------|
|  |           | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(h)      | 34,802            | 25,138           | 23,305           |
| <b>Subsidiaries</b>                          | 8(j)      | 97,986            | 208,986          | 169,000          |
| <b>Associated companies</b>                  | 8(l)      | 31,405            | 600              | 698              |
| <b>Investment securities</b>                 | 8(k), (s) | 168,359           | 138,676          | 62,013           |
| <b>Deferred tax assets</b>                   | 8(u)      | –                 | –                | 14,315           |
|  |           | <u>332,552</u>    | <u>373,400</u>   | <u>269,331</u>   |
| <b>Current assets</b>                        |           |                   |                  |                  |
| Inventories                                  | 8(m)      | 13,364            | 4,707            | 4,902            |
| Amounts due from fellow subsidiaries         | 8(n)      | –                 | 1,575            | 63,128           |
| Amounts due from subsidiaries                | 8(n)      | 60,199            | 42,747           | 32,016           |
| Amount due from immediate holding company    | 8(n)      | –                 | –                | 4,013            |
| Accounts receivable                          | 8(p)      | 183,221           | 123,316          | 166,964          |
| Tax recoverable                              |           | –                 | 3,274            | –                |
| Other receivables, deposits and prepayments  |           | 103,507           | 55,998           | 36,414           |
| Trading securities                           | 8(o)      | 1,164             | 1,630            | 1,630            |
| Bank balances and cash                       |           | 15,318            | 59,754           | 79,443           |
|  |           | <u>376,773</u>    | <u>293,001</u>   | <u>388,510</u>   |
| <b>Current liabilities</b>                   |           |                   |                  |                  |
| Amounts due to subsidiaries                  | 8(n)      | (35,770)          | (13,960)         | (13,654)         |
| Amounts due to fellow subsidiaries           | 8(n)      | –                 | (18,132)         | (8,345)          |
| Amount due to immediate holding company      | 8(n)      | –                 | (5,046)          | –                |
| Accounts payable                             | 8(q)      | (187,795)         | (58,612)         | (84,249)         |
| Other payables and accrued charges           |           | (92,241)          | (95,668)         | (116,246)        |
| Subscriptions received in advance            |           | (137,931)         | (96,877)         | (88,117)         |
| Taxation payable                             |           | (13,385)          | –                | (15,060)         |
| Short term loans                             | 8(s)      | (21,393)          | (12,716)         | –                |
|  |           | <u>(488,515)</u>  | <u>(301,011)</u> | <u>(325,671)</u> |
| <b>Net current (liabilities)/assets</b>      |           | <u>(111,742)</u>  | <u>(8,010)</u>   | <u>62,839</u>    |
| <b>Total assets less current liabilities</b> |           | <u>220,810</u>    | <u>365,390</u>   | <u>332,170</u>   |
| <b>Financed by:</b>                          |           |                   |                  |                  |
| <b>Equity</b>                                | 8(v)      | <u>209,703</u>    | <u>155,738</u>   | <u>117,894</u>   |
| <b>Non-current liabilities</b>               |           |                   |                  |                  |
| Pension obligations                          | 8(t)      | 11,107            | 14,282           | 18,906           |
| Loan from immediate holding company          | 8(n)      | –                 | 195,370          | 195,370          |
|  |           | <u>11,107</u>     | <u>209,652</u>   | <u>214,276</u>   |
|  |           | <u>220,810</u>    | <u>365,390</u>   | <u>332,170</u>   |

## 4. CONSOLIDATED CASH FLOW STATEMENTS

The following is the consolidated cash flow statements of the Acquired Business of the PC Home Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|   | Note      | For the year ended 31 December |                  |                  |
|---|-----------|--------------------------------|------------------|------------------|
|   |           | 2000<br>NT\$'000               | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Net cash (outflow)/inflow generated from operations | 8(w)(i)   | (152,404)                      | (90,249)         | 41,842           |
| Interest paid                                       |           | (1,097)                        | (1,954)          | (1,227)          |
| Taiwan taxation (paid)/refund                       |           | (12,158)                       | (22,764)         | 423              |
| Net cash (outflow)/inflow from operating activities |           | <u>(165,659)</u>               | <u>(114,967)</u> | <u>41,038</u>    |
| Investing activities                                |           |                                |                  |                  |
| Purchase of fixed assets                            |           | (22,932)                       | (10,150)         | (12,497)         |
| Proceeds from disposal of fixed assets              |           | 2,986                          | 967              | 29               |
| Interest received                                   |           | 2,595                          | 1,972            | 1,766            |
| Dividends received from an associated company       |           | –                              | 1,550            | –                |
| Dividends received                                  |           | –                              | 3,186            | –                |
| Purchase of subsidiaries, net of cash acquired      | 8(w)(ii)  | –                              | (9,333)          | –                |
| Purchase of additional interest of a subsidiary     |           | (4,839)                        | –                | –                |
| Acquisition of associated companies                 |           | (18,105)                       | (100)            | –                |
| Advance from/(to) associated companies              |           | 2,829                          | (4,095)          | (98)             |
| Purchase of investment securities                   |           | (91,322)                       | –                | (7,125)          |
| Proceeds from disposal of investment securities     |           | 50,000                         | –                | 70,092           |
| Net cash (outflow)/inflow from investing activities |           | <u>(78,788)</u>                | <u>(16,003)</u>  | <u>52,167</u>    |
| Net cash (outflow)/inflow before financing          |           | <u>(244,447)</u>               | <u>(130,970)</u> | <u>93,205</u>    |
| Financing activities                                | 8(w)(iii) |                                |                  |                  |
| New loans drawn down                                |           | 21,393                         | –                | 4,000            |
| Repayment of loans                                  |           | –                              | (12,177)         | (12,716)         |
| Advance from minority shareholders                  |           | 14,000                         | 3,000            | –                |
| Transfer in equity                                  |           | 145,943                        | –                | –                |
| Loan from immediate holding company                 |           | –                              | 195,370          | –                |
| Net cash inflow/(outflow) from financing            |           | <u>181,336</u>                 | <u>186,193</u>   | <u>(8,716)</u>   |
| (Decrease)/increase in cash and cash equivalents    |           | (63,111)                       | 55,223           | 84,489           |
| Cash and equivalents at 1 January                   |           | 98,818                         | 35,707           | 90,930           |
| Cash and cash equivalents at 31 December            |           | <u>35,707</u>                  | <u>90,930</u>    | <u>175,419</u>   |
| Analysis of balance of cash and cash equivalents    |           |                                |                  |                  |
| Bank balances and cash                              |           | <u>35,707</u>                  | <u>90,930</u>    | <u>175,419</u>   |

**5. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

The following is the consolidated statements of changes in equity of the Acquired Business of the PC Home Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|   | <b>2000</b>       | <b>2001</b>       | <b>2002</b>       |
|---|-------------------|-------------------|-------------------|
|   | <i>NT\$'000</i>   | <i>NT\$'000</i>   | <i>NT\$'000</i>   |
| Total equity/(deficit) as at 1 January              | 9,838             | 35,235            | (1,220)           |
| (Loss)/profit for the year                          | (100,626)         | (6,523)           | 87,522            |
| Gain/(loss) on revaluation of investment securities | 5,502             | (29,932)          | (21,598)          |
| Goodwill eliminated                                 | (25,422)          | –                 | –                 |
| Transfers   | 145,943           | –                 | –                 |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total equity/(deficit) as at 31 December            | <u>35,235</u>     | <u>(1,220)</u>    | <u>64,704</u>     |

**6. BASIS OF PRESENTATION**

According to a share subscription agreement (the “Agreement”) between TOM.COM Limited (“TOM”) and the then shareholders of PC Home dated 7 August 2001, TOM acquired certain business operated by the PC Home Group through a wholly-owned subsidiary of TOM Print Media Limited, Domatic International Limited. Pursuant to the terms of the Agreement, PC Home underwent a group reorganisation in December 2001 and disposed of its investments in non-publishing businesses to a company beneficially owned by the existing shareholders and directors of PC Home.

For the purpose of this report, the consolidated results and cash flows of the Acquired Business of the PC Home Group for the Relevant Periods as set out above include only the results of the companies comprising the Acquired Business of the PC Home Group throughout the Relevant Periods, or since the respective dates of incorporation or acquisition by the Acquired Business of the PC Home Group, where there is a shorter period.

The consolidated balance sheets of the Acquired Business of the PC Home Group and the balance sheets of the Acquired Business of PC Home as at 31 December 2000, 2001 and 2002 have been prepared to present the assets and liabilities of the companies comprising the Acquired Business of the PC Home Group and Acquired Business of PC Home.

**7. PRINCIPAL ACCOUNTING POLICES**

The principal accounting policies adopted in the preparation of the Financial Information in this report are set out below. These policies conform with accounting principles generally accepted in Hong Kong. The Financial Information in this report is prepared under the historical cost convention as modified by the revaluation of investment securities and trading securities.



**(a) Consolidation**

The consolidated accounts include the accounts of the companies comprising the Acquired Business of the PC Home Group made up to 31 December. The results of subsidiaries acquired or disposed of by the Acquired Business of the PC Home Group during the Relevant Periods are included in the consolidated results from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant transactions and balances within the companies comprising the Acquired Business of the PC Home Group have been eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Acquired Business of the PC Home Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated results.

Minority interests represent the interests of outside shareholders in the results of operations and net assets of subsidiaries.

**(b) Revenue recognition**

Revenue from publishing, circulation and distribution of magazines and books is recognised on the transfer of risk and ownership which generally coincides with the date of delivery. Unearned subscription fees received from subscribers are recorded as subscriptions received in advance in the balance sheets.

Advertising income is recognised as and when the advertisement is published.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on an accrual basis taking into account the principal outstanding and the effective interest rate applicable.

**(c) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of tangible fixed assets is calculated to write-off their costs on the straight line basis over their expected useful lives. The expected useful lives used for this purpose are:

|                               |          |
|-------------------------------|----------|
| Leasehold improvements        | 5 years  |
| Furniture and fixtures        | 3 years  |
| Motor vehicles                | 10 years |
| Office and computer equipment | 3 years  |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the results of operations. Improvements are capitalised and depreciated over their expected useful lives to the Acquired Business of the PC Home Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the results of operations.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the results of operations.

**(d) Investment securities**

Investment securities are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the results of operations.

Where there is objective evidence that individual investment securities are impaired the cumulative loss recorded in the revaluation reserve is taken to the results of operations.

**(e) Trading securities**

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the results of operations. Profits or losses on disposal of trading securities, representing the difference between the net proceeds and the carrying amounts, are recognised in the results of operations as they arise.

**(f) Goodwill on acquisition**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Acquired Business of the PC Home Group's share of the net assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over a maximum period of twenty years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the results of operations.

**(g) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated results of operations include the Acquired Business of the PC Home Group's share of the results of associated companies for the Relevant Periods, and the consolidated balance sheet includes the Acquired Business of the PC Home Group's share of the net assets of the associated companies and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

In the balance sheet of Acquired Business of PC Home, the investments in associated companies are stated at cost less any provision for impairment losses, if any.

The carrying amounts of the investments in associated companies are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(h) Subsidiaries**

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the balance sheet of PC Home, the investments in subsidiaries are stated at cost less any provision for impairment losses, if any. The results of subsidiaries are accounted for by PC Home on the basis of dividends received and receivable.

The carrying amounts of the investments in subsidiaries are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to the results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(i) Inventories**

Inventories consist primarily of work in progress and finished goods which are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(j) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such of provision.

**(k) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**(l) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the results of operations on a straight-line basis over the lease periods.

**(m) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(n) Translation of foreign currencies**

Transactions in currencies other than New Taiwan dollars are translated into New Taiwan dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than New Taiwan dollars are incorporated into the accounts by translating currencies into New Taiwan dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the above translation policy are dealt with in the results of operations.

**(o) Retirement benefit costs***(i) Pension obligations*

The Acquired Business of the PC Home Group operates a defined benefit plan and the assets of which are generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the relevant PC Home Group companies, taking account of the recommendations of independent qualified actuaries.

Pension costs are assessed using the projected unit credit cost method: the cost of providing pensions is charged to the results of operations so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of the employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

*(ii) Equity compensation benefits*

Pursuant to the policy of the Acquired Business of the PC Home Group, shares of PC Home are granted at no consideration to employees as an incentive. The par value of these unlisted shares issued is charged as employee benefit expenses.

**(p) Borrowing costs**

All borrowing costs are charged to the results of operations in the year in which they are incurred.

**(q) Related party**

A related company is a company in which one or more of the directors or major shareholders of the Acquired Business of the PC Home Group have a significant direct or indirect beneficial interest either as directors or shareholders.

**(r) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Acquired Business of the PC Home Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(s) **Segment reporting**

In accordance with the Acquired Business of the PC Home Group's internal financial reporting the Acquired Business of the PC Home Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

No separate segment information is presented since the Acquired Business of the PC Home Group is principally engaged in one single business segment of publishing, circulation and distribution of magazines and books and provision of related services; and the business is principally conducted in Taiwan.

**8. NOTES TO FINANCIAL INFORMATION**

(a) **Turnover and revenues**

The Acquired Business of the PC Home Group is engaged principally in the publishing, circulation and distribution of magazines and books and provision of related services. Revenues recognised during the Relevant Periods are as follows:

|   | <b>For the year ended 31 December</b> |                       |                       |
|---|---------------------------------------|-----------------------|-----------------------|
|   | <b>2000</b>                           | <b>2001</b>           | <b>2002</b>           |
|   | <i>NT\$'000</i>                       | <i>NT\$'000</i>       | <i>NT\$'000</i>       |
| Turnover  |                                       |                       |                       |
| Publishing, circulation and distribution<br>of magazines and books, net of<br>discounts and returns | 651,954                               | 527,630               | 613,317               |
| Magazine advertising income,<br>net of discounts  | 329,271                               | 297,900               | 348,408               |
|   | <u>981,225</u>                        | <u>825,530</u>        | <u>961,725</u>        |
| Other revenues  |                                       |                       |                       |
| Interest income   | 2,595                                 | 1,972                 | 1,766                 |
| Dividend income   | –                                     | 3,186                 | –                     |
|   | <u>2,595</u>                          | <u>5,158</u>          | <u>1,766</u>          |
| Total revenues  | <u><u>983,820</u></u>                 | <u><u>830,688</u></u> | <u><u>963,491</u></u> |

**(b) Operating (loss)/profit**

The operating (loss)/profit of the Acquired Business of the PC Home Group is stated after crediting and charging the following:

|   | For the year ended 31 December |              |            |
|---|--------------------------------|--------------|------------|
|   | 2000                           | 2001         | 2002       |
|   | NT\$'000                       | NT\$'000     | NT\$'000   |
| <b>Crediting:</b>   |                                |              |            |
| Gain on dilution of interests in a subsidiary ( <i>note i</i> )             | –                              | 14,050       | –          |
| Gain on disposal of fixed assets  | –                              | 168          | –          |
| Gain on disposal of investment securities                                   | –                              | 656          | 7,174      |
| Unrealised gain on trading securities                                       | –                              | 466          | –          |
| Net exchange gains  | 239                            | 4,327        | 178        |
|   | <u>239</u>                     | <u>4,327</u> | <u>178</u> |
| <b>Charging:</b>  |                                |              |            |
| Cost of materials consumed  | 123,021                        | 115,817      | 96,143     |
| Staff costs ( <i>note 8(f)</i> )  | 187,793                        | 219,427      | 217,672    |
| Depreciation of fixed assets  | 12,820                         | 23,894       | 18,010     |
| Amortisation of goodwill  | –                              | 735          | 1,260      |
| Operating lease rental on land and buildings                                | 30,487                         | 41,137       | 27,055     |
| Auditors' remuneration  | 800                            | 1,037        | 1,000      |
| Unrealised loss on trading securities                                       | 836                            | –            | –          |
| Loss on disposal of fixed assets  | 22                             | –            | 63         |
| Provision for bad and doubtful debts  | 1,446                          | 12,236       | 9,909      |
| Provision for inventory obsolescence  | 10,317                         | 30,344       | 44,727     |
| Loss on dilution of interests in an associated company ( <i>note (ii)</i> ) | –                              | 2,082        | –          |
|   | <u>–</u>                       | <u>2,082</u> | <u>–</u>   |

*Notes:*

- (i) In December 2001, a minority shareholder was introduced to My House, a then wholly-owned subsidiary. As a result, a gain on dilution of interests of NT\$14,050,000 was recorded by the Acquired Business of PC Home.
- (ii) In October 2001, the equity interest held by the Acquired Business of PC Home in PC Home Ventures, an associated company of the Acquired Business of PC Home, was diluted from 40% to 21.67% as a result of issuance of shares by that associated company. As a result, a loss on dilution of interests of NT\$2,082,000 was recorded.

**(c) Finance costs**

|   | For the year ended 31 December |              |              |
|---|--------------------------------|--------------|--------------|
|   | 2000                           | 2001         | 2002         |
|   | NT\$'000                       | NT\$'000     | NT\$'000     |
| Interest expense  |                                |              |              |
| – short term loan from a non-financial institution          | 1,097                          | 1,954        | 1,027        |
| – short term loan from a related party ( <i>note 8(r)</i> ) | –                              | –            | 200          |
|   | <u>1,097</u>                   | <u>1,954</u> | <u>1,227</u> |

**(d) Taxation**

The amount of taxation charged to the consolidated results of operations represents:

|  | For the year ended 31 December |              |               |
|--|--------------------------------|--------------|---------------|
|  | 2000                           | 2001         | 2002          |
|  | NT\$'000                       | NT\$'000     | NT\$'000      |
| Current year provision                                       |                                |              |               |
| Taiwan income tax ( <i>note ii</i> )                         | 15,370                         | –            | 28,293        |
| Additional income tax (10%) in Taiwan<br>( <i>note iii</i> ) | 2,700                          | 4,828        | 1,343         |
| Under provision in prior years                               | 119                            | –            | 2,636         |
| Deferred taxation ( <i>note 8(u)</i> )                       | –                              | –            | (20,222)      |
|  | <u>18,189</u>                  | <u>4,828</u> | <u>12,050</u> |
| Share of taxation attributable to:                           |                                |              |               |
| Associated companies   | <u>1,689</u>                   | <u>273</u>   | <u>192</u>    |
|  | <u>19,878</u>                  | <u>5,101</u> | <u>12,242</u> |

*Notes:*

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Acquired Business of the PC Home Group had no assessable profits in Hong Kong during the Relevant Periods.
- (ii) The income tax in Taiwan during the Relevant Periods represented the tax charges on the assessable profits of the PC Home Group at a rate of 25%.
- (iii) According to the New Taiwan Imputation Tax, where the earnings of a company derived on or after 1 January 1998 remain undistributed within a specific timeframe, the undistributed earnings is subject to an additional income tax charging at a rate of 10%.

**(e) Earnings per share**

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful since the consolidated results of operations of the Acquired Business of the PC Home Group for the Relevant Periods includes only the results of the companies comprising the Acquired Business of the PC Home Group.

**(f) Staff costs**

|  | For the year ended 31 December |                |                |
|--|--------------------------------|----------------|----------------|
|  | 2000                           | 2001           | 2002           |
|  | NT\$'000                       | NT\$'000       | NT\$'000       |
| Wages and salaries                     | 181,136                        | 208,978        | 210,794        |
| Termination benefits ( <i>note i</i> ) | 161                            | 5,863          | 319            |
| Pension costs – defined benefits plans | 6,496                          | 4,586          | 6,559          |
|  | <u>187,793</u>                 | <u>219,427</u> | <u>217,672</u> |

- (i) The termination benefits payments incurred in the year ended 31 December 2001 were mainly due to severance and termination payments made to ex-employees of the Acquired Business of the PC Home Group upon acquisition of the Acquired Business by TOM.



**(g) Emoluments of directors and employees***(i) Directors' emoluments*

The aggregate amounts of emoluments paid and payable to the Directors for the Relevant Periods are as follows:

|  | <b>For the year ended 31 December</b> |                 |                 |
|--|---------------------------------------|-----------------|-----------------|
|  | <b>2000</b>                           | <b>2001</b>     | <b>2002</b>     |
|  | <i>NT\$'000</i>                       | <i>NT\$'000</i> | <i>NT\$'000</i> |
| Salaries and allowances and other benefits in kind | <u>7,297</u>                          | <u>7,675</u>    | <u>–</u>        |

For the year ended 31 December 2000, two (2001: one; 2002: nil) of the five directors of the Acquired Business of the PC Home Group received emoluments. The two directors received emoluments of NT\$4,604,000 and NT\$2,693,000 for the year ended 31 December 2000, and NT\$7,675,000 and NT\$nil for the year ended 31 December 2001 respectively.

None of the Directors waived any emoluments during the Relevant Periods.

*(ii) Five highest paid individuals*

The five individuals whose emoluments were the highest in the Acquired Business of the PC Home Group during the Relevant Periods are as follows:

|           | <b>For the year ended 31 December</b> |             |             |
|-----------|---------------------------------------|-------------|-------------|
|           | <b>2000</b>                           | <b>2001</b> | <b>2002</b> |
|           | Directors                             | 2           | 1           |
| Employees | <u>3</u>                              | <u>4</u>    | <u>5</u>    |
|           | <u>5</u>                              | <u>5</u>    | <u>5</u>    |

Details of the emoluments of employees as mentioned above are as follows:

|                             | <b>For the year ended 31 December</b> |                 |                 |
|-----------------------------|---------------------------------------|-----------------|-----------------|
|                             | <b>2000</b>                           | <b>2001</b>     | <b>2002</b>     |
|                             | <i>NT\$'000</i>                       | <i>NT\$'000</i> | <i>NT\$'000</i> |
| Basic salary and allowances | <u>7,266</u>                          | <u>8,946</u>    | <u>14,431</u>   |

The emoluments of employees fell within the following bands:

|   | <b>For the year ended 31 December</b>                    |             |             |
|---|--|-------------|-------------|
|   | <b>2000</b>  | <b>2001</b> | <b>2002</b> |
|   | NT\$nil – NT\$4,000,000<br>(equivalent to HK\$1,000,000) | 3           | 4           |
| NT\$4,000,001 (equivalent to<br>HK\$1,000,001) – NT\$6,000,000<br>(equivalent to HK\$1,500,000) | <u>–</u>   | <u>–</u>    | <u>1</u>    |
|   | <u>3</u>   | <u>4</u>    | <u>5</u>    |

(iii) During the Relevant Periods, no emoluments of the five highest paid individuals, including the Directors, were incurred as inducements to join or upon joining the Acquired Business of the PC Home Group or as compensation for loss of office.

## (h) Fixed assets

Movements of fixed assets are as follows:

Group

|                             | Leasehold<br>improvements<br><i>NT\$'000</i> | Furniture<br>and fixtures<br><i>NT\$'000</i> | Office and<br>computer<br>equipment<br><i>NT\$'000</i> | Motor<br>vehicles<br><i>NT\$'000</i> | Total<br><i>NT\$'000</i> |
|-----------------------------|--|--|--|--------------------------------------|--------------------------|
| Cost                        |  |  |  |                                      |                          |
| At 1 January 2000           | 7,598  | 12,757                                       | 26,745   | 1,189                                | 48,289                   |
| Additions                   | 6,283  | 7,163  | 8,746  | 740                                  | 22,932                   |
| Disposal                    | –  | (242)  | (3,067)  | –                                    | (3,309)                  |
| At 31 December 2000         | <u>13,881</u>                                | <u>19,678</u>                                | <u>32,424</u>  | <u>1,929</u>                         | <u>67,912</u>            |
| Accumulated depreciation    |  |  |  |                                      |                          |
| At 1 January 2000           | 403  | 2,971  | 6,876  | 113                                  | 10,363                   |
| Charge for the year         | 3,548  | 3,572  | 5,487  | 213                                  | 12,820                   |
| Disposals                   | –  | (10)   | (291)  | –                                    | (301)                    |
| At 31 December 2000         | <u>3,951</u>                                 | <u>6,533</u>                                 | <u>12,072</u>  | <u>326</u>                           | <u>22,882</u>            |
| Net book value              |  |  |  |                                      |                          |
| 31 December 2000            | <u>9,930</u>                                 | <u>13,145</u>                                | <u>20,352</u>  | <u>1,603</u>                         | <u>45,030</u>            |
| Cost                        |  |  |  |                                      |                          |
| At 1 January 2001           | 13,881                                       | 19,678                                       | 32,424   | 1,929                                | 67,912                   |
| Acquisition of subsidiaries | 4,174  | 743  | 4,567  | –                                    | 9,484                    |
| Additions                   | 5,555  | 498  | 4,097  | –                                    | 10,150                   |
| Disposal                    | (1,508)                                      | (975)  | (288)  | –                                    | (2,771)                  |
| Reclassification            | –  | 379  | –  | (379)                                | –                        |
| At 31 December 2001         | <u>22,102</u>                                | <u>20,323</u>                                | <u>40,800</u>  | <u>1,550</u>                         | <u>84,775</u>            |
| Accumulated depreciation    |  |  |  |                                      |                          |
| At 1 January 2001           | 3,951  | 6,533  | 12,072   | 326                                  | 22,882                   |
| Charge for the year         | 12,406                                       | 3,967  | 7,290  | 231                                  | 23,894                   |
| Disposal                    | (1,425)                                      | (433)  | (114)  | –                                    | (1,972)                  |
| Reclassification            | –  | 89   | –  | (89)                                 | –                        |
| At 31 December 2001         | <u>14,932</u>                                | <u>10,156</u>                                | <u>19,248</u>  | <u>468</u>                           | <u>44,804</u>            |
| Net book value              |  |  |  |                                      |                          |
| 31 December 2001            | <u>7,170</u>                                 | <u>10,167</u>                                | <u>21,552</u>  | <u>1,082</u>                         | <u>39,971</u>            |
| Cost                        |  |  |  |                                      |                          |
| At 1 January 2002           | 22,102                                       | 20,323                                       | 40,800   | 1,550                                | 84,775                   |
| Additions                   | 2,180  | 752  | 9,565  | –                                    | 12,497                   |
| Disposal                    | (14,642)                                     | (3,950)                                      | (10,065)   | –                                    | (28,657)                 |
| At 31 December 2002         | <u>9,640</u>                                 | <u>17,125</u>                                | <u>40,300</u>  | <u>1,550</u>                         | <u>68,615</u>            |
| Accumulated depreciation    |  |  |  |                                      |                          |
| At 1 January 2002           | 14,932                                       | 10,156                                       | 19,248   | 468                                  | 44,804                   |
| Charge for the year         | 1,983  | 4,397  | 11,425   | 205                                  | 18,010                   |
| Disposal                    | (14,642)                                     | (3,950)                                      | (9,973)  | –                                    | (28,565)                 |
| At 31 December 2002         | <u>2,273</u>                                 | <u>10,603</u>                                | <u>20,700</u>  | <u>673</u>                           | <u>34,249</u>            |
| Net book value              |  |  |  |                                      |                          |
| 31 December 2002            | <u>7,367</u>                                 | <u>6,522</u>                                 | <u>19,600</u>  | <u>877</u>                           | <u>34,366</u>            |

| <u>Company</u>           | <b>Leasehold<br/>improvements</b><br><i>NT\$'000</i> | <b>Furniture<br/>and fixtures</b><br><i>NT\$'000</i> | <b>Office and<br/>computer<br/>equipment</b><br><i>NT\$'000</i> | <b>Motor<br/>vehicles</b><br><i>NT\$'000</i> | <b>Total</b><br><i>NT\$'000</i> |
|--------------------------|--|--|---|--|---------------------------------|
| Cost                     |  |  |   |  |                                 |
| At 1 January 2000        | 6,077  | 11,766   | 25,018  | 599  | 43,460                          |
| Additions                | 4,171  | 4,399  | 3,354   | 740  | 12,664                          |
| Disposal                 | —  | (242)  | (2,392)   | —  | (2,634)                         |
| At 31 December 2000      | <u>10,248</u>  | <u>15,923</u>  | <u>25,980</u>   | <u>1,339</u>                                 | <u>53,490</u>                   |
| Accumulated depreciation |  |  |   |  |                                 |
| At 1 January 2000        | 39   | 2,636  | 6,344   | 82   | 9,101                           |
| Charge for the year      | 2,887  | 2,706  | 4,091   | 106  | 9,790                           |
| Disposal                 | —  | (10)   | (193)   | —  | (203)                           |
| At 31 December 2000      | <u>2,926</u>   | <u>5,332</u>   | <u>10,242</u>   | <u>188</u>                                   | <u>18,688</u>                   |
| Net book value           |  |  |   |  |                                 |
| 31 December 2000         | <u>7,322</u>   | <u>10,591</u>  | <u>15,738</u>   | <u>1,151</u>                                 | <u>34,802</u>                   |
| Cost                     |  |  |   |  |                                 |
| At 1 January 2001        | 10,248   | 15,923   | 25,980  | 1,339  | 53,490                          |
| Additions                | 4,239  | 403  | 3,698   | —  | 8,340                           |
| Disposal                 | —  | (975)  | (287)   | —  | (1,262)                         |
| Reclassification         | —  | 379  | —   | (379)  | —                               |
| At 31 December 2001      | <u>14,487</u>  | <u>15,730</u>  | <u>29,391</u>   | <u>960</u>                                   | <u>60,568</u>                   |
| Accumulated depreciation |  |  |   |  |                                 |
| At 1 January 2001        | 2,926  | 5,332  | 10,242  | 188  | 18,688                          |
| Charge for the year      | 9,241  | 2,955  | 4,969   | 123  | 17,288                          |
| Disposal                 | —  | (432)  | (114)   | —  | (546)                           |
| Reclassification         | —  | 89   | —   | (89)   | —                               |
| At 31 December 2001      | <u>12,167</u>  | <u>7,944</u>   | <u>15,097</u>   | <u>222</u>                                   | <u>35,430</u>                   |
| Net book value           |  |  |   |  |                                 |
| 31 December 2001         | <u>2,320</u>   | <u>7,786</u>   | <u>14,294</u>   | <u>738</u>                                   | <u>25,138</u>                   |
| Cost                     |  |  |   |  |                                 |
| At 1 January 2002        | 14,487   | 15,730   | 29,391  | 960  | 60,568                          |
| Additions                | 2,046  | 1,115  | 7,336   | —  | 10,497                          |
| Disposal                 | (12,167)   | (3,442)  | (9,049)   | —  | (24,658)                        |
| At 31 December 2002      | <u>4,366</u>   | <u>13,403</u>  | <u>27,678</u>   | <u>960</u>                                   | <u>46,407</u>                   |
| Accumulated depreciation |  |  |   |  |                                 |
| At 1 January 2002        | 12,167   | 7,944  | 15,097  | 222  | 35,430                          |
| Charge for the year      | 746  | 3,700  | 7,738   | 97   | 12,281                          |
| Disposal                 | (12,167)   | (3,442)  | (9,000)   | —  | (24,609)                        |
| At 31 December 2002      | <u>746</u>   | <u>8,202</u>   | <u>13,835</u>   | <u>319</u>                                   | <u>23,102</u>                   |
| Net book value           |  |  |   |  |                                 |
| 31 December 2002         | <u>3,620</u>   | <u>5,201</u>   | <u>13,843</u>   | <u>641</u>                                   | <u>23,305</u>                   |

## (i) Goodwill

Movement of goodwill for the Relevant Periods is as follows:

|                                 | 2000<br>NT\$'000 | As at 31 December<br>2001<br>NT\$'000 | 2002<br>NT\$'000 |
|---------------------------------|------------------|---------------------------------------|------------------|
| <b>Cost</b>                     |                  |                                       |                  |
| As at 1 January                 | –                | –                                     | 9,697            |
| Additions                       | –                | 9,697                                 | –                |
|                                 | <u>–</u>         | <u>9,697</u>                          | <u>–</u>         |
| As at 31 December               | –                | 9,697                                 | 9,697            |
|                                 | -----            | -----                                 | -----            |
| <b>Accumulated amortisation</b> |                  |                                       |                  |
| As at 1 January                 | –                | –                                     | 735              |
| Charge for the year             | –                | 735                                   | 1,260            |
|                                 | <u>–</u>         | <u>735</u>                            | <u>1,260</u>     |
| As at 31 December               | –                | 735                                   | 1,995            |
|                                 | -----            | -----                                 | -----            |
| Net book value                  | <u>–</u>         | <u>8,962</u>                          | <u>7,702</u>     |
|                                 | =====            | =====                                 | =====            |

Goodwill arose from the acquisition of additional equity interest of Business Next by the Acquired Business of PC Home during the year ended 31 December 2001 from 31.82% to 61.11%.

In the opinion of the directors of the Acquired Business of PC Home, the underlying value of goodwill as at 31 December 2001 and 2002 was not less than its carrying values as at both dates.

## (j) Subsidiaries

|   | 2000<br>NT\$'000 | As at 31 December<br>2001<br>NT\$'000 | 2002<br>NT\$'000 |
|---|------------------|---------------------------------------|------------------|
| Investments in unlisted subsidiaries, at cost | <u>97,986</u>    | <u>208,986</u>                        | <u>169,000</u>   |
|   | =====            | =====                                 | =====            |

## (k) Investment securities

|                               | <u>Group</u>      |                  |                  | <u>Company</u>    |                  |                  |
|-------------------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|
|                               | As at 31 December |                  |                  | As at 31 December |                  |                  |
|                               | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Equity securities             |                   |                  |                  |                   |                  |                  |
| Listed in Hong Kong           | –                 | 1,218            | 4,687            | –                 | 1,218            | 4,687            |
| Unlisted shares               | 169,701           | 139,208          | 58,347           | 168,359           | 137,458          | 57,326           |
|                               | <u>169,701</u>    | <u>140,426</u>   | <u>63,034</u>    | <u>168,359</u>    | <u>138,676</u>   | <u>62,013</u>    |
|                               | =====             | =====            | =====            | =====             | =====            | =====            |
| Market value of listed shares | <u>–</u>          | <u>1,218</u>     | <u>4,687</u>     | <u>–</u>          | <u>1,218</u>     | <u>4,687</u>     |
|                               | =====             | =====            | =====            | =====             | =====            | =====            |

## (l) Associated companies

Group

|  | <b>2000</b>     | <b>As at 31 December</b> |                 |
|--|-----------------|--------------------------|-----------------|
|  | <i>NT\$'000</i> | <b>2001</b>              | <b>2002</b>     |
|  |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Share of net assets, other than goodwill | 7,738           | 1,881                    | 2,244           |
| Due (to)/from associated companies       | (4,095)         | –                        | 98              |
|  | <u>3,643</u>    | <u>1,881</u>             | <u>2,342</u>    |

Company

|                                    | <b>2000</b>     | <b>As at 31 December</b> |                 |
|------------------------------------|-----------------|--------------------------|-----------------|
|                                    | <i>NT\$'000</i> | <b>2001</b>              | <b>2002</b>     |
|                                    |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| At cost                            | 35,500          | 600                      | 600             |
| Due (to)/from associated companies | (4,095)         | –                        | 98              |
|                                    | <u>31,405</u>   | <u>600</u>               | <u>698</u>      |

## (m) Inventories

Group

|  | <b>2000</b>     | <b>As at 31 December</b> |                 |
|--|-----------------|--------------------------|-----------------|
|  | <i>NT\$'000</i> | <b>2001</b>              | <b>2002</b>     |
|  |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Work in progress                           | 1,807           | 171                      | 783             |
| Finished goods – books and magazines       | 31,253          | 54,008                   | 61,521          |
|  | 33,060          | 54,179                   | 62,304          |
| Less: Provision for inventory obsolescence | (10,317)        | (37,895)                 | (45,162)        |
|  | <u>22,743</u>   | <u>16,284</u>            | <u>17,142</u>   |

Company

|  | <b>2000</b>     | <b>As at 31 December</b> |                 |
|--|-----------------|--------------------------|-----------------|
|  | <i>NT\$'000</i> | <b>2001</b>              | <b>2002</b>     |
|  |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Work in progress                           | –               | 69                       | –               |
| Finished goods – books and magazines       | 19,890          | 33,094                   | 39,279          |
|  | 19,890          | 33,163                   | 39,279          |
| Less: Provision for inventory obsolescence | (6,526)         | (28,456)                 | (34,377)        |
|  | <u>13,364</u>   | <u>4,707</u>             | <u>4,902</u>    |

As at 31 December 2000, 2001 and 2002, no inventories were stated at their net realisable value.

**(n) Amounts due from/to subsidiaries, fellow subsidiaries and immediate holding company**

The amounts due from/to subsidiaries, fellow subsidiaries and immediate holding company are unsecured, interest-free and repayable on demand.

The loan from immediate holding company is unsecured, interest-free and repayable only when the Acquired Business of the PC Home Group is financially capable to do so.

**(o) Trading securities**

|   | <b>2000</b>     | <b>As at 31 December</b> | <b>2002</b>     |
|---|-----------------|--------------------------|-----------------|
|   | <i>NT\$'000</i> | <i>2001</i>              | <i>2002</i>     |
|   |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Open-ended mutual funds in Taiwan,<br>stated at quoted market price | 1,164           | 1,630                    | 1,630           |

**(p) Accounts receivable**

The general credit terms offered by the Acquired Business of the PC Home Group and the Acquired Business of PC Home are about 60 to 90 days. The aging analyses of the accounts receivable balance as at the end of each of the Relevant Periods are as follows:

Group

|   | <b>2000</b>     | <b>As at 31 December</b> | <b>2002</b>     |
|---|-----------------|--------------------------|-----------------|
|   | <i>NT\$'000</i> | <i>2001</i>              | <i>2002</i>     |
|   |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| 1 – 60 days   | 133,940         | 155,955                  | 190,860         |
| 61 – 120 days   | 47,366          | 30,798                   | 30,125          |
| 121 – 180 days  | 7,726           | 11,345                   | 30,064          |
| Over 180 days   | 34,367          | 37,306                   | 26,452          |
|   | 223,399         | 235,404                  | 277,501         |
| Less: Provision for bad and doubtful debts<br>and sales returns | (40,617)        | (51,100)                 | (53,428)        |
|   | <u>182,782</u>  | <u>184,304</u>           | <u>224,073</u>  |

Company

|   | <b>2000</b>     | <b>As at 31 December</b> | <b>2002</b>     |
|---|-----------------|--------------------------|-----------------|
|   | <i>NT\$'000</i> | <i>2001</i>              | <i>2002</i>     |
|   |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| 1 – 60 days   | 127,746         | 90,759                   | 143,598         |
| 61 – 120 days   | 45,398          | 20,706                   | 18,706          |
| 121 – 180 days  | 7,931           | 6,900                    | 27,228          |
| Over 180 days   | 31,930          | 28,634                   | 15,083          |
|   | 213,005         | 146,999                  | 204,615         |
| Less: Provision for bad and doubtful debts<br>and sales returns | (29,784)        | (23,683)                 | (37,651)        |
|   | <u>183,221</u>  | <u>123,316</u>           | <u>166,964</u>  |

(q) **Accounts payable**

The aging analyses of the accounts payable balance as at the end of each of the Relevant Periods are as follows:

Group

|                | As at 31 December |                  |                  |
|----------------|-------------------|------------------|------------------|
|                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| 1 – 60 days    | 104,153           | 78,696           | 88,712           |
| 61 – 120 days  | 41,957            | 13,070           | 34,998           |
| 121 – 180 days | 10,478            | 7,864            | 1,053            |
| Over 180 days  | 7,441             | 2,491            | 2,754            |
|                | <u>164,029</u>    | <u>102,121</u>   | <u>127,517</u>   |

Company

|                | As at 31 December |                  |                  |
|----------------|-------------------|------------------|------------------|
|                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| 1 – 60 days    | 89,499            | 49,063           | 58,626           |
| 61 – 120 days  | 46,675            | 3,242            | 23,790           |
| 121 – 180 days | 8,659             | 4,615            | 60               |
| Over 180 days  | 42,962            | 1,692            | 1,773            |
|                | <u>187,795</u>    | <u>58,612</u>    | <u>84,249</u>    |

(r) **Loan from a related party**Group

|           | As at 31 December |                  |                  |
|-----------|-------------------|------------------|------------------|
|           | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Unsecured | <u>–</u>          | <u>–</u>         | <u>4,000</u>     |

*Note:*

- (i) The Acquired Business of the PC Home Group borrowed a loan of NT\$4,000,000 during the year ended 31 December 2002 from the spouse of one of the directors of a subsidiary. The loan bears interest at 5% per annum and is repayable on demand.

(s) **Short term loans**Group and Company

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Loans from non-financial institutions –<br>Secured | <u>21,393</u>     | <u>12,716</u>    | <u>–</u>         |

*Note:*

- (i) The loans from non-financial institutions for the years ended 31 December 2000 and 2001 bore interest at approximately 12% per annum. Investment securities of NT\$50,000,000 held by the Acquired Business of the PC Home Group and the Acquired Business of the Company were pledged as security against these loans.

**(t) Retirement benefit costs**

The Acquired Business of the PC Home Group operates a retirement scheme providing benefits to all employees based on the final pay of the employees before their retirement. The Acquired Business of the PC Home Group has an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. The assets of the scheme are deposited with the Central Trust of China and held separately from those of the Acquired Business of the PC Home Group.

The actuarial valuation for the year ended 31 December 2002 was completed by KPMG Consulting Co., Ltd. while those for the years ended 31 December 2000 and 2001 were completed by PricewaterhouseCoopers Management Consultants Company Ltd., both qualified actuaries in Taiwan, using the projected unit credit cost method. The retirement scheme has been valued using the following principal assumptions:

|                           | 2000  | 2001  | 2002  |
|---------------------------|-------|-------|-------|
| Discount rate             | 5.75% | 4.25% | 4.00% |
| Expected return on assets | 5.75% | 4.00% | 3.25% |
| Salary increase           | 4.00% | 3.00% | 3.00% |

The amounts recognised in the consolidated balance sheets are determined as follows:

|   | As at 31 December |                  |                  |
|---|-------------------|------------------|------------------|
|   | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Present value of funded obligations         | 12,797            | 19,081           | 26,996           |
| Fair value of plan assets                   | —                 | —                | —                |
|   | <u>12,797</u>     | <u>19,081</u>    | <u>26,996</u>    |
| Present value of unfunded obligations       | 12,797            | 19,081           | 26,996           |
| Unrecognised actuarial gains/(losses)       | —                 | 61               | (1,295)          |
|   | <u>12,797</u>     | <u>19,142</u>    | <u>25,701</u>    |
| Liability in the consolidated balance sheet | <u>12,797</u>     | <u>19,142</u>    | <u>25,701</u>    |

The amounts recognised in the balance sheets are determined as follows:

|                                     | As at 31 December |                  |                  |
|-------------------------------------|-------------------|------------------|------------------|
|                                     | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Present value of funded obligations | 11,107            | 15,095           | 21,627           |
| Fair value of plan assets           | —                 | —                | —                |
| Unrecognised actuarial losses       | —                 | (813)            | (2,721)          |
|                                     | <u>11,107</u>     | <u>14,282</u>    | <u>18,906</u>    |
| Liability in the balance sheet      | <u>11,107</u>     | <u>14,282</u>    | <u>18,906</u>    |

The amounts recognised in the consolidated results of operations are determined as follows:

|   | For the year ended 31 December |                  |                  |
|---|--------------------------------|------------------|------------------|
|   | 2000<br>NT\$'000               | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Current service costs                     | 6,496                          | 3,784            | 5,699            |
| Interest costs                            | —                              | 802              | 811              |
| Net actuarial losses recognised           | —                              | —                | 49               |
|   | <u>6,496</u>                   | <u>4,586</u>     | <u>6,559</u>     |
| Total included in staff costs (note 8(f)) | <u>6,496</u>                   | <u>4,586</u>     | <u>6,559</u>     |



Movement in the liability recognised in the consolidated balance sheets:

|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| 1 January  | 6,301                          | 12,797                         | 19,142                         |
| Acquisition of a subsidiary ( <i>Note 8(w)(ii)</i> ) | –                              | 1,759                          | –                              |
| Total expenses                                       | <u>6,496</u>                   | <u>4,586</u>                   | <u>6,559</u>                   |
| 31 December  | <u><u>12,797</u></u>           | <u><u>19,142</u></u>           | <u><u>25,701</u></u>           |

**(u) Deferred taxation**

The movement of deferred taxation is as follows:

Group

|  | <b>As at 31 December</b>       |                                |                                |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| 1 January  | –                              | –                              | –                              |
| Transfer from results of operations ( <i>note 8(d)</i> ) | –                              | –                              | 20,222                         |
| 31 December  | <u><u>–</u></u>                | <u><u>–</u></u>                | <u><u>20,222</u></u>           |

Company

|                                     | <b>As at 31 December</b>       |                                |                                |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                     | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| 1 January                           | –                              | –                              | –                              |
| Transfer from results of operations | –                              | –                              | 14,315                         |
| 31 December                         | <u><u>–</u></u>                | <u><u>–</u></u>                | <u><u>14,315</u></u>           |

The potential deferred tax assets not provided for in the accounts are analysed as follows:

Group

|                                      | <b>As at 31 December</b>       |                                |                                |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                      | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Provision for inventory obsolescence | 2,579                          | 9,474                          | –                              |
| Provision for bad and doubtful debts | –                              | 5,623                          | –                              |
| Provision for sales returns          | 6,639                          | 7,249                          | –                              |
| Unrelieved tax losses                | <u>5,293</u>                   | <u>–</u>                       | <u>–</u>                       |
|                                      | <u><u>14,511</u></u>           | <u><u>22,346</u></u>           | <u><u>–</u></u>                |

Company

|                                      | As at 31 December |                  |                  |
|--------------------------------------|-------------------|------------------|------------------|
|                                      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Provision for inventory obsolescence | 1,631             | 7,114            | –                |
| Provision for bad and doubtful debts | –                 | 5,050            | –                |
| Provision for sales returns          | 4,409             | 2,905            | –                |
|                                      | <u>6,040</u>      | <u>15,069</u>    | <u>–</u>         |

The deferred tax assets had not been recognised in the years ended 31 December 2000 and 2001 because there was no certainty that the Acquired Business of the PC Home Group would have assessable profits to utilise the related tax benefits since the Acquired Business of the PC Home Group had reported losses in these two years.

(v) **Analysis of changes in equity**Group

|   | Reserves<br>NT\$'000 | Accumulated<br>deficit<br>NT\$'000 | Investment<br>revaluation<br>reserve<br>NT\$'000 | Total<br>NT\$'000 |
|---|----------------------|------------------------------------|--|-------------------|
| At 1 January 2000   | 70,931               | (43,796)                           | (17,297)   | 9,838             |
| Transfers   | 145,943              | –                                  | –  | 145,943           |
| Loss after minority interests   | –                    | (100,626)                          | –  | (100,626)         |
| Goodwill arising from purchase<br>of additional interest in<br>a subsidiary | –                    | (25,422)                           | –  | (25,422)          |
| Surplus on revaluation of<br>investment securities                          | –                    | –                                  | 5,502  | 5,502             |
| At 31 December 2000   | <u>216,874</u>       | <u>(169,844)</u>                   | <u>(11,795)</u>                                  | <u>35,235</u>     |
| At 1 January 2001   | 216,874              | (169,844)                          | (11,795)   | 35,235            |
| Loss after minority interests   | –                    | (6,523)                            | –  | (6,523)           |
| Deficit on revaluation of<br>investment securities                          | –                    | –                                  | (29,932)   | (29,932)          |
| At 31 December 2001   | <u>216,874</u>       | <u>(176,367)</u>                   | <u>(41,727)</u>                                  | <u>(1,220)</u>    |
| At 1 January 2002   | 216,874              | (176,367)                          | (41,727)   | (1,220)           |
| Profit after minority interests   | –                    | 87,522                             | –  | 87,522            |
| Deficit on revaluation or<br>investment securities                          | –                    | –                                  | (21,598)   | (21,598)          |
| At 31 December 2002   | <u>216,874</u>       | <u>(88,845)</u>                    | <u>(63,325)</u>                                  | <u>64,704</u>     |

Company

|  | <b>Reserves</b><br><i>NT\$'000</i> | <b>(Accumulated<br/>deficit)/<br/>retained<br/>earnings</b><br><i>NT\$'000</i> | <b>Investment<br/>revaluation<br/>reserve</b><br><i>NT\$'000</i> | <b>Total</b><br><i>NT\$'000</i> |
|--|------------------------------------|--|--|---------------------------------|
| At 1 January 2000                                  | 70,931                             | (7,470)  | (17,297)   | 46,164                          |
| Transfers  | 145,943                            | –  | –  | 145,943                         |
| Surplus on revaluation of<br>investment securities | –                                  | –  | 7,035  | 7,035                           |
| Profit for the year                                | –                                  | 10,561   | –  | 10,561                          |
|  | <u>216,874</u>                     | <u>3,091</u>   | <u>(10,262)</u>  | <u>209,703</u>                  |
| At 31 December 2000                                | <u>216,874</u>                     | <u>3,091</u>   | <u>(10,262)</u>  | <u>209,703</u>                  |
| At 1 January 2001                                  | 216,874                            | 3,091  | (10,262)   | 209,703                         |
| Deficit on revaluation of<br>investment securities | –                                  | –  | (30,340)   | (30,340)                        |
| Loss for the year                                  | –                                  | (23,625)   | –  | (23,625)                        |
|  | <u>216,874</u>                     | <u>(20,534)</u>  | <u>(40,602)</u>  | <u>155,738</u>                  |
| At 31 December 2001                                | <u>216,874</u>                     | <u>(20,534)</u>  | <u>(40,602)</u>  | <u>155,738</u>                  |
| At 1 January 2002                                  | 216,874                            | (20,534)   | (40,602)   | 155,738                         |
| Deficit on revaluation of<br>investment securities | –                                  | –  | (21,650)   | (21,650)                        |
| Loss for the year                                  | –                                  | (16,194)   | –  | (16,194)                        |
|  | <u>216,874</u>                     | <u>(36,728)</u>  | <u>(62,252)</u>  | <u>117,894</u>                  |
| At 31 December 2002                                | <u>216,874</u>                     | <u>(36,728)</u>  | <u>(62,252)</u>  | <u>117,894</u>                  |

## (w) Notes to consolidated cash flow statements

## (i) Reconciliation of operating (loss)/profit to net cash (outflow)/inflow generated from operations

|  | For the year ended 31 December |                 |               |
|--|--------------------------------|-----------------|---------------|
|  | 2000                           | 2001            | 2002          |
|  | NT\$ '000                      | NT\$ '000       | NT\$ '000     |
| Operating (loss)/profit  | (88,370)                       | (2,607)         | 102,765       |
| Depreciation   | 12,820                         | 23,894          | 18,010        |
| Loss/(gain) on disposal of fixed assets                            | 22                             | (168)           | 63            |
| Amortisation of goodwill   | -                              | 735             | 1,260         |
| Unrealised loss/(gain) of trading securities                       | 836                            | (466)           | -             |
| Gain on disposal of investment securities                          | -                              | (656)           | (7,174)       |
| Interest income  | (2,595)                        | (1,972)         | (1,766)       |
| Dividend income  | -                              | (3,186)         | -             |
| Gain on dilution of interests in a subsidiary                      | -                              | (14,050)        | -             |
| Loss on dilution of interests in an associated company             | -                              | 2,082           | -             |
|  | <u>-</u>                       | <u>2,082</u>    | <u>-</u>      |
| Operating (loss)/profit before working capital changes             | (77,287)                       | 3,606           | 113,158       |
| (Increase)/decrease in inventories                                 | (10,416)                       | 7,592           | (858)         |
| Increase in amounts due from fellow subsidiaries                   | -                              | (3,884)         | (81,680)      |
| Increase in amount due from immediate holding company              | -                              | -               | (4,013)       |
| (Increase)/decrease in accounts receivable                         | (14,574)                       | 48,527          | (39,770)      |
| (Increase)/decrease in other receivables, deposits and prepayments | (41,800)                       | 21,381          | 9,270         |
| (Decrease)/increase in accounts payable                            | (13,752)                       | (81,964)        | 25,397        |
| Increase in amounts due to fellow subsidiaries                     | -                              | 2,503           | 10,636        |
| Increase/(decrease) in amount due to immediately holding company   | -                              | 5,046           | (5,046)       |
| Increase/(decrease) in other payables and accrued charges          | 41,764                         | (55,634)        | 14,896        |
| Decrease in subscriptions received in advance                      | (42,835)                       | (42,008)        | (6,707)       |
| Increase in pension obligations                                    | 6,496                          | 4,586           | 6,559         |
|  | <u>6,496</u>                   | <u>4,586</u>    | <u>6,559</u>  |
| Net cash (outflow)/inflow generated from operations                | <u>(152,404)</u>               | <u>(90,249)</u> | <u>41,842</u> |

## (ii) Purchase of subsidiaries

|  | For the year ended 31 December |               |          |
|--|--------------------------------|---------------|----------|
|  | 2000                           | 2001          | 2002     |
|  | NT\$'000                       | NT\$'000      | NT\$'000 |
| Net assets acquired                            |                                |               |          |
| Fixed assets                                   | –                              | 9,484         | –        |
| Inventories                                    | –                              | 1,132         | –        |
| Accounts receivable                            | –                              | 50,048        | –        |
| Other receivables, deposits and<br>prepayments | –                              | 6,471         | –        |
| Bank balances and cash                         | –                              | 9,667         | –        |
| Accounts payable                               | –                              | (20,055)      | –        |
| Other payables and accrued charges             | –                              | (20,641)      | –        |
| Subscriptions received in advance              | –                              | (17,358)      | –        |
| Short term loans                               | –                              | (3,500)       | –        |
| Pension obligations                            | –                              | (1,759)       | –        |
| Minority interests                             | –                              | (4,186)       | –        |
|  | <u>–</u>                       | <u>9,303</u>  | <u>–</u> |
| Goodwill                                       | –                              | 9,697         | –        |
|  | <u>–</u>                       | <u>19,000</u> | <u>–</u> |
| Cash consideration                             | –                              | 19,000        | –        |
| Less: Bank balances and cash acquired          | –                              | (9,667)       | –        |
|  | <u>–</u>                       | <u>9,333</u>  | <u>–</u> |

## (iii) Analysis of changes in financing during the year

|  | Reserves<br>NT\$'000 | Minority<br>interests<br>NT\$'000 | Short<br>term<br>loans<br>NT\$'000 | Loans from<br>immediate<br>holding<br>company<br>NT\$'000 | Total<br>NT\$'000 |
|--|----------------------|-----------------------------------|------------------------------------|---|-------------------|
| At 1 January 2000  | 70,931               | 10,587                            | –                                  | –   | 81,518            |
| Minority interests' share<br>of results  | –                    | (2,198)                           | –                                  | –   | (2,198)           |
| Cash inflows   | 145,943              | 14,000                            | 21,393                             | –   | 181,336           |
| Purchase of additional<br>interests in subsidiary<br>from minority<br>shareholders | –                    | (8,412)                           | –                                  | –   | (8,412)           |
| At 31 December 2000  | <u>216,874</u>       | <u>13,977</u>                     | <u>21,393</u>                      | <u>–</u>  | <u>252,244</u>    |
| At 1 January 2001  | 216,874              | 13,977                            | 21,393                             | –   | 252,244           |
| Minority interests' share<br>of results  | –                    | (2,764)                           | –                                  | –   | (2,764)           |
| Cash inflows/(outflows)  | –                    | 3,000                             | (12,177)                           | 195,370   | 186,193           |
| Purchase of subsidiaries   | –                    | 4,186                             | 3,500                              | –   | 7,686             |
| Gain on dilution of interests<br>in subsidiary                                     | –                    | (14,050)                          | –                                  | –   | (14,050)          |
| At 31 December 2001  | <u>216,874</u>       | <u>4,349</u>                      | <u>12,716</u>                      | <u>195,370</u>  | <u>429,309</u>    |
| At 1 January 2002  | 216,874              | 4,349                             | 12,716                             | 195,370   | 429,309           |
| Minority interests' share<br>of results  | –                    | 2,329                             | –                                  | –   | 2,329             |
| Cash outflows  | –                    | –                                 | (8,716)                            | –   | (8,716)           |
| At 31 December 2002  | <u>216,874</u>       | <u>6,678</u>                      | <u>4,000</u>                       | <u>195,370</u>  | <u>422,922</u>    |

## (x) Commitments

*Commitments under operating leases*

At 31 December, the Acquired Business of the PC Home Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|  | 2000<br>NT\$'000 | As at 31 December<br>2001<br>NT\$'000 | 2002<br>NT\$'000 |
|--|------------------|---------------------------------------|------------------|
| Not later than one year                              | 5,410            | –                                     | –                |
| Later than one year but<br>not later than five years | 1,276            | –                                     | –                |
|  | <u>6,686</u>     | <u>–</u>                              | <u>–</u>         |

There were no outstanding lease commitments as at 31 December 2001 and 2002 because the Acquired Business of the PC Home Group had prepaid the full lease payments.

(y) **Related party transactions**

Apart from those disclosed above, the Acquired Business of the PC Home Group had undertaken the following significant transactions with one of its fellow subsidiaries and a related party in the normal course of business during the Relevant Periods:

|  | <i>Note</i> | <b>For the year ended 31 December</b> |                                |                                |
|--|-------------|---------------------------------------|--------------------------------|--------------------------------|
|  |             | <b>2000</b><br><i>NT\$'000</i>        | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Cité Publishing Limited                |             |                                       |                                |                                |
| Sales commission paid/payable          | (i)         | –                                     | 1,492                          | 9,652                          |
|  |             | <u>          </u>                     | <u>          </u>              | <u>          </u>              |
| A spouse of a director of a subsidiary |             |                                       |                                |                                |
| Interest expense ( <i>Note 8(r)</i> )  |             | –                                     | –                              | 200                            |
|  |             | <u>          </u>                     | <u>          </u>              | <u>          </u>              |

*Note:*

- (i) Sales commission was paid to a fellow subsidiary with respect to distribution of books by that fellow subsidiary on behalf of the Acquired Business of the PC Home Group at an average of 5% mark-up on the selling prices charged to customers.

**9. SUBSEQUENT EVENT**

No material events took place subsequent to 31 December 2002.

## B. FINANCIAL INFORMATION ON CITÉ

## 1. CONSOLIDATED RESULTS OF OPERATIONS

The following is the consolidated results of the Cité Group for the Relevant Periods:

|  | Note | Year ended 31 December |                      |                      |
|--|------|------------------------|----------------------|----------------------|
|  |      | 2000<br>NT\$'000       | 2001<br>NT\$'000     | 2002<br>NT\$'000     |
| Turnover                                   | 8(a) | 840,712                | 855,432              | 943,384              |
| Cost of sales                              |      | <u>(565,395)</u>       | <u>(472,215)</u>     | <u>(518,342)</u>     |
| Gross profit                               |      | 275,317                | 383,217              | 425,042              |
| Other revenue                              | 8(a) | 4,479                  | 2,321                | 950                  |
| Selling and administrative expenses        |      | <u>(263,286)</u>       | <u>(310,052)</u>     | <u>(334,719)</u>     |
| Other operating income, net                |      | <u>10,214</u>          | <u>22,854</u>        | <u>14,854</u>        |
| Operating profit                           | 8(b) | 26,724                 | 98,340               | 106,127              |
| Finance costs                              | 8(c) | <u>(11,778)</u>        | <u>(8,372)</u>       | <u>(6,780)</u>       |
| Profit before taxation                     |      | 14,946                 | 89,968               | 99,347               |
| Taxation                                   | 8(d) | <u>(15,470)</u>        | <u>(26,916)</u>      | <u>(29,327)</u>      |
| (Loss)/profit for the year                 |      | (524)                  | 63,052               | 70,020               |
| Minority interests                         |      | <u>2,992</u>           | <u>(1,497)</u>       | <u>(3,283)</u>       |
| <b>Profit attributable to shareholders</b> |      | <u><u>2,468</u></u>    | <u><u>61,555</u></u> | <u><u>66,737</u></u> |
| <b>Dividends</b>                           | 8(e) | <u><u>42,210</u></u>   | <u><u>–</u></u>      | <u><u>–</u></u>      |
| <b>Earnings per share</b>                  | 8(f) | <u><u>0.11</u></u>     | <u><u>2.19</u></u>   | <u><u>2.37</u></u>   |



## 2. CONSOLIDATED BALANCE SHEETS

The following is the consolidated balance sheets of the Cité Group as at 31 December 2000, 2001 and 2002:

|  | Note | As at 31 December |                  |                  |
|--|------|-------------------|------------------|------------------|
|  |      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(i) | 19,011            | 26,887           | 32,806           |
| <b>Deferred tax assets</b>                   | 8(t) | –                 | –                | 12,704           |
| <b>Associated companies</b>                  | 8(l) | –                 | 2,999            | –                |
| <b>Investment securities</b>                 | 8(k) | 17,200            | 46,548           | 34,986           |
| <b>Current assets</b>                        |      |                   |                  |                  |
| Inventories                                  | 8(m) | 193,289           | 251,104          | 243,400          |
| Tax recoverable                              |      | 1,783             | 1,603            | 565              |
| Amount due from a director                   | 8(n) | –                 | 7,111            | –                |
| Amounts due from fellow subsidiaries         | 8(n) | –                 | 4,612            | 12,062           |
| Accounts receivable                          | 8(o) | 207,300           | 215,334          | 300,556          |
| Other receivables, deposits and prepayments  |      | 84,177            | 119,885          | 136,873          |
| Pledged bank deposits                        | 8(x) | 30,263            | 44,185           | 15,198           |
| Bank balances and cash                       |      | 80,534            | 64,224           | 88,521           |
|  |      | <u>597,346</u>    | <u>708,058</u>   | <u>797,175</u>   |
| <b>Current liabilities</b>                   |      |                   |                  |                  |
| Amounts due to fellow subsidiaries           | 8(n) | –                 | (7,013)          | (83,962)         |
| Amounts due to associated companies          | 8(n) | –                 | (5,000)          | –                |
| Accounts payable                             | 8(q) | (170,731)         | (193,722)        | (161,919)        |
| Other payables and accrued charges           |      | (120,324)         | (122,369)        | (194,548)        |
| Taxation payable                             |      | (11,642)          | (22,928)         | (22,038)         |
| Short term loans                             | 8(p) | (95,144)          | (107,946)        | (18,100)         |
| Current portion of long term loans           | 8(r) | –                 | –                | (2,680)          |
|  |      | <u>(397,841)</u>  | <u>(458,978)</u> | <u>(483,247)</u> |
| <b>Net current assets</b>                    |      | <u>199,505</u>    | <u>249,080</u>   | <u>313,928</u>   |
| <b>Total assets less current liabilities</b> |      | <u>235,716</u>    | <u>325,514</u>   | <u>394,424</u>   |
| <b>Financed by:</b>                          |      |                   |                  |                  |
| Share capital                                | 8(u) | 281,715           | 281,715          | 281,715          |
| Reserves                                     | 8(v) | (61,218)          | 4,237            | 65,961           |
| Shareholders' funds                          |      | <u>220,497</u>    | <u>285,952</u>   | <u>347,676</u>   |
| <b>Minority interests</b>                    |      | 918               | 8,535            | 11,732           |
| <b>Non-current liabilities</b>               |      |                   |                  |                  |
| Long term loans                              | 8(r) | –                 | 10,000           | 9,813            |
| Pension obligations                          | 8(s) | 14,301            | 21,027           | 25,203           |
|  |      | <u>235,716</u>    | <u>325,514</u>   | <u>394,424</u>   |

## 3. BALANCE SHEETS

The following is the balance sheets of Cité as at 31 December 2000, 2001 and 2002:

|  | Note | As at 31 December |                  |                  |
|--|------|-------------------|------------------|------------------|
|  |      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(i) | 13,501            | 16,966           | 23,940           |
| <b>Deferred tax assets</b>                   | 8(t) | –                 | –                | 9,501            |
| <b>Subsidiaries</b>                          | 8(j) | 46,994            | 62,797           | 62,798           |
| <b>Associated companies</b>                  | 8(l) | –                 | 2,999            | –                |
| <b>Investment securities</b>                 | 8(k) | 17,200            | 39,794           | 34,986           |
| <b>Current assets</b>                        |      |                   |                  |                  |
| Inventories                                  | 8(m) | 172,754           | 209,045          | 195,417          |
| Amounts due from subsidiaries                | 8(n) | 79,902            | 87,073           | 85,384           |
| Amounts due from fellow subsidiaries         | 8(n) | –                 | 3,604            | 10,239           |
| Accounts receivable                          | 8(o) | 147,509           | 169,584          | 252,900          |
| Tax recoverable                              |      | 1,614             | 1,063            | 468              |
| Other receivables, deposits and prepayments  |      | 71,099            | 89,577           | 61,626           |
| Pledged bank deposits                        | 8(x) | 30,263            | 40,123           | 15,198           |
| Bank balances and cash                       |      | 76,709            | 52,907           | 57,662           |
|  |      | <u>579,850</u>    | <u>652,976</u>   | <u>678,894</u>   |
| <b>Current liabilities</b>                   |      |                   |                  |                  |
| Amounts due to subsidiaries                  | 8(n) | (54,006)          | (26,780)         | (24,866)         |
| Amounts due to fellow subsidiaries           | 8(n) | –                 | (7,013)          | (83,962)         |
| Amounts due to associated companies          | 8(n) | –                 | (5,000)          | –                |
| Accounts payable                             | 8(q) | (142,220)         | (150,822)        | (128,453)        |
| Other payables and accrued charges           |      | (98,230)          | (98,724)         | (131,447)        |
| Taxation payable                             |      | (11,318)          | (22,929)         | (20,449)         |
| Current portion of long-term loans           | 8(r) | –                 | –                | (2,500)          |
| Short term loans                             | 8(p) | (83,145)          | (107,946)        | (18,100)         |
|  |      | <u>(388,919)</u>  | <u>(419,214)</u> | <u>(409,777)</u> |
| <b>Net current assets</b>                    |      | <u>190,931</u>    | <u>233,762</u>   | <u>269,117</u>   |
| <b>Total assets less current liabilities</b> |      | <u>268,626</u>    | <u>356,318</u>   | <u>400,342</u>   |
| <b>Financed by:</b>                          |      |                   |                  |                  |
| Share capital                                | 8(u) | 281,715           | 281,715          | 281,715          |
| Reserves                                     | 8(v) | (25,444)          | 46,454           | 89,974           |
| Shareholders' funds                          |      | <u>256,271</u>    | <u>328,169</u>   | <u>371,689</u>   |
| <b>Non-current liabilities</b>               |      |                   |                  |                  |
| Long-term loans                              | 8(r) | –                 | 10,000           | 7,500            |
| Pension obligations                          | 8(s) | 12,355            | 18,149           | 21,153           |
|  |      | <u>12,355</u>     | <u>18,149</u>    | <u>21,153</u>    |
|  |      | <u>268,626</u>    | <u>356,318</u>   | <u>400,342</u>   |

## 4. CONSOLIDATED CASH FLOW STATEMENTS

The following is the consolidated cash flow statements of the Cité Group for the Relevant Periods:

|  | Note      | Year ended 31 December |                  |                  |
|--|-----------|------------------------|------------------|------------------|
|  |           | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Net cash (outflow)/inflow generated  |           |                        |                  |                  |
| from operations  | 8(w)(i)   | (50,388)               | 20,134           | 137,836          |
| Interest paid  |           | (11,779)               | (8,372)          | (6,779)          |
| Taiwan taxation paid   |           | (2,589)                | (15,449)         | (41,884)         |
| Interest received  |           | 4,479                  | 2,321            | 950              |
| Net cash (outflow)/inflow from operating activities                              |           | <u>(60,277)</u>        | <u>(1,366)</u>   | <u>90,123</u>    |
| Investing activities   |           |                        |                  |                  |
| Purchase of fixed assets   |           | (13,679)               | (15,578)         | (17,056)         |
| Sale of fixed assets   |           | 2,121                  | -                | 85               |
| Acquisition of subsidiaries, net of cash acquired                                | 8(w)(iii) | (10,336)               | -                | -                |
| Acquisition of associated companies  |           | -                      | (3,000)          | -                |
| Proceeds from disposal of an associated company                                  |           | -                      | -                | 3,133            |
| Purchase of investment securities  |           | (12,200)               | (24,731)         | -                |
| Proceeds from disposal of investment securities                                  |           | 1,994                  | 12,180           | 6,754            |
| Net cash outflow from investing activities                                       |           | <u>(32,100)</u>        | <u>(31,129)</u>  | <u>(7,084)</u>   |
| Net cash (outflow)/inflow before financing                                       |           | <u>(92,377)</u>        | <u>(32,495)</u>  | <u>83,039</u>    |
| Financing activities   | 8(w)(ii)  |                        |                  |                  |
| New loans drawn down   |           | -                      | 22,802           | 2,726            |
| Repayment of short-term loans  |           | (16,252)               | -                | (89,846)         |
| Repayment of long-term loans   |           | -                      | -                | (233)            |
| Proceeds from sales of interest in a subsidiary to a minority shareholder        |           | 15,226                 | -                | -                |
| Purchase of remaining equity interest in a subsidiary from minority shareholders |           | -                      | -                | (86)             |
| Capital contribution from a minority shareholder for newly set up subsidiaries   |           | -                      | 6,120            | -                |
| Issue of shares  |           | 113,500                | -                | -                |
| Decrease/(increase) in pledged cash deposits                                     |           | 33,720                 | (13,922)         | 28,987           |
| Net cash inflow/(outflow) from financing   |           | <u>146,194</u>         | <u>15,000</u>    | <u>(58,452)</u>  |
| Increase/(decrease) in cash and cash equivalents                                 |           | 53,817                 | (17,495)         | 24,587           |
| Cash and cash equivalents at 1 January   |           | 26,717                 | 80,534           | 64,224           |
| Effect of foreign exchange rates changes   |           | -                      | 1,185            | (290)            |
| Cash and cash equivalents at 31 December   |           | <u>80,534</u>          | <u>64,224</u>    | <u>88,521</u>    |
| Analysis of balance of cash and cash equivalents                                 |           |                        |                  |                  |
| Bank balances and cash   |           | <u>80,534</u>          | <u>64,224</u>    | <u>88,521</u>    |

**5. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

The following is the consolidated statements of changes in equity of the Cité Group for the Relevant Periods:

**Group**

|  | <b>For the year ended 31 December</b> |                   |                   |
|--|---------------------------------------|-------------------|-------------------|
|  | <b>2000</b>                           | <b>2001</b>       | <b>2002</b>       |
|  | <i>NT\$'000</i>                       | <i>NT\$'000</i>   | <i>NT\$'000</i>   |
| <b>Total equity as at 1 January</b>                                  | 113,547                               | 220,497           | 285,952           |
| Issue of shares in cash  | 113,500                               | –                 | –                 |
| Issue of shares to employees as bonus                                | 4,690                                 | –                 | –                 |
| Issue of shares for acquisition of certain interests in subsidiaries | 315                                   | –                 | –                 |
| Profit attributable to shareholders                                  | 2,468                                 | 61,555            | 66,737            |
| Goodwill eliminated against reserve                                  | (14,023)                              | –                 | –                 |
| Investment revaluation surplus/(deficit)                             | –                                     | 2,714             | (4,808)           |
| Movement in exchange reserve   | –                                     | 1,186             | (205)             |
|  | <u>          </u>                     | <u>          </u> | <u>          </u> |
| <b>Total equity as at 31 December</b>                                | <u>220,497</u>                        | <u>285,952</u>    | <u>347,676</u>    |

**6. BASIS OF PREPARATION**

The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong. It has been prepared under the historical cost convention as modified by the revaluation of investment securities.

**7. PRINCIPAL ACCOUNTING POLICES**

The principal accounting policies adopted by the Cité Group in the preparation of the Financial Information in this report are set out below.

**(a) Consolidation**

The consolidated accounts include the accounts of Cité and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated results from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant transactions and balances within the Cité Group have been eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Cité Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated results of operations.

Minority interests represent the interests of outside shareholders in the results of operations and net assets of subsidiaries.

**(b) Revenue recognition**

Revenue from publishing, distribution and circulation of books and magazines is recognised on the transfer of risk and ownership which generally coincides with the date of delivery.

Advertising income is recognised as and when the advertisement is published.

Revenue from the provision of editing and publishing services is recognised upon delivery of the services.

Sales commission arising from distribution of books and magazines for fellow subsidiaries is recognised when the related services are rendered.

Interest income is recognised on an accrual basis taking into account the principal outstanding and the effective interest rate applicable.

**(c) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of tangible fixed assets is calculated to write off their costs on the straight-line basis over their expected useful lives. The expected useful lives used for this purpose are:

|                               |                     |
|-------------------------------|---------------------|
| Leasehold land and building   | Over the lease term |
| Leasehold improvements        | 3-5 years           |
| Computer and office equipment | 3-8 years           |
| Motor vehicles                | 3-5 years           |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the results of operations. Improvements are capitalised and depreciated over their expected useful lives to the Cité Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the results of operations.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the results of operations.

**(d) Investment securities**

Investment securities are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the results of operations.

Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the revaluation reserve is taken to the results of operations.

**(e) Goodwill on acquisition**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Cité Group's share of the net assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over a maximum period of twenty years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the results of operations.

**(f) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated results of operations includes the Cité Group's share of the results of associated companies for the Relevant Periods, and the consolidated balance sheets include the Cité Group's share of the net assets of the associated companies.

In the balance sheet of Cité, the investments in associated companies are stated at cost less provision for impairment losses, if any.

The carrying amounts of the investments in associated companies are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to the results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(g) Subsidiaries**

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the balance sheet of Cité, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

The carrying amounts of the investments in subsidiaries are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(h) Inventories**

Inventories consisted primarily of work in progress and finished goods which are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(i) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such of provision.

**(j) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**(k) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the results of operations on a straight-line basis over the lease periods.

**(l) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(m) Translation of foreign currencies**

Transactions in currencies other than New Taiwan dollars are translated into New Taiwan dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than New Taiwan dollars are incorporated into the accounts by translating currencies into New Taiwan dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the above translation policy are dealt with in the results of operations.

The balance sheets of subsidiaries expressed in currencies other than New Taiwan dollars are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as movements in reserves.

**(n) Employee benefits***(i) Pension obligations*

The Cité Group operates a defined benefit plan and the assets of which are generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the relevant Cité Group companies, taking account of the recommendations of independent qualified actuaries.

Pension costs are assessed using the projected unit credit cost method: the cost of providing pensions is charged to the results of operations so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of the employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

*(ii) Equity compensation benefits*

Pursuant to the policy of the Cité Group, shares of Cité are issued at no consideration to employees as an incentive. The par value of these unlisted shares issued is charged as employees benefit expenses.



**(o) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Cité Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(p) Segment reporting**

In accordance with the Cité Group's internal financial reporting the Cité Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

No separate segment information is presented since the Cité Group is principally engaged in one single business segment of publishing, distribution and circulation of magazines and sales of books and provision of related services, and the business is principally conducted in Taiwan.

**(q) Borrowing costs**

All borrowing costs are charged to the results of operations in the year in which they are incurred.

**(r) Related companies**

A related company is a company in which one or more of the directors or major shareholders of the Cité Group have a significant direct or indirect beneficial interest either as directors or shareholders.

## 8. NOTES TO FINANCIAL INFORMATION

## (a) Turnover and revenues

The Cité Group is principally engaged in the publishing, distribution, and circulation of books and magazines, the sales of advertising space in magazines and books, the provision of editing and publishing services, as well as the provision of distribution services of books and magazines to its fellow subsidiaries. Revenues recognised during the Relevant Periods are as follows:

|  | Year ended 31 December |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Turnover   |                        |                  |                  |
| Publishing, distribution, and circulation of books and magazines | 815,350                | 820,869          | 902,903          |
| Magazine advertising income, net of discounts                    | 21,139                 | 28,795           | 30,830           |
| Provision of editing and publishing services                     | 4,223                  | 4,276            | –                |
| Sales commissions from fellow subsidiaries                       | –                      | 1,492            | 9,651            |
|  | <u>840,712</u>         | <u>855,432</u>   | <u>943,384</u>   |
| Other revenue  |                        |                  |                  |
| Interest income  | 4,479                  | 2,321            | 950              |
|  | <u>4,479</u>           | <u>2,321</u>     | <u>950</u>       |
| Total revenues   | <u>845,191</u>         | <u>857,753</u>   | <u>944,334</u>   |

## (b) Operating profit

The operating profit of the Cité Group is stated after crediting and charging the following:

|   | Note | Year ended 31 December |                  |                  |
|---|------|------------------------|------------------|------------------|
|   |      | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Crediting:</b>                                     |      |                        |                  |                  |
| Dilution gain of a subsidiary                         | (i)  | 1,844                  | –                | –                |
| Gain on disposal of investment securities             |      | –                      | 14,082           | –                |
| Gain on disposal of interest in an associated company |      | 168                    | –                | 133              |
| Net exchange gain                                     |      | 1,834                  | 144              | 1,650            |
|   |      | <u>1,834</u>           | <u>144</u>       | <u>1,650</u>     |
| <b>Charging:</b>                                      |      |                        |                  |                  |
| Cost of materials consumed                            |      | (545,955)              | (447,599)        | (475,188)        |
| Staff costs (Note 8(g))                               |      | (90,423)               | (129,948)        | (153,249)        |
| Depreciation of fixed assets                          |      | (6,992)                | (7,511)          | (10,951)         |
| Operating lease rental in respect of                  |      |                        |                  |                  |
| – land and buildings                                  |      | (22,269)               | (27,442)         | (31,936)         |
| – other assets  |      | (259)                  | (1,764)          | (1,029)          |
| Auditors' remuneration                                |      | (670)                  | (942)            | (1,150)          |
| Loss on disposal of fixed assets                      |      | –                      | (191)            | (185)            |
| Provision for bad and doubtful debts                  |      | –                      | (5,992)          | (1,985)          |
| Provision for inventory obsolescence                  |      | (4,064)                | (11,451)         | (32,923)         |
|   |      | <u>(4,064)</u>         | <u>(11,451)</u>  | <u>(32,923)</u>  |

(i) The dilution gain was attributable to the increased capital contribution made by minority shareholders in a subsidiary, Mook Co., during the year ended 31 December 2000.

## (c) Finance costs

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Interest on bank loans and other financial institutions | 11,778                 | 8,191            | 6,031            |
| Interest on loans from fellow subsidiaries              | –                      | 181              | 749              |
|   | <u>11,778</u>          | <u>8,372</u>     | <u>6,780</u>     |

## (d) Taxation

The taxation charge comprised:

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Income tax in Taiwan                        |                        |                  |                  |
| – Current year ( <i>note ii</i> )           | 11,458                 | 25,106           | 29,032           |
| – Additional income tax ( <i>note iii</i> ) | 4,012                  | 1,676            | 9,264            |
| – Under provision in prior years            | –                      | 134              | 3,735            |
| – Deferred taxation ( <i>Note 8(t)</i> )    | –                      | –                | (12,704)         |
|   | <u>15,470</u>          | <u>26,916</u>    | <u>29,327</u>    |

Notes:

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Cité Group had no assessable profits in Hong Kong during the Relevant Periods.
- (ii) The income tax in Taiwan during the Relevant Periods represented the tax charges on the assessable profits of the Cité Group at a rate of 25%.
- (iii) According to the New Taiwan Imputation Tax, where the earnings of a company derived on or after 1 January 1998 remain undistributed within a specific timeframe, the undistributed earnings is subject to an additional income tax levied at a rate of 10%.

## (e) Dividends

During the Relevant Periods, the Cité Group paid dividends to its then shareholders in the form of issuance of additional shares as follows:

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Share dividends                                       |                        |                  |                  |
| – 122 new ordinary shares per 1,000 ordinary shares   | 14,070                 | –                | –                |
| – 469 new ordinary shares per 1,000 preference shares | 28,140                 | –                | –                |
|   | <u>42,210</u>          | <u>–</u>         | <u>–</u>         |

**(f) Earnings per share**

The calculation of basic earnings per share is based on the Cité Group's profit attributable to the shareholders of NT\$2,468,000, NT\$61,555,000 and NT\$66,737,000 for the three years ended 31 December 2000, 2001 and 2002 respectively.

The basic earnings per share is based on the weighted average of 23,182,330, 28,171,500 and 28,171,500 ordinary shares in issue during the years ended 31 December 2000, 2001 and 2002 respectively.

**(g) Staff costs**

|   | Year ended 31 December |                |                |
|---|------------------------|----------------|----------------|
|   | 2000                   | 2001           | 2002           |
|   | NT\$'000               | NT\$'000       | NT\$'000       |
| Wages and salaries  | 84,479                 | 118,018        | 148,873        |
| Unutilised leave  | –                      | 414            | –              |
| Share compensation costs                                    | –                      | 4,690          | –              |
| Pension costs – defined benefits plans ( <i>Note 8(s)</i> ) | 5,944                  | 6,826          | 4,376          |
|   | <u>90,423</u>          | <u>129,948</u> | <u>153,249</u> |

**(h) Emoluments of directors and employees***(i) Directors' emoluments*

The aggregate amounts of emoluments paid and payable to the Directors for the Relevant Periods are as follows:

|  | Year ended 31 December |              |          |
|--|------------------------|--------------|----------|
|  | 2000                   | 2001         | 2002     |
|  | NT\$'000               | NT\$'000     | NT\$'000 |
| Fees   |                        |              |          |
| Salaries, allowance and other benefits in kind | 8,126                  | 6,028        | –        |
| Discretionary bonuses                          | –                      | –            | –        |
| Contribution to pension schemes                | –                      | –            | –        |
| Inducement fees                                | –                      | –            | –        |
| Compensation for loss of office                | –                      | –            | –        |
|  | <u>8,126</u>           | <u>6,028</u> | <u>–</u> |

The current directors of the Company after the acquisition of the Company by TOM did not receive directors' emoluments for the year ended 31 December 2002. The past 5 directors of the Company received individual emoluments of approximately NT\$4,115,000, NT\$1,224,000, NT\$993,000, NT\$1,003,000 and NT\$791,000 for the year ended 31 December 2000, and NT\$1,969,000, NT\$1,336,000, NT\$1,379,000, NT\$1,344,000 and NT\$Nil for the year ended 31 December 2001, respectively.

None of the Directors waived any emoluments during the Relevant Periods.

(ii) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Cité Group during the Relevant Periods are as follows:

|           | Year ended 31 December |          |          |
|-----------|------------------------|----------|----------|
|           | 2000                   | 2001     | 2002     |
| Directors | 2                      | 2        | –        |
| Employees | 3                      | 3        | 5        |
|           | <u>5</u>               | <u>5</u> | <u>5</u> |

Details of the emoluments of employees as mentioned above are as follows:

|                               | Year ended 31 December |                  |                  |
|-------------------------------|------------------------|------------------|------------------|
|                               | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Basic salaries and allowances | 6,170                  | 5,003            | 12,087           |
| Bonuses                       | –                      | –                | –                |
|                               | <u>6,170</u>           | <u>5,003</u>     | <u>12,087</u>    |

The emoluments of employees fell within the following bands:

|   | Year ended 31 December |          |          |
|---|------------------------|----------|----------|
|   | 2000                   | 2001     | 2002     |
| Nil to NT\$4,000,000 (equivalent to<br>HK\$1,000,000) | <u>3</u>               | <u>3</u> | <u>5</u> |

(iii) During the Relevant Periods, no emoluments of the five highest paid individuals, including the Directors, were incurred as inducements to join or upon joining the Cité Group or as compensation for loss of office.

## (i) Fixed assets

Movements of the fixed assets are as follows:

## Group

|                             | Leasehold<br>land<br>and building<br>NT\$'000 | Leasehold<br>improvements<br>NT\$'000 | Computer<br>and office<br>equipment<br>NT\$'000 | Motor<br>vehicles<br>NT\$'000 | Total<br>NT\$'000 |
|-----------------------------|---|---------------------------------------|---|-------------------------------|-------------------|
| Cost                        |   |                                       |   |                               |                   |
| At 1 January 2000           | –   | 3,608                                 | 18,024  | 520                           | 22,152            |
| Additions                   | –   | 2,657                                 | 10,595  | 427                           | 13,679            |
| Acquisition of subsidiaries | –   | –                                     | 2,206   | –                             | 2,206             |
| Disposal                    | –   | –                                     | (2,252)   | –                             | (2,252)           |
| At 31 December 2000         | <u>–</u>                                      | <u>6,265</u>                          | <u>28,573</u>                                   | <u>947</u>                    | <u>35,785</u>     |
| Accumulated depreciation    |   |                                       |   |                               |                   |
| At 1 January 2000           | –   | 2,138                                 | 7,509   | 266                           | 9,913             |
| Charge for the year         | –   | 2,140                                 | 4,732   | 120                           | 6,992             |
| Disposal                    | –   | –                                     | (131)   | –                             | (131)             |
| At 31 December 2000         | <u>–</u>                                      | <u>4,278</u>                          | <u>12,110</u>                                   | <u>386</u>                    | <u>16,774</u>     |
| Net book value              |   |                                       |   |                               |                   |
| At 31 December 2000         | <u>–</u>                                      | <u>1,987</u>                          | <u>16,463</u>                                   | <u>561</u>                    | <u>19,011</u>     |
| Cost                        |   |                                       |   |                               |                   |
| At 1 January 2001           | –   | 6,265                                 | 28,573  | 947                           | 35,785            |
| Additions                   | 3,868   | 4,249                                 | 6,350   | 1,111                         | 15,578            |
| Disposal                    | –   | (200)                                 | –   | –                             | (200)             |
| At 31 December 2001         | <u>3,868</u>                                  | <u>10,314</u>                         | <u>34,923</u>                                   | <u>2,058</u>                  | <u>51,163</u>     |
| Accumulated depreciation    |   |                                       |   |                               |                   |
| At 1 January 2001           | –   | 4,278                                 | 12,110  | 386                           | 16,774            |
| Charge for the year         | –   | 1,884                                 | 5,021   | 606                           | 7,511             |
| Disposal                    | –   | (9)                                   | –   | –                             | (9)               |
| At 31 December 2001         | <u>–</u>                                      | <u>6,153</u>                          | <u>17,131</u>                                   | <u>992</u>                    | <u>24,276</u>     |
| Net book value              |   |                                       |   |                               |                   |
| At 31 December 2001         | <u>3,868</u>                                  | <u>4,161</u>                          | <u>17,792</u>                                   | <u>1,066</u>                  | <u>26,887</u>     |
| Cost                        |   |                                       |   |                               |                   |
| At 1 January 2002           | 3,868   | 10,314                                | 34,923  | 2,058                         | 51,163            |
| Additions                   | –   | 3,020                                 | 13,023  | 1,013                         | 17,056            |
| Disposal                    | –   | –                                     | (69)  | (652)                         | (721)             |
| Exchange adjustment         | (33)  | –                                     | –   | –                             | (33)              |
| At 31 December 2002         | <u>3,835</u>                                  | <u>13,334</u>                         | <u>47,877</u>                                   | <u>2,419</u>                  | <u>67,465</u>     |
| Accumulated depreciation    |   |                                       |   |                               |                   |
| At 1 January 2002           | –   | 6,153                                 | 17,131  | 992                           | 24,276            |
| Charge for the year         | 77  | 1,073                                 | 8,926   | 875                           | 10,951            |
| Disposal                    | –   | –                                     | (47)  | (402)                         | (449)             |
| Exchange adjustment         | –   | –                                     | (119)   | –                             | (119)             |
| At 31 December 2002         | <u>77</u>                                     | <u>7,226</u>                          | <u>25,891</u>                                   | <u>1,465</u>                  | <u>34,659</u>     |
| Net book value              |   |                                       |   |                               |                   |
| At 31 December 2002         | <u>3,758</u>                                  | <u>6,108</u>                          | <u>21,986</u>                                   | <u>954</u>                    | <u>32,806</u>     |

## Company

|                          | Leasehold<br>improvements<br><i>NT\$'000</i> | Computer and<br>office<br>equipment<br><i>NT\$'000</i> | Motor vehicles<br><i>NT\$'000</i> | Total<br><i>NT\$'000</i> |
|--------------------------|--|--|-----------------------------------|--------------------------|
| Cost                     |  |  |                                   |                          |
| At 1 January 2000        | 3,608  | 6,506  | 520                               | 10,634                   |
| Additions                | 2,657  | 14,800   | 427                               | 17,884                   |
| Disposal                 | –  | (500)  | –                                 | (500)                    |
|                          | <u>6,265</u>                                 | <u>20,806</u>  | <u>947</u>                        | <u>28,018</u>            |
| At 31 December 2000      | <u>6,265</u>                                 | <u>20,806</u>  | <u>947</u>                        | <u>28,018</u>            |
| Accumulated depreciation |  |  |                                   |                          |
| At 1 January 2000        | 2,138  | 2,425  | 266                               | 4,829                    |
| Charge for the year      | 2,140  | 7,559  | 120                               | 9,819                    |
| Disposal                 | –  | (131)  | –                                 | (131)                    |
|                          | <u>4,278</u>                                 | <u>9,853</u>   | <u>386</u>                        | <u>14,517</u>            |
| At 31 December 2000      | <u>4,278</u>                                 | <u>9,853</u>   | <u>386</u>                        | <u>14,517</u>            |
| Net book value           |  |  |                                   |                          |
| At 31 December 2000      | <u>1,987</u>                                 | <u>10,953</u>  | <u>561</u>                        | <u>13,501</u>            |
| Cost                     |  |  |                                   |                          |
| At 1 January 2001        | 6,265  | 20,806   | 947                               | 28,018                   |
| Additions                | 4,249  | 4,600  | –                                 | 8,849                    |
| Disposal                 | (200)  | –  | –                                 | (200)                    |
|                          | <u>10,314</u>                                | <u>25,406</u>  | <u>947</u>                        | <u>36,667</u>            |
| At 31 December 2001      | <u>10,314</u>                                | <u>25,406</u>  | <u>947</u>                        | <u>36,667</u>            |
| Accumulated depreciation |  |  |                                   |                          |
| At 1 January 2001        | 4,278  | 9,853  | 386                               | 14,517                   |
| Charge for the year      | 1,884  | 3,174  | 135                               | 5,193                    |
| Disposal                 | (9)  | –  | –                                 | (9)                      |
|                          | <u>6,153</u>                                 | <u>13,027</u>  | <u>521</u>                        | <u>19,701</u>            |
| At 31 December 2001      | <u>6,153</u>                                 | <u>13,027</u>  | <u>521</u>                        | <u>19,701</u>            |
| Net book value           |  |  |                                   |                          |
| At 31 December 2001      | <u>4,161</u>                                 | <u>12,379</u>  | <u>426</u>                        | <u>16,966</u>            |
| Cost                     |  |  |                                   |                          |
| At 1 January 2002        | 10,314                                       | 25,406   | 947                               | 36,667                   |
| Additions                | 3,020  | 12,242   | –                                 | 15,262                   |
|                          | <u>13,334</u>                                | <u>37,648</u>  | <u>947</u>                        | <u>51,929</u>            |
| At 31 December 2002      | <u>13,334</u>                                | <u>37,648</u>  | <u>947</u>                        | <u>51,929</u>            |
| Accumulated depreciation |  |  |                                   |                          |
| At 1 January 2002        | 6,153  | 13,027   | 521                               | 19,701                   |
| Charge for the year      | 1,073  | 7,042  | 173                               | 8,288                    |
|                          | <u>7,226</u>                                 | <u>20,069</u>  | <u>694</u>                        | <u>27,989</u>            |
| At 31 December 2002      | <u>7,226</u>                                 | <u>20,069</u>  | <u>694</u>                        | <u>27,989</u>            |
| Net book value           |  |  |                                   |                          |
| At 31 December 2002      | <u>6,108</u>                                 | <u>17,579</u>  | <u>253</u>                        | <u>23,940</u>            |

The Cité Group's interest in leasehold land and building represent a property in Malaysia over a lease term of 99 years.

The leasehold land and building have been pledged to a bank to secure long and short term loans from banks as at 31 December 2001 and 2002 (see Note 8(x)).

(j) **Subsidiaries**

|                   | As at 31 December |                  |                  |
|-------------------|-------------------|------------------|------------------|
|                   | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Unlisted, at cost | <u>46,994</u>     | <u>62,797</u>    | <u>62,798</u>    |

In July 2000, Cité's effective beneficial interest in Mook Co. was reduced from 99.97% to 83.32% as a result of a dilution arising from increased capital contribution made by the minority shareholders. A dilution gain was resulted amounting to NT\$1,844,000.

(k) **Investment securities**

**Group**

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Equity securities, listed in Hong Kong | –                 | 9,235            | 4,427            |
| Unlisted equity securities             | <u>17,200</u>     | <u>37,313</u>    | <u>30,559</u>    |
|  | <u>17,200</u>     | <u>46,548</u>    | <u>34,986</u>    |
| Market value of listed securities      | <u>–</u>          | <u>9,235</u>     | <u>4,427</u>     |

**Company**

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Equity securities, listed in Hong Kong | –                 | 9,235            | 4,427            |
| Unlisted equity securities             | <u>17,200</u>     | <u>30,559</u>    | <u>30,559</u>    |
|  | <u>17,200</u>     | <u>39,794</u>    | <u>34,986</u>    |
| Market value of listed securities      | <u>–</u>          | <u>9,235</u>     | <u>4,427</u>     |

(l) **Associated companies – Group and Company**

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Share of net assets, other than goodwill | <u>–</u>          | <u>2,999</u>     | <u>–</u>         |

During the year ended 31 December 2000, Cité increased its indirect effective beneficial interest in Mook Publication from 49.7% to 83.32%. Accordingly, Mook Publication changed from an associated company to a subsidiary of the Cité Group.

During the year ended 31 December 2001, Cité purchased 49.99% interest in an associated company – Star East Publications Inc., a Taiwanese corporation, which was subsequently disposed of by Cité during the year ended 31 December 2002.



**(m) Inventories****Group**

|                                      | As at 31 December |                  |                  |
|--------------------------------------|-------------------|------------------|------------------|
|                                      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Work in progress                     | 51,886            | 52,705           | 41,454           |
| Finished goods                       | 141,060           | 193,349          | 218,049          |
| Other merchandises                   | 4,830             | 20,988           | 23,370           |
|                                      | <u>197,776</u>    | <u>267,042</u>   | <u>282,873</u>   |
| Provision for inventory obsolescence | (4,487)           | (15,938)         | (39,473)         |
|                                      | <u>193,289</u>    | <u>251,104</u>   | <u>243,400</u>   |

**Company**

|                                      | As at 31 December |                  |                  |
|--------------------------------------|-------------------|------------------|------------------|
|                                      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Work in progress                     | 50,179            | 49,049           | 38,563           |
| Finished goods                       | 122,232           | 168,249          | 187,869          |
| Merchandise                          | 4,830             | 1,010            | 826              |
|                                      | <u>177,241</u>    | <u>218,308</u>   | <u>227,258</u>   |
| Provision for inventory obsolescence | (4,487)           | (9,263)          | (31,841)         |
|                                      | <u>172,754</u>    | <u>209,045</u>   | <u>195,417</u>   |

There were no inventories which were carried at their net realisable value as at 31 December 2000, 2001 and 2002.

**(n) Amounts due from/to subsidiaries, fellow subsidiaries, associated companies and a director**

The amounts due from and to subsidiaries, fellow subsidiaries, associated companies and a director are derived from transactions under normal course of business of the Cité Group. The amounts are unsecured, interest free and repayable on demand, except for an amount of NT\$500,000 and NT\$50,000,000 due to a fellow subsidiary as at 31 December 2001 and 2002, which are interest-bearing at a flat rate of 10% per annum and 2% per annum, respectively.

Particulars of the amounts due from fellow subsidiaries are as follows:

|                                | As at 31 December |                  |                  |
|--------------------------------|-------------------|------------------|------------------|
|                                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Leviathan Publishing Company   | –                 | 1,136            | 2,890            |
| Business Next Publishing Corp. | –                 | –                | 144              |
| PC User Press Inc.             | –                 | 2,435            | 2,183            |
| My House Inc.                  | –                 | –                | 2,539            |
| PC Home Publications Inc.      | –                 | 932              | 4,306            |
| PC Home Ventures Inc.          | –                 | 109              | –                |
|                                | <u>–</u>          | <u>4,612</u>     | <u>12,062</u>    |

Particulars of the amount due from a director are as follows:

|                |          |              |          |
|----------------|----------|--------------|----------|
| Mr Ho Fei Peng | <u>–</u> | <u>7,111</u> | <u>–</u> |
|----------------|----------|--------------|----------|

Maximum amount outstanding during the Relevant Periods are as follows:

|                                | Year ended 31 December |              |          |
|--------------------------------|------------------------|--------------|----------|
|                                | 2000                   | 2001         | 2002     |
|                                | NT\$'000               | NT\$'000     | NT\$'000 |
| Leviathan Publishing Company   | –                      | 1,136        | 2,890    |
| Business Next Publishing Corp. | –                      | 21           | 144      |
| PC User Press Inc.             | –                      | 2,435        | 3,857    |
| My House Inc.                  | –                      | 172          | 2,539    |
| PC Home Publications Inc.      | –                      | 1,328        | 4,306    |
| PC Home Ventures Inc.          | –                      | 109          | –        |
| Mr Ho Fei Peng                 | –                      | 7,111        | –        |
|                                | <u>–</u>               | <u>7,111</u> | <u>–</u> |

(o) **Accounts receivable**

The majority of the Cité Group's turnover are on credit terms ranging from 45 to 90 days. The aging analyses of the accounts receivable balances as at 31 December 2000, 2001 and 2002 are as follows:

**Group**

|  | As at 31 December |                 |                 |
|--|-------------------|-----------------|-----------------|
|  | 2000              | 2001            | 2002            |
|  | NT\$'000          | NT\$'000        | NT\$'000        |
| 1 – 60 days  | 72,737            | 154,152         | 186,159         |
| 61 – 120 days  | 124,993           | 81,102          | 136,716         |
| 121 – 180 days   | 1,795             | 3,197           | 2,091           |
| Over 180 days  | 20,233            | 9,303           | 5,832           |
|  | <u>219,758</u>    | <u>247,754</u>  | <u>330,798</u>  |
| Less: Provision for bad and doubtful debts and sales returns | <u>(12,458)</u>   | <u>(32,420)</u> | <u>(30,242)</u> |
|  | <u>207,300</u>    | <u>215,334</u>  | <u>300,556</u>  |

**Company**

|  | As at 31 December |                 |                 |
|--|-------------------|-----------------|-----------------|
|  | 2000              | 2001            | 2002            |
|  | NT\$'000          | NT\$'000        | NT\$'000        |
| 1 – 60 days  | 45,252            | 113,090         | 125,532         |
| 61 – 120 days  | 107,023           | 74,218          | 132,499         |
| 121 – 180 days   | 5                 | 2,321           | 9,242           |
| Over 180 days  | 3,460             | 5,406           | 9,341           |
|  | <u>155,740</u>    | <u>195,035</u>  | <u>276,614</u>  |
| Less: Provision for bad and doubtful debts and sales returns | <u>(8,231)</u>    | <u>(25,451)</u> | <u>(23,714)</u> |
|  | <u>147,509</u>    | <u>169,584</u>  | <u>252,900</u>  |

(p) **Short term loans**

The short term loans are secured by certain bank deposits and leasehold land and building of the Cité Group (see Note 8(x)).

## (q) Accounts payable

The aging analyses of the accounts payable balance as at 31 December 2000, 2001 and 2002 are as follows:

## Group

|                | As at 31 December |                  |                  |
|----------------|-------------------|------------------|------------------|
|                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| 1 – 60 days    | 35,451            | 58,089           | 68,816           |
| 61 – 120 days  | 134,137           | 133,600          | 92,832           |
| 121 – 180 days | –                 | 16               | 271              |
| Over 180 days  | 1,143             | 2,017            | –                |
|                | <u>170,731</u>    | <u>193,722</u>   | <u>161,919</u>   |

## Company

|                | As at 31 December |                  |                  |
|----------------|-------------------|------------------|------------------|
|                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| 1 – 60 days    | 32,243            | 33,437           | 35,350           |
| 61 – 120 days  | 109,921           | 115,808          | 92,832           |
| 121 – 180 days | 34                | 16               | 271              |
| Over 180 days  | 22                | 1,561            | –                |
|                | <u>142,220</u>    | <u>150,822</u>   | <u>128,453</u>   |

## (r) Long term loans

## Group

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Bank loans – secured                     | <u>–</u>          | <u>10,000</u>    | <u>12,493</u>    |
| The analysis of the above is as follows: |                   |                  |                  |
| Wholly repayable within five years       | –                 | 10,000           | 10,000           |
| Not wholly repayable within five years   | –                 | –                | 2,493            |
|  | <u>–</u>          | <u>10,000</u>    | <u>12,493</u>    |

At 31 December 2000, 2001 and 2002, the Cité Group's bank loans were repayable as follows:

|                             | As at 31 December |                  |                  |
|-----------------------------|-------------------|------------------|------------------|
|                             | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Within one year             | –                 | –                | 2,680            |
| In the second year          | –                 | 2,500            | 2,680            |
| In the third to fifth years | –                 | 7,500            | 5,541            |
| After the fifth year        | –                 | –                | 1,592            |
|                             | <u>–</u>          | <u>10,000</u>    | <u>12,493</u>    |

**Company**

|  | <b>As at 31 December</b>        |                                 |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|
|  | <b>2000</b><br><i>NT\$ '000</i> | <b>2001</b><br><i>NT\$ '000</i> | <b>2002</b><br><i>NT\$ '000</i> |
| Bank loans – secured   | –                               | 10,000                          | 10,000                          |
| The analysis of the above is as follows:                           |                                 |                                 |                                 |
| Wholly repayable within five years                                 | –                               | 10,000                          | 10,000                          |
| Not wholly repayable within five years                             | –                               | –                               | –                               |
|  | <u>–</u>                        | <u>10,000</u>                   | <u>10,000</u>                   |
| At 31 December the Company's bank loans were repayable as follows: |                                 |                                 |                                 |
| Within one year  | –                               | –                               | 2,500                           |
| In the second year   | –                               | 2,500                           | 2,500                           |
| In the third to fifth year   | –                               | 7,500                           | 5,000                           |
| After the fifth year   | –                               | –                               | –                               |
|  | <u>–</u>                        | <u>10,000</u>                   | <u>10,000</u>                   |

**(s) Retirement benefit costs**

The Cité Group operates a retirement scheme providing benefits to all employees based on the final pay of the employees before their retirement. The Cité Group has an obligation to ensure that there are sufficient funds in this scheme to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. The assets of the scheme are deposited with the Central Trust of China and held separately from those of the Cité Group.

The actuarial valuation was performed by PricewaterhouseCoopers Management Consultants Company Ltd for the years ended 31 December 2000 and 2001, and by KPMG Consulting Co., Ltd. for the year ended 31 December 2002. Both are qualified actuaries in Taiwan. The retirement scheme has been valued using the projected unit credit cost method based on the following principal assumptions:

|                           | <b>Year ended 31 December</b> |             |             |
|---------------------------|-------------------------------|-------------|-------------|
|                           | <b>2000</b>                   | <b>2001</b> | <b>2002</b> |
| Discount rate             | 5.75%                         | 4.25%       | 4.00%       |
| Expected return on assets | 5.75%                         | 4.00%       | 3.25%       |
| Salary increase           | 4.00%                         | 3.00%       | 3.00%       |

The amounts recognised in the consolidated balance sheets are determined as follows:

**Group**

|   | <b>As at 31 December</b>        |                                 |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|
|   | <b>2000</b><br><i>NT\$ '000</i> | <b>2001</b><br><i>NT\$ '000</i> | <b>2002</b><br><i>NT\$ '000</i> |
| Present value of funded obligations         | 14,301                          | 24,222                          | 28,468                          |
| Fair value of plan assets                   | –                               | (100)                           | (301)                           |
|   | <u>14,301</u>                   | <u>24,122</u>                   | <u>28,167</u>                   |
| Present value of unfunded obligations       | 14,301                          | 24,122                          | 28,167                          |
| Unrecognised actuarial gains                | –                               | (3,095)                         | (2,964)                         |
|   | <u>14,301</u>                   | <u>21,027</u>                   | <u>25,203</u>                   |
| Liability in the consolidated balance sheet | <u>14,301</u>                   | <u>21,027</u>                   | <u>25,203</u>                   |

**Company**

|                                       | <b>As at 31 December</b>       |                                |                                |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                       | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Present value of funded obligations   | 12,355                         | 20,993                         | 23,394                         |
| Fair value of plan assets             | –                              | (100)                          | (301)                          |
|                                       | <u>12,355</u>                  | <u>20,893</u>                  | <u>23,093</u>                  |
| Present value of unfunded obligations | 12,355                         | 20,893                         | 23,093                         |
| Unrecognised actuarial gains          | –                              | (2,744)                        | (1,940)                        |
|                                       | <u>12,355</u>                  | <u>18,149</u>                  | <u>21,153</u>                  |

The amounts recognised in the consolidated results of operations are determined as follows:

|   | <b>For the year ended 31 December</b> |                                |                                |
|---|---------------------------------------|--------------------------------|--------------------------------|
|   | <b>2000</b><br><i>NT\$'000</i>        | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Current service cost                                | –                                     | 6,004                          | 3,336                          |
| Interest cost                                       | –                                     | 822                            | 953                            |
| Expected return of plan assets                      | –                                     | –                              | (4)                            |
| Net actuarial losses recognised                     | –                                     | –                              | 91                             |
| Recognition of transitional liabilities             | 5,944                                 | –                              | –                              |
|   | <u>5,944</u>                          | <u>6,826</u>                   | <u>4,376</u>                   |
| Total, included in staff costs ( <i>Note 8(g)</i> ) | <u>5,944</u>                          | <u>6,826</u>                   | <u>4,376</u>                   |

Movement of the liability recognised in the consolidated balance sheets:

|                    | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
|--------------------|--------------------------------|--------------------------------|--------------------------------|
| At 1 January       | 8,357                          | 14,301                         | 21,027                         |
| Total expenses     | 5,944                          | 6,826                          | 4,376                          |
| Contributions paid | –                              | (100)                          | (200)                          |
|                    | <u>14,301</u>                  | <u>21,027</u>                  | <u>25,203</u>                  |

**(t) Deferred taxation**

The movements of the deferred tax assets are as follows:

**Group**

|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| At 1 January   | –                              | –                              | –                              |
| Transfer from results of operations ( <i>Note 8(d)</i> ) | –                              | –                              | 12,704                         |
|  | <u>–</u>                       | <u>–</u>                       | <u>12,704</u>                  |
| At 31 December   | <u>–</u>                       | <u>–</u>                       | <u>12,704</u>                  |

## Company

|                                     | 2000<br><i>NT\$'000</i> | 2001<br><i>NT\$'000</i> | 2002<br><i>NT\$'000</i> |
|-------------------------------------|-------------------------|-------------------------|-------------------------|
| At 1 January                        | –                       | –                       | –                       |
| Transfer from results of operations | –                       | –                       | 9,501                   |
|                                     | <u>–</u>                | <u>–</u>                | <u>9,501</u>            |
| At 31 December                      | <u>–</u>                | <u>–</u>                | <u>9,501</u>            |

As at 31 December 2000 and 2001, no deferred tax assets had been recognised for timing differences originating from provisions for sales returns, doubtful debts and inventory obsolescence since there was no certainty that the tax benefits could be realised at that time. As at 31 December 2002, deferred tax asset had been recognised principally in respect of timing differences arising from these provisions of the Cité Group by management as a result of the improving profit trend of the Cité Group. There is reasonable certainty that these tax benefits can be realised in the foreseeable future.

The potential deferred tax assets which had not been provided for in the accounts were:

|                                      | As at 31 December       |                         |                         |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
|                                      | 2000<br><i>NT\$'000</i> | 2001<br><i>NT\$'000</i> | 2002<br><i>NT\$'000</i> |
| Provision for inventory obsolescence | –                       | 2,316                   | –                       |
| Provision for bad and doubtful debts | –                       | 557                     | –                       |
| Provision for sales returns          | 2,222                   | 2,127                   | –                       |
|                                      | <u>2,222</u>            | <u>2,127</u>            | <u>–</u>                |
| Total not recognised                 | <u>2,222</u>            | <u>5,000</u>            | <u>–</u>                |

## (u) Share capital

|  | Authorised                       |                            |                                |                            |
|--|----------------------------------|----------------------------|--------------------------------|----------------------------|
|  | Preference shares of NT\$10 each |                            | Ordinary shares of NT\$10 each |                            |
|  | <i>No. of shares</i>             | <i>Amount<br/>NT\$'000</i> | <i>No. of shares</i>           | <i>Amount<br/>NT\$'000</i> |
| At 1 January 2000  | 6,000,000                        | 60,000                     | 14,000,000                     | 140,000                    |
| Increase in authorised share capital ( <i>Note (i)</i> )               | –                                | –                          | 20,000,000                     | 200,000                    |
|  | <u>6,000,000</u>                 | <u>60,000</u>              | <u>34,000,000</u>              | <u>340,000</u>             |
| At 31 December 2000  | 6,000,000                        | 60,000                     | 34,000,000                     | 340,000                    |
| Exchange of preference shares for ordinary shares ( <i>Note (vi)</i> ) | <u>(6,000,000)</u>               | <u>(60,000)</u>            | <u>6,000,000</u>               | <u>60,000</u>              |
| At 31 December 2001 and 2002   | <u>–</u>                         | <u>–</u>                   | <u>40,000,000</u>              | <u>400,000</u>             |

|   | Issued and fully paid            |                            |                                |                            |
|---|----------------------------------|----------------------------|--------------------------------|----------------------------|
|   | Preference shares of NT\$10 each |                            | Ordinary shares of NT\$10 each |                            |
|   | <i>No. of shares</i>             | <i>Amount<br/>NT\$'000</i> | <i>No. of shares</i>           | <i>Amount<br/>NT\$'000</i> |
| At 1 January 2000   | 6,000,000                        | 60,000                     | 9,100,000                      | 91,000                     |
| Issuance of shares ( <i>Note (ii)</i> )   | –                                | –                          | 8,350,000                      | 83,500                     |
| Issuance of shares as bonuses<br>to staff ( <i>Note (iii)</i> )                                   | –                                | –                          | 4,221,000                      | 42,210                     |
| Issuance of share dividend<br>( <i>Note (iv)</i> )  | –                                | –                          | 469,000                        | 4,690                      |
| Issuance of shares for acquisition<br>of certain interests in subsidiaries<br>( <i>Note (v)</i> ) | –                                | –                          | 31,500                         | 315                        |
|   | <u>–</u>                         | <u>–</u>                   | <u>31,500</u>                  | <u>315</u>                 |
| At 31 December 2000   | 6,000,000                        | 60,000                     | 22,171,500                     | 221,715                    |
| Exchange of preference shares<br>for ordinary shares ( <i>Note (vi)</i> )                         | <u>(6,000,000)</u>               | <u>(60,000)</u>            | <u>6,000,000</u>               | <u>60,000</u>              |
| At 31 December 2001 and 2002  | <u>–</u>                         | <u>–</u>                   | <u>28,171,500</u>              | <u>281,715</u>             |

- (i) By a special resolution passed by the shareholders in May 2000, the authorised ordinary share capital of Cité was increased from NT\$140,000,000 to NT\$340,000,000 by the creation of 20,000,000 ordinary shares of NT\$10 each.
- (ii) By ordinary resolutions passed by the shareholders in February and May 2000, 2,350,000 and 6,000,000 ordinary shares were issued to the directors and the then existing shareholders at NT\$10 and NT\$15 each, respectively.
- (iii) In May 2000, 4,221,000 ordinary shares were issued to employees as bonuses at no consideration.
- (iv) By an ordinary resolution passed by the shareholders dated May 2000, 469,000 ordinary shares were issued to its then existing shareholders according to their then respective shareholding as share dividends.
- (v) By an ordinary resolution passed by the shareholders in May 2000, 31,500 ordinary shares were issued at par to certain shareholders of Cité.
- (vi) By a special resolution passed by the shareholders dated February 2001, all the issued and outstanding preference shares were exchanged for ordinary shares on a one-to-one basis and the relevant revisions had been made to the structure of the authorised share capital of Cité.

## (v) Movement in reserves

## Group

|   | Share<br>premium<br>NT\$'000 | Capital<br>reserve<br>NT\$'000 | Investment<br>revaluation<br>reserve<br>NT\$'000 | Exchange<br>reserve<br>NT\$'000 | Statutory<br>reserve<br>NT\$'000 | Retained<br>earnings/<br>(accumulated<br>deficit)<br>NT\$'000 | Total<br>NT\$'000 |
|---|------------------------------|--------------------------------|--|---------------------------------|----------------------------------|---|-------------------|
| As at 1 January 2000                    | -                            | (5,193)                        | -  | -                               | 300                              | (32,560)  | (37,453)          |
| Issuance of shares                      | 30,000                       | -                              | -  | -                               | -                                | -   | 30,000            |
| Share dividends                         | -                            | -                              | -  | -                               | -                                | (42,210)  | (42,210)          |
| Profit for the year                     | -                            | -                              | -  | -                               | -                                | 2,468   | 2,468             |
| Transfers                               | -                            | -                              | -  | -                               | 5,490                            | (5,490)   | -                 |
| Goodwill eliminated<br>against reserves | -                            | (14,023)                       | -  | -                               | -                                | -   | (14,023)          |
| As at<br>31 December 2000               | <u>30,000</u>                | <u>(19,216)</u>                | <u>-</u>   | <u>-</u>                        | <u>5,790</u>                     | <u>(77,792)</u>   | <u>(61,218)</u>   |
| Profit for the year                     | -                            | -                              | -  | -                               | -                                | 61,555  | 61,555            |
| Transfers                               | -                            | -                              | -  | -                               | 165                              | (165)   | -                 |
| Investment revaluation<br>surplus       | -                            | -                              | 2,714  | -                               | -                                | -   | 2,714             |
| Translation differences                 | -                            | -                              | -  | 1,186                           | -                                | -   | 1,186             |
| As at<br>31 December 2001               | <u>30,000</u>                | <u>(19,216)</u>                | <u>2,714</u>                                     | <u>1,186</u>                    | <u>5,955</u>                     | <u>(16,402)</u>   | <u>4,237</u>      |
| Profit for the year                     | -                            | -                              | -  | -                               | -                                | 66,737  | 66,737            |
| Transfers                               | -                            | -                              | -  | -                               | 5,102                            | (5,102)   | -                 |
| Investment revaluation<br>deficit       | -                            | -                              | (4,808)  | -                               | -                                | -   | (4,808)           |
| Translation differences                 | -                            | -                              | -  | (205)                           | -                                | -   | (205)             |
| As at<br>31 December 2002               | <u>30,000</u>                | <u>(19,216)</u>                | <u>(2,094)</u>                                   | <u>981</u>                      | <u>11,057</u>                    | <u>45,233</u>   | <u>65,961</u>     |

## Company

|                                | Share<br>premium<br>NT\$'000 | Investment<br>revaluation<br>reserve<br>NT\$'000 | Statutory<br>reserve<br>NT\$'000 | Retained<br>earnings/<br>(accumulated<br>deficit)<br>NT\$'000 | Total<br>NT\$'000 |
|--------------------------------|------------------------------|--|----------------------------------|---|-------------------|
| As at 1 January 2000           | -                            | -  | 300                              | 8,527   | 8,827             |
| Share dividends                | 30,000                       | -  | -                                | (42,210)  | (12,210)          |
| Profit for the year            | -                            | -  | -                                | (22,061)  | (22,061)          |
| Transfers                      | -                            | -  | 5,490                            | (5,490)   | -                 |
| As at 31 December 2000         | <u>30,000</u>                | <u>-</u>   | <u>5,790</u>                     | <u>(61,234)</u>   | <u>(25,444)</u>   |
| Profit for the year            | -                            | -  | -                                | 69,184  | 69,184            |
| Transfers                      | -                            | -  | 165                              | (165)   | -                 |
| Investment revaluation surplus | -                            | 2,714  | -                                | -   | 2,714             |
| As at 31 December 2001         | <u>30,000</u>                | <u>2,714</u>                                     | <u>5,955</u>                     | <u>7,785</u>  | <u>46,454</u>     |
| Profit for the year            | -                            | -  | -                                | 48,328  | 48,328            |
| Transfers                      | -                            | -  | 5,102                            | (5,102)   | -                 |
| Investment revaluation deficit | -                            | (4,808)  | -                                | -   | (4,808)           |
| As at 31 December 2002         | <u>30,000</u>                | <u>(2,094)</u>                                   | <u>11,057</u>                    | <u>51,011</u>   | <u>89,974</u>     |



## (w) Notes to consolidated cash flow statements

## (i) Reconciliation of operating profit to net cash (outflow)/inflow generated from operations

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Operating profit  | 26,724                 | 98,340           | 106,127          |
| Depreciation  | 6,992                  | 7,511            | 10,951           |
| Loss on disposal of fixed assets  | –                      | 191              | 185              |
| Gain on disposal of interest in an associated company   | (168)                  | –                | (133)            |
| Dilution gain of a subsidiary   | (1,844)                | –                | –                |
| Gain on disposal of investment securities   | –                      | (14,082)         | –                |
| Interest income   | (4,479)                | (2,321)          | (950)            |
| Operating profit before working capital changes   | 27,225                 | 89,639           | 116,180          |
| (Increase)/decrease in inventories  | (38,708)               | (57,815)         | 7,704            |
| Increase in accounts receivable   | (25,813)               | (8,034)          | (85,222)         |
| Decrease/(increase) in other receivables, deposits and prepayments  | 92,238                 | (35,708)         | (16,988)         |
| (Increase)/decrease in net amounts due from/(to) fellow subsidiaries, associated companies and a director | –                      | 290              | 71,610           |
| (Decrease)/increase in accounts payable   | (24,852)               | 22,991           | (31,803)         |
| (Decrease)/increase in other payables and accrued charges   | (86,423)               | 2,045            | 72,179           |
| Increase in pension obligations   | 5,945                  | 6,726            | 4,176            |
| Net cash (outflow)/inflow generated from operations   | (50,388)               | 20,134           | 137,836          |

## (ii) Analysis of changes in financing during the year

|  | Share capital<br>including<br>premium<br>NT\$'000 | Minority<br>interests<br>NT\$'000 | Long term<br>bank loans<br>NT\$'000 | Short term<br>loans<br>NT\$'000 |
|--|---|-----------------------------------|-------------------------------------|---------------------------------|
| At 1 January 2000  | 151,000   | 504                               | –                                   | 103,396                         |
| Minority interests' share of profit                              | –   | (2,992)                           | –                                   | –                               |
| Cash inflows/(outflows)  | 113,500   | 15,226                            | –                                   | (16,252)                        |
| Shares issued for non-cash consideration                         | 47,215  | –                                 | –                                   | –                               |
| Loans of subsidiary acquired                                     | –   | –                                 | –                                   | 8,000                           |
| Dilution gain on disposal of interest in subsidiaries            | –   | (1,844)                           | –                                   | –                               |
| Purchase of interests in a subsidiary from minority shareholders | –   | (9,976)                           | –                                   | –                               |
| At 31 December 2000  | 311,715   | 918                               | –                                   | 95,144                          |
| Minority interests' share of profit                              | –   | 1,497                             | –                                   | –                               |
| Cash inflows   | –   | 6,120                             | 10,000                              | 12,802                          |
| At 31 December 2001  | 311,715   | 8,535                             | 10,000                              | 107,946                         |
| Minority interests' share of profit                              | –   | 3,283                             | –                                   | –                               |
| Cash inflows/(outflows)  | –   | (86)                              | 2,493                               | (89,846)                        |
| At 31 December 2002  | 311,715   | 11,732                            | 12,493                              | 18,100                          |

## (iii) Acquisition of subsidiaries

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Net assets acquired                         |                        |                  |                  |
| Fixed assets                                | 2,206                  | –                | –                |
| Inventories                                 | 24,484                 | –                | –                |
| Accounts receivable                         | 36,470                 | –                | –                |
| Other receivables, deposits and prepayments | 14,117                 | –                | –                |
| Bank balances and cash                      | 10,583                 | –                | –                |
| Accounts payable                            | (31,397)               | –                | –                |
| Other payables and accrued charges          | (40,826)               | –                | –                |
| Tax payable                                 | (741)                  | –                | –                |
| Short term loans                            | (8,000)                | –                | –                |
|   | <u>6,896</u>           | <u>–</u>         | <u>–</u>         |
| Goodwill                                    | 14,023                 | –                | –                |
|   | <u>20,919</u>          | <u>–</u>         | <u>–</u>         |
| Satisfied by                                |                        |                  |                  |
| Cash  | 20,919                 | –                | –                |
|   | <u>20,919</u>          | <u>–</u>         | <u>–</u>         |

Analysis of the net cash outflow in respect of acquisition of subsidiaries

|                                 | Year ended 31 December |                  |                  |
|---------------------------------|------------------------|------------------|------------------|
|                                 | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Cash consideration              | 20,919                 | –                | –                |
| Bank balances and cash acquired | (10,583)               | –                | –                |
|                                 | <u>10,336</u>          | <u>–</u>         | <u>–</u>         |

## (x) Banking facilities

As at 31 December 2002, the Cité Group had banking facilities totaling NT\$82,494,000 of which approximately NT\$26,594,000 was utilised. The banking facilities were secured by the following:

- (i) bank deposits of the Cité Group of NT\$15,198,000; and
- (ii) leasehold land and building held by the Cité Group with net book value of NT\$3,758,000.

**(y) Commitments***Operating lease commitments*

The Cité Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|   | <b>As at 31 December</b>       |                                |                                |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Leases which expire                               |                                |                                |                                |
| Not later than one year                           | 7,932                          | 2,483                          | 10,042                         |
| Later than one year but not later than five years | 7,194                          | 38,389                         | 47,807                         |
|   | <u>15,126</u>                  | <u>40,872</u>                  | <u>57,849</u>                  |

**(z) Related party transactions**

Apart from those disclosed above, the Cité Group had undertaken the following significant transactions with its fellow subsidiaries in the normal course of business during the Relevant Periods:

|  | <i>Note</i> | <b>Year ended 31 December</b>  |                                |                                |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|
|  |             | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| PC User Press Inc.                     |             |                                |                                |                                |
| Sales commission                       | (i)         | –                              | 685                            | 6,106                          |
| My House Publication Inc.              |             |                                |                                |                                |
| Sales commission                       | (i)         | –                              | 162                            | 1,121                          |
| PC Home Publications Inc.              |             |                                |                                |                                |
| Sales commission                       | (i)         | –                              | 517                            | 1,277                          |
| Leviathan Publishing Co.               |             |                                |                                |                                |
| Sales commission                       | (i)         | –                              | 128                            | 1,147                          |
| Sharp Point Publishing Company Limited |             |                                |                                |                                |
| Purchases of magazines and books       | (ii)        | –                              | –                              | 10,661                         |
| Business Weekly Publishing Inc.        |             |                                |                                |                                |
| Sales of books                         | (ii)        | 2,333                          | 3,726                          | 867                            |
|  |             | <u>2,333</u>                   | <u>3,726</u>                   | <u>867</u>                     |

*Note:*

- (i) Sales commission was charged to fellow subsidiaries with respect to distribution of books on their behalf at an average of 5% mark-up on the selling prices charged to customers.
- (ii) Purchases and sales of magazines and books were conducted in the normal course of business under terms mutually agreed.

**9. SUBSEQUENT EVENT**

No material events took place subsequent to 31 December 2002.

## C. FINANCIAL INFORMATION ON BUSINESS WEEKLY

## 1. CONSOLIDATED RESULTS OF OPERATIONS

The following is the consolidated results of the Acquired Business of the Business Weekly Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|  | <i>Note</i> | <b>Year ended 31 December</b> |                       |                       |
|--|-------------|-------------------------------|-----------------------|-----------------------|
|  |             | <b>2000</b>                   | <b>2001</b>           | <b>2002</b>           |
|  |             | <i>NT\$'000</i>               | <i>NT\$'000</i>       | <i>NT\$'000</i>       |
| Turnover                                   | 8(a)        | 546,372                       | 624,711               | 677,359               |
| Cost of sales                              |             | <u>(203,876)</u>              | <u>(268,621)</u>      | <u>(260,313)</u>      |
| Gross profit                               |             | 342,496                       | 356,090               | 417,046               |
| Other revenues                             | 8(a)        | 4,709                         | 1,734                 | 3,451                 |
| Selling and administrative expenses        |             | (215,724)                     | (264,144)             | (278,621)             |
| Gain on disposal of an associated company  | 8(b)(i)     | –                             | 40,923                | –                     |
| Gain on disposal of a long term investment | 8(b)(ii)    | 37,098                        | –                     | –                     |
| Other operating income, net                |             | <u>5,446</u>                  | <u>22,201</u>         | <u>9,181</u>          |
| Operating profit                           | 8(b)        | 174,025                       | 156,804               | 151,057               |
| Share of results of associated companies   |             | <u>1,449</u>                  | <u>10,900</u>         | <u>5,334</u>          |
| Profit before taxation                     |             | 175,474                       | 167,704               | 156,391               |
| Taxation                                   | 8(c)        | <u>(36,346)</u>               | <u>(19,300)</u>       | <u>(45,793)</u>       |
| Profit after taxation                      |             | 139,128                       | 148,404               | 110,598               |
| Minority interests                         |             | <u>(11)</u>                   | <u>(2,764)</u>        | <u>(739)</u>          |
| Profit after minority interests            |             | <u><u>139,117</u></u>         | <u><u>145,640</u></u> | <u><u>109,859</u></u> |

## 2. CONSOLIDATED BALANCE SHEETS

The following is the consolidated balance sheets of the Acquired Business of the Business Weekly Group as at 31 December 2000, 2001 and 2002 prepared on the basis set out in Section 6 below:

|  | Note | As at 31 December |                  |                  |
|--|------|-------------------|------------------|------------------|
|  |      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(h) | 20,250            | 21,116           | 20,831           |
| <b>Deferred tax assets</b>                   | 8(r) | 766               | 8,137            | 4,225            |
| <b>Associated companies</b>                  | 8(j) | 63,605            | 7,289            | 12,067           |
| <b>Investment securities</b>                 | 8(k) | —                 | 73,556           | 67,373           |
|  |      | <u>84,621</u>     | <u>110,098</u>   | <u>104,496</u>   |
| <b>Current assets</b>                        |      |                   |                  |                  |
| Inventories                                  | 8(l) | 3,115             | 4,887            | 1,151            |
| Amounts due from related companies           | 8(m) | 60,940            | 15,985           | —                |
| Loan to a fellow subsidiary                  | 8(n) | —                 | —                | 69,890           |
| Accounts receivable                          | 8(o) | 122,033           | 92,743           | 108,342          |
| Other receivables, deposits and prepayments  |      | 14,663            | 16,083           | 13,809           |
| Pledged bank deposit                         | 8(p) | 3,000             | 1,500            | 1,500            |
| Bank balances and cash                       |      | 182,988           | 215,022          | 191,467          |
|  |      | <u>386,739</u>    | <u>346,220</u>   | <u>386,159</u>   |
| <b>Current liabilities</b>                   |      |                   |                  |                  |
| Amounts due to related companies             | 8(m) | (5,965)           | (354)            | (1,296)          |
| Accounts payable                             | 8(q) | (93,833)          | (85,684)         | (50,862)         |
| Other payables and accrued charges           |      | (33,478)          | (35,619)         | (61,390)         |
| Subscriptions received in advance            |      | (123,204)         | (115,185)        | (130,999)        |
| Taxation payable                             |      | (29,554)          | (6,427)          | (31,654)         |
|  |      | <u>(286,034)</u>  | <u>(243,269)</u> | <u>(276,201)</u> |
| <b>Net current assets</b>                    |      | <u>100,705</u>    | <u>102,951</u>   | <u>109,958</u>   |
| <b>Total assets less current liabilities</b> |      | <u>185,326</u>    | <u>213,049</u>   | <u>214,454</u>   |
| <b>Financed by:</b>                          |      |                   |                  |                  |
| <b>Equity</b>                                | 8(s) | 163,026           | 176,606          | 174,471          |
| <b>Minority interests</b>                    |      | 5,509             | 16,278           | 17,154           |
| <b>Non-current liabilities</b>               |      |                   |                  |                  |
| Pension obligations                          | 8(g) | 16,791            | 20,165           | 22,829           |
|  |      | <u>185,326</u>    | <u>213,049</u>   | <u>214,454</u>   |

## 3. BALANCE SHEETS

The following is prepared on the basis set out in Section 6 below the balance sheets of the Acquired Business of Business Weekly as at 31 December 2000, 2001 and 2002:

|  | Note | As at 31 December |                  |                  |
|--|------|-------------------|------------------|------------------|
|  |      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 8(h) | 16,319            | 15,739           | 12,921           |
| <b>Deferred tax assets</b>                   | 8(r) | 716               | 4,400            | 1,582            |
| <b>Subsidiaries</b>                          | 8(i) | 64,403            | 82,153           | 81,014           |
| <b>Associated companies</b>                  | 8(j) | 74,054            | –                | –                |
| <b>Investment securities</b>                 | 8(k) | –                 | 73,556           | 67,373           |
|  |      | <u>155,492</u>    | <u>175,848</u>   | <u>162,890</u>   |
| <b>Current assets</b>                        |      |                   |                  |                  |
| Inventories                                  | 8(l) | 1,625             | 4,020            | –                |
| Amounts due from related companies           | 8(m) | 60,089            | 17,050           | –                |
| Loan to a fellow subsidiary                  | 8(n) | –                 | –                | 69,890           |
| Accounts receivable                          | 8(o) | 89,768            | 53,945           | 68,483           |
| Other receivables, deposits and prepayments  |      | 8,388             | 10,404           | 9,210            |
| Pledged bank deposit                         | 8(p) | 3,000             | 1,500            | 1,500            |
| Bank balances and cash                       |      | 161,303           | 164,538          | 150,707          |
|  |      | <u>324,173</u>    | <u>251,457</u>   | <u>299,790</u>   |
| <b>Current liabilities</b>                   |      |                   |                  |                  |
| Amounts due to related companies             | 8(m) | (6,517)           | (329)            | (1,213)          |
| Accounts payable                             | 8(q) | (63,072)          | (55,696)         | (31,940)         |
| Other payables and accrued charges           |      | (26,342)          | (26,818)         | (48,854)         |
| Subscriptions received in advance            |      | (115,847)         | (107,708)        | (124,171)        |
| Taxation payable                             |      | (27,026)          | (3,200)          | (28,147)         |
|  |      | <u>(238,804)</u>  | <u>(193,751)</u> | <u>(234,325)</u> |
| <b>Net current assets</b>                    |      | <u>85,369</u>     | <u>57,706</u>    | <u>65,465</u>    |
| <b>Total assets less current liabilities</b> |      | <u>240,861</u>    | <u>233,554</u>   | <u>228,355</u>   |
| <b>Financed by:</b>                          |      |                   |                  |                  |
| <b>Equity</b>                                | 8(s) | <u>230,918</u>    | <u>221,290</u>   | <u>214,551</u>   |
| <b>Non-current liabilities</b>               |      |                   |                  |                  |
| Pension obligations                          | 8(g) | <u>9,943</u>      | <u>12,264</u>    | <u>13,804</u>    |
|  |      | <u>240,861</u>    | <u>233,554</u>   | <u>228,355</u>   |

## 4. CONSOLIDATED CASH FLOW STATEMENTS

The following is the consolidated cash flow statements of the Acquired Business of the Business Weekly Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|   | Note     | Year ended 31 December |                  |                  |
|---|----------|------------------------|------------------|------------------|
|   |          | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Net cash inflow generated from operations           | 8(t)(i)  | 135,977                | 176,566          | 175,219          |
| Taiwan taxation paid                                |          | (19,364)               | (49,799)         | (16,651)         |
| Net cash inflow from operating activities           |          | <u>116,613</u>         | <u>126,767</u>   | <u>158,568</u>   |
| Investing activities                                |          |                        |                  |                  |
| Purchase of fixed assets                            |          | (6,657)                | (8,000)          | (13,116)         |
| Sale of fixed assets                                |          | 266                    | 74               | 218              |
| Dividends received                                  |          | –                      | –                | 555              |
| Interest received                                   |          | 4,709                  | 1,734            | 2,895            |
| Loan to a fellow subsidiary                         |          | –                      | –                | (67,000)         |
| Purchase of subsidiaries, net of cash acquired      | 8(t)(ii) | (45,130)               | –                | –                |
| Purchase of associated companies                    |          | (36,979)               | (6,800)          | –                |
| Purchase of investment securities                   |          | (16,305)               | –                | –                |
| Proceeds from sales of investment securities        | 8(b)(ii) | 108,016                | –                | –                |
| (Increase)/decrease in pledged deposits             |          | (3,000)                | 1,500            | –                |
| Proceeds from disposal of an associated company     | 8(b)(i)  | –                      | 41,382           | –                |
| Net cash inflow/(outflow) from investing activities |          | <u>4,920</u>           | <u>29,890</u>    | <u>(76,448)</u>  |
| Net cash inflow/(outflow) before financing          |          | <u>121,533</u>         | <u>156,657</u>   | <u>82,120</u>    |
| Financing activities                                | 8(t)(i)  |                        |                  |                  |
| Transfer in from/(out of) equity                    |          | 21,828                 | (131,623)        | (105,812)        |
| Capital contributions from a minority shareholder   |          | –                      | 7,000            | 137              |
| Net cash inflow/(outflow) from financing            |          | <u>21,828</u>          | <u>(124,623)</u> | <u>(105,675)</u> |
| Increase/(decrease) in cash and cash equivalents    |          | 143,361                | 32,034           | (23,555)         |
| Cash and equivalents at 1 January                   |          | 39,627                 | 182,988          | 215,022          |
| Cash and cash equivalents at 31 December            |          | <u>182,988</u>         | <u>215,022</u>   | <u>191,467</u>   |
| Analysis of balance of cash and cash equivalents    |          |                        |                  |                  |
| Bank balances and cash                              |          | <u>182,988</u>         | <u>215,022</u>   | <u>191,467</u>   |

**5. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

The following is the consolidated statements of changes in equity of the Acquired Business of the Business Weekly Group for the Relevant Periods prepared on the basis set out in Section 6 below:

|  | <b>Year ended 31 December</b> |                 |                 |
|--|-------------------------------|-----------------|-----------------|
|  | <b>2000</b>                   | <b>2001</b>     | <b>2002</b>     |
|  | <i>NT\$'000</i>               | <i>NT\$'000</i> | <i>NT\$'000</i> |
| Total equity as at 1 January                 | 66,269                        | 163,026         | 176,606         |
| Profit after minority interests              | 139,117                       | 145,640         | 109,859         |
| Transfers in/(out)                           | 28,009                        | (131,623)       | (105,812)       |
| Loss on revaluation of investment securities | –                             | –               | (6,182)         |
| Goodwill eliminated                          | (70,369)                      | (437)           | –               |
|  | <u>163,026</u>                | <u>176,606</u>  | <u>174,471</u>  |
| Total equity as at 31 December               | <u>163,026</u>                | <u>176,606</u>  | <u>174,471</u>  |

**6. BASIS OF PREPARATION**

According to a stock purchase agreement (the “Agreement”) between TOM.COM Limited (“TOM”) and the then shareholders of Business Weekly dated 24 January 2002, TOM acquired certain companies engaged in publishing business of Business Weekly through a wholly-owned subsidiary of TOM Print Media Limited, Diamond Profits Limited. Pursuant to the terms of the Agreement, Business Weekly underwent a group reorganisation (the “Reorganisation”) in December 2001 and disposed of its investments in certain subsidiaries and long term investments to a company beneficially owned by the then existing shareholders and directors of Business Weekly.

For the purpose of this report, the consolidated results and cash flows of the Acquired Business of the Business Weekly Group for the Relevant Periods as set out above include only the results of the companies comprising the Acquired Business of the Business Weekly Group throughout the Relevant Periods since the respective dates of incorporation or acquisition by Business Weekly, where there is a shorter period.

The consolidated balance sheets of the Acquired Business of the Business Weekly Group and the balance sheets of the Acquired Business of Business Weekly as at 31 December 2000, 2001 and 2002 have been prepared to present the assets and liabilities of the companies comprising the Acquired Business of the Business Weekly Group and the Acquired Business of Business Weekly.



## 7. PRINCIPAL ACCOUNTING POLICES

The principal accounting policies adopted in the preparation of the Financial Information in this report are set out below. These policies conform with accounting principles generally accepted in Hong Kong. The Financial Information in this report is prepared under the historical cost convention as modified by the revaluation of investment securities.

### (a) Consolidation

The consolidated accounts include the accounts of the companies comprising the Acquired Business of the Business Weekly Group made up to 31 December. The results of subsidiaries acquired or disposed of by the Acquired Business of the Business Weekly Group during the Relevant Periods are included in the consolidated results from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant transactions and balances within the Acquired Business of the Business Weekly Group have been eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Acquired Business of the Business Weekly Group's share of its net assets together with any unamortised goodwill or capital reserve which was not previously charged or recognised in the consolidated results of operations.

Minority interests represent the interests of outside shareholders in the results of operations and net assets of subsidiaries.

### (b) Revenue recognition

Revenue from publishing, distribution and circulation of books and magazines is recognised on the transfer of risk and ownership which generally coincides with the date of delivery. Unearned subscription fees received from subscribers are recorded as subscriptions received in advance in the balance sheets.

Advertising income is recognised as and when the advertisement is published.

Revenue from provision of editing and publishing services is recognised upon delivery of the services.

Interest income is recognised on an accrual basis taking into account the principal outstanding and the effective interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

**(c) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of tangible fixed assets is calculated to write-off their costs on the straight line basis over their expected useful lives. The expected useful lives used for this purpose are:

|                               |              |
|-------------------------------|--------------|
| Leasehold improvements        | 5 years      |
| Office and computer equipment | 3 to 8 years |
| Motor vehicles                | 5 years      |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the results of operations. Improvements are capitalised and depreciated over their expected useful lives to the Acquired Business of the Business Weekly Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the results of operations.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the results of operations.

**(d) Investment securities**

Investment securities are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the results of operations.

When there is objective evidence that individual investment securities are impaired the cumulative loss recorded in the revaluation reserve is taken to the results of operations.

**(e) Goodwill on acquisition**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Acquired Business of the Business Weekly Group's share of the net assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over a maximum period of twenty years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the results of operations.

**(f) Associated companies**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated results of operations include the Acquired Business of Business Weekly Group's share of the results of associated companies for the Relevant Periods, and the consolidated balance sheets includes the Acquired Business of the Business Weekly Group's share of the net assets of the associated companies.

In the balance sheet of Acquired Business of Business Weekly, the investments in associated companies are stated at cost less provision for impairment losses, if any.

The carrying amounts of the investments in associated companies are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(g) Subsidiaries**

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

In the balance sheet of the Acquired Business of Business Weekly, the investment in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries accounted for by the Acquired Business of Business Weekly on the basis of dividends received and receivable.

The carrying amounts of the investments in subsidiaries are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the results of operations. This impairment loss is written back to results of operations when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

**(h) Inventories**

Inventories consist primarily of work in progress and finished goods which are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(i) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such of provision.

**(j) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

**(k) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the results of operations on a straight-line basis over the lease periods.

**(l) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(m) Translation of foreign currencies**

Transactions in currencies other than New Taiwan dollars are translated into New Taiwan dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than New Taiwan dollars are incorporated into the accounts by translating currencies into New Taiwan dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the above translation policy are dealt with in the results of operations.

**(n) Employee benefits***Pension obligations*

The Acquired Business of the Business Weekly Group operates a defined benefit plan and the assets of which are generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the relevant Acquired Business of the Business Weekly Group companies, taking account of the recommendations of independent qualified actuaries.

Pension costs are assessed using the projected unit credit cost method: the cost of providing pensions is charged to the results of operations so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of the employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

**(o) Borrowing costs**

All borrowing costs are charged to the results of operations in the year in which they are incurred.

**(p) Related party**

A related company is a company in which one or more of the directors or major shareholders of the Acquired Business of the Business Weekly Group have a significant direct or indirect beneficial interest either as directors or shareholders.

**(q) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Acquired Business of the Business Weekly Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(r) Segment reporting**

In accordance with the Acquired Business of the Business Weekly Group's internal financial reporting the Business Weekly Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

No separate segment information is presented since the Acquired Business of the Business Weekly Group is principally engaged in one single business segment of publication, distribution and circulation of magazines and books and provision of related services; and the business is principally conducted in Taiwan.

**8. NOTES TO FINANCIAL INFORMATION****(a) Turnover and revenues**

The Acquired Business of the Business Weekly Group is engaged principally in the publication, distribution and circulation of magazines and books, the sale of advertising space in magazines and books and the provision of editing and publishing services. Revenues recognised during the Relevant Periods are as follows:

|  | <b>Year ended 31 December</b> |                       |                       |
|--|-------------------------------|-----------------------|-----------------------|
|  | <b>2000</b>                   | <b>2001</b>           | <b>2002</b>           |
|  | <i>NT\$'000</i>               | <i>NT\$'000</i>       | <i>NT\$'000</i>       |
| Turnover   |                               |                       |                       |
| Sales of magazines and books, net of discounts and returns | 219,136                       | 294,583               | 281,426               |
| Magazine advertising income, net of discounts              | 327,236                       | 290,376               | 364,026               |
| Provision of editing and publishing services               | —                             | 39,752                | 31,907                |
|  | <u>546,372</u>                | <u>624,711</u>        | <u>677,359</u>        |
| Other revenues   |                               |                       |                       |
| Interest income  | 4,709                         | 1,734                 | 2,895                 |
| Dividend income  | —                             | —                     | 556                   |
|  | <u>4,709</u>                  | <u>1,734</u>          | <u>3,451</u>          |
| Total revenues   | <u><u>551,081</u></u>         | <u><u>626,445</u></u> | <u><u>680,810</u></u> |

**(b) Operating profit**

The operating profit is stated after crediting and charging the following:

|   | Year ended 31 December |            |              |
|---|------------------------|------------|--------------|
|   | 2000                   | 2001       | 2002         |
|   | NT\$'000               | NT\$'000   | NT\$'000     |
| <b>Crediting:</b>   |                        |            |              |
| Gain on disposal of an associated company ( <i>note i</i> )   | –                      | 40,923     | –            |
| Gain on disposal of a long term investment ( <i>note ii</i> ) | 37,098                 | –          | –            |
| Gain on dilution of interest in a subsidiary                  | 3,615                  | –          | –            |
|   | <u>3,615</u>           | <u>–</u>   | <u>–</u>     |
| <b>Charging:</b>  |                        |            |              |
| Cost of materials consumed                                    | 66,300                 | 79,140     | 57,264       |
| Staff costs ( <i>Note 8(e)</i> )                              | 120,204                | 145,472    | 164,497      |
| Deprecation of fixed assets                                   | 6,518                  | 6,659      | 8,991        |
| Operating lease rental in respect of land and buildings       | 5,037                  | 11,501     | 13,123       |
| Auditors' remuneration  | 732                    | 770        | 1,520        |
| Loss on disposal of fixed assets                              | 696                    | 403        | 4,191        |
| Provision for bad and doubtful debts                          | 3,634                  | 515        | 1,810        |
|   | <u>3,634</u>           | <u>515</u> | <u>1,810</u> |

*Notes:*

- (i) The Acquired Business of the Business Weekly Group disposed of its holding of 22.55% equity interest in Cité Publishing Limited, a company incorporated in Taiwan in return for a consideration of NT\$114,938,000, during the year ended 31 December 2001. The consideration comprised cash of NT\$41,382,000 and investment securities amounting to NT\$73,556,000. The disposal resulted in a gain of NT\$40,923,000.
- (ii) The Acquired Business of the Business Weekly Group disposed of its 4.92% equity interest in PC Home Publications Inc., a company incorporated in Taiwan, to a director of Business Weekly, Mr Pan Sy-Zuan for a cash consideration of NT\$108,016,000, resulting in a gain of NT\$37,098,000 during the year ended 31 December 2000.

**(c) Taxation**

The taxation charge comprised:

|   | Year ended 31 December |               |               |
|---|------------------------|---------------|---------------|
|   | 2000                   | 2001          | 2002          |
|   | NT\$'000               | NT\$'000      | NT\$'000      |
| Income tax in Taiwan                        |                        |               |               |
| – Current year ( <i>note ii</i> )           | 35,441                 | 14,318        | 38,987        |
| – Additional income tax ( <i>note iii</i> ) | –                      | 11,154        | 948           |
| – Under/(over) provision to prior year      | 1,113                  | 1,199         | 1,946         |
| – Deferred taxation ( <i>Note 8(r)</i> )    | (208)                  | (7,371)       | 3,912         |
|   | <u>36,346</u>          | <u>19,300</u> | <u>45,793</u> |

*Notes:*

- (i) No provision for Hong Kong profits tax has been made in the accounts as the Acquired Business of the Business Weekly Group had no assessable profits in Hong Kong during the Relevant Periods.
- (ii) The income tax in Taiwan during the Relevant Periods represented the tax charges on the assessable profits of the Acquired Business of the Business Weekly Group at a rate of 25%.
- (iii) According to the New Taiwan Imputation Tax, where the earnings of a company derived on or after 1 January 1998 remain undistributed within a specific timeframe, the undistributed earnings is subject to an additional income tax charging at a rate of 10%.

**(d) Earnings per share**

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful since the consolidated results of operations of the Acquired Business of the Business Weekly Group for the Relevant Periods includes only the results of the companies comprising the Acquired Business of the Business Weekly Group.

**(e) Staff costs**

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Wages and salaries                                  | 116,428                | 141,362          | 159,799          |
| Pensions costs – defined benefits plans (Note 8(g)) | 3,776                  | 4,110            | 4,698            |
|   | <u>120,204</u>         | <u>145,472</u>   | <u>164,497</u>   |

**(f) Emoluments of directors and employees***(i) Directors' emoluments*

The aggregate amounts of emoluments paid and payable to the Directors for the Relevant Periods are as follows:

|  | Year ended 31 December |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Fees   | –                      | –                | –                |
| Salaries and allowances and other benefits in kind | 11,966                 | 12,726           | 6,819            |
| Discretionary bonuses                              | 2,971                  | 1,685            | –                |
|  | <u>14,937</u>          | <u>14,411</u>    | <u>6,819</u>     |

Two (2000: three; 2001: three) of the ten (2000: eleven; 2001: eleven) directors of the Acquired Business of Business Weekly received emoluments during the year ended 31 December 2002. The three directors received individual emoluments of approximately NT\$2,831,000, NT\$5,986,000 and NT\$6,120,000 for the year ended 31 December 2000, NT\$3,479,000, NT\$5,714,000 and NT\$5,218,000 for the year ended 31 December 2001, and NT\$nil, NT\$3,232,000 and NT\$3,587,000 for the year ended 31 December 2002, respectively.

None of the Directors waived any emoluments during the Relevant Periods.

*(ii) Five highest paid individuals*

The five individuals whose emoluments were the highest in the Acquired Business of the Business Weekly Group during the Relevant Periods are as follows:

|           | Year ended 31 December |          |          |
|-----------|------------------------|----------|----------|
|           | 2000                   | 2001     | 2002     |
| Directors | 3                      | 3        | 2        |
| Employees | 2                      | 2        | 3        |
|           | <u>5</u>               | <u>5</u> | <u>5</u> |



Details of the emoluments of employees as mentioned above are as follows:

|                               | Year ended 31 December |                  |                  |
|-------------------------------|------------------------|------------------|------------------|
|                               | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Basic salaries and allowances | 3,173                  | 2,665            | 4,740            |
| Bonuses                       | 47                     | 1,857            | 1,494            |
|                               | <u>3,220</u>           | <u>4,522</u>     | <u>6,234</u>     |

The emolument of the employees fell within the following bands:

|   | Year ended 31 December |          |          |
|---|------------------------|----------|----------|
|   | 2000                   | 2001     | 2002     |
| NT\$nil – NT\$4,000,000 (equivalent to<br>HK\$1,000,000)  | 2                      | 2        | 3        |
| NT\$4,000,001 (equivalent to<br>HK\$1,000,001) – NT\$6,000,000<br>(equivalent to HK\$1,500,000) | –                      | –        | –        |
|   | <u>2</u>               | <u>2</u> | <u>3</u> |

- (iii) During the Relevant Periods, no emoluments of the five highest paid individuals, including the Directors, were incurred as inducements to join or upon joining the Acquired Business of the Business Weekly Group or as compensation for loss of office.

**(g) Retirement benefit costs**

The Acquired Business of the Business Weekly Group operates a retirement scheme providing benefits to all eligible employees based on the final pay payable to them before retirement. The Acquired Business of the Business Weekly Group has an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. Certain assets of the scheme are deposited with the Central Trust of China in Taiwan and held separately from those of the Acquired Business of the Business Weekly Group.

The actuarial valuation was performed by PricewaterhouseCoopers Management Consultants Company Ltd. for the years ended 31 December 2000 and 2001, and by KPMG Consulting Co., Ltd. for the year ended 31 December 2002. Both are qualified actuaries in Taiwan. The retirement scheme has been valued using the projected unit credit cost method based on the following principal assumptions:

|                           | Year ended 31 December |       |       |
|---------------------------|------------------------|-------|-------|
|                           | 2000                   | 2001  | 2002  |
| Discount rate             | 5.75%                  | 4.25% | 4.00% |
| Expected return on assets | 5.75%                  | 4.00% | 3.25% |
| Salary increase           | 3.50%                  | 3.50% | 3.75% |

The amounts recognised in the consolidated balance sheets are determined as follows:

|   | As at 31 December |                  |                  |
|---|-------------------|------------------|------------------|
|   | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Present value of funded obligations         | 19,826            | 23,723           | 30,228           |
| Fair value of plan assets                   | (3,952)           | (4,975)          | (7,195)          |
|   | <u>15,874</u>     | <u>18,748</u>    | <u>23,033</u>    |
| Present value of unfunded obligations       | 15,874            | 18,748           | 23,033           |
| Unrecognised actuarial gains                | 917               | 1,417            | (204)            |
|   | <u>16,791</u>     | <u>20,165</u>    | <u>22,829</u>    |
| Liability in the consolidated balance sheet | <u>16,791</u>     | <u>20,165</u>    | <u>22,829</u>    |

The amounts recognised in the consolidated results of operations are determined as follows:

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Current service costs                               | 2,913                  | 3,227            | 3,770            |
| Interest costs                                      | 1,086                  | 1,140            | 1,008            |
| Expected return of plan assets                      | (223)                  | (228)            | (199)            |
| Net actuarial (losses)/gains recognised             | <u>–</u>               | <u>(29)</u>      | <u>119</u>       |
| Total, included in staff costs ( <i>Note 8(e)</i> ) | <u>3,776</u>           | <u>4,110</u>     | <u>4,698</u>     |

Movement in the liability recognised in the consolidated balance sheets:

|                    | 2000           | 2001          | 2002           |
|--------------------|----------------|---------------|----------------|
|                    | NT\$'000       | NT\$'000      | NT\$'000       |
| At 1 January       | 14,392         | 16,791        | 20,165         |
| Total expenses     | 3,776          | 4,110         | 4,698          |
| Contributions paid | <u>(1,377)</u> | <u>(736)</u>  | <u>(2,034)</u> |
| At 31 December     | <u>16,791</u>  | <u>20,165</u> | <u>22,829</u>  |

## (h) Fixed assets

Movements of fixed assets are as follows:

## Group

|                             | Leasehold<br>improvements<br><i>NT\$'000</i> | Office and<br>computer<br>equipment<br><i>NT\$'000</i> | Motor<br>vehicles<br><i>NT\$'000</i> | Total<br><i>NT\$'000</i> |
|-----------------------------|--|--|--------------------------------------|--------------------------|
| Cost                        |  |  |                                      |                          |
| At 1 January 2000           | 3,592  | 25,741   | 7,413                                | 36,746                   |
| Additions                   | 138  | 6,519  | –                                    | 6,657                    |
| Acquisition of subsidiaries | 31   | 3,798  | –                                    | 3,829                    |
| Disposal                    | (31)   | (5,717)  | –                                    | (5,748)                  |
| At 31 December 2000         | <u>3,730</u>                                 | <u>30,341</u>  | <u>7,413</u>                         | <u>41,484</u>            |
| Accumulated depreciation    |  |  |                                      |                          |
| At 1 January 2000           | 310  | 15,894   | 3,298                                | 19,502                   |
| Charge for the year         | 757  | 4,682  | 1,079                                | 6,518                    |
| Disposal                    | (30)   | (4,756)  | –                                    | (4,786)                  |
| At 31 December 2000         | <u>1,037</u>                                 | <u>15,820</u>  | <u>4,377</u>                         | <u>21,234</u>            |
| Net book value              |  |  |                                      |                          |
| At 31 December 2000         | <u>2,693</u>                                 | <u>14,521</u>  | <u>3,036</u>                         | <u>20,250</u>            |
| Cost                        |  |  |                                      |                          |
| At 1 January 2001           | 3,730  | 30,341   | 7,413                                | 41,484                   |
| Additions                   | 885  | 7,115  | –                                    | 8,000                    |
| Disposal                    | –  | (130)  | (1,033)                              | (1,163)                  |
| At 31 December 2001         | <u>4,615</u>                                 | <u>37,326</u>  | <u>6,380</u>                         | <u>48,321</u>            |
| Accumulated depreciation    |  |  |                                      |                          |
| At 1 January 2001           | 1,037  | 15,820   | 4,377                                | 21,234                   |
| Charge for the year         | 846  | 4,913  | 900                                  | 6,659                    |
| Disposal                    | –  | (14)   | (674)                                | (688)                    |
| At 31 December 2001         | <u>1,883</u>                                 | <u>20,719</u>  | <u>4,603</u>                         | <u>27,205</u>            |
| Net book value              |  |  |                                      |                          |
| At 31 December 2001         | <u>2,732</u>                                 | <u>16,607</u>  | <u>1,777</u>                         | <u>21,116</u>            |
| Cost                        |  |  |                                      |                          |
| At 1 January 2002           | 4,615  | 37,326   | 6,380                                | 48,321                   |
| Additions                   | 1,011  | 8,035  | 4,070                                | 13,116                   |
| Disposal                    | (1,361)                                      | (16,430)   | (1,896)                              | (19,687)                 |
| At 31 December 2002         | <u>4,265</u>                                 | <u>28,931</u>  | <u>8,554</u>                         | <u>41,750</u>            |
| Accumulated depreciation    |  |  |                                      |                          |
| At 1 January 2002           | 1,883  | 20,719   | 4,603                                | 27,205                   |
| Charge for the year         | 1,290  | 6,489  | 1,212                                | 8,991                    |
| Disposal                    | (880)  | (12,795)   | (1,602)                              | (15,277)                 |
| At 31 December 2002         | <u>2,293</u>                                 | <u>14,413</u>  | <u>4,213</u>                         | <u>20,919</u>            |
| Net book value              |  |  |                                      |                          |
| At 31 December 2002         | <u>1,972</u>                                 | <u>14,518</u>  | <u>4,341</u>                         | <u>20,831</u>            |

| Company                  | Leasehold<br>improvements<br><i>NT\$'000</i> | Office and<br>computer<br>equipment<br><i>NT\$'000</i> | Motor<br>vehicles<br><i>NT\$'000</i> | Total<br><i>NT\$'000</i> |
|--------------------------|--|--|--------------------------------------|--------------------------|
| Cost                     |  |  |                                      |                          |
| At 1 January 2000        | 3,643  | 21,517   | 5,457                                | 30,617                   |
| Additions                | –  | 4,048  | –                                    | 4,048                    |
| Disposal                 | –  | (3,546)  | –                                    | (3,546)                  |
| At 31 December 2000      | <u>3,643</u>                                 | <u>22,019</u>  | <u>5,457</u>                         | <u>31,119</u>            |
| Accumulated depreciation |  |  |                                      |                          |
| At 1 January 2000        | 959  | 10,125   | 2,288                                | 13,372                   |
| Charge for the year      | –  | 3,408  | 858                                  | 4,266                    |
| Disposal                 | –  | (2,838)  | –                                    | (2,838)                  |
| At 31 December 2000      | <u>959</u>                                   | <u>10,695</u>  | <u>3,146</u>                         | <u>14,800</u>            |
| Net book value           |  |  |                                      |                          |
| At as 31 December 2000   | <u>2,684</u>                                 | <u>11,324</u>  | <u>2,311</u>                         | <u>16,319</u>            |
| Cost                     |  |  |                                      |                          |
| At 1 January 2001        | 3,643  | 22,019   | 5,457                                | 31,119                   |
| Additions                | 885  | 3,802  | –                                    | 4,687                    |
| Disposal                 | –  | (131)  | –                                    | (131)                    |
| At 31 December 2001      | <u>4,528</u>                                 | <u>25,690</u>  | <u>5,457</u>                         | <u>35,675</u>            |
| Accumulated depreciation |  |  |                                      |                          |
| At 1 January 2001        | 959  | 10,695   | 3,146                                | 14,800                   |
| Charge for the year      | 849  | 3,595  | 706                                  | 5,150                    |
| Disposal                 | –  | (14)   | –                                    | (14)                     |
| At 31 December 2001      | <u>1,808</u>                                 | <u>14,276</u>  | <u>3,852</u>                         | <u>19,936</u>            |
| Net book value           |  |  |                                      |                          |
| At as 31 December 2001   | <u>2,720</u>                                 | <u>11,414</u>  | <u>1,605</u>                         | <u>15,739</u>            |
| Cost                     |  |  |                                      |                          |
| At 1 January 2002        | 4,528  | 25,690   | 5,457                                | 35,675                   |
| Additions                | 687  | 3,683  | 2,470                                | 6,840                    |
| Disposal                 | (1,224)                                      | (14,431)   | (1,277)                              | (16,932)                 |
| At 31 December 2002      | <u>3,991</u>                                 | <u>14,942</u>  | <u>6,650</u>                         | <u>25,583</u>            |
| Accumulated depreciation |  |  |                                      |                          |
| At 1 January 2002        | 1,808  | 14,276   | 3,852                                | 19,936                   |
| Charge for the year      | 1,212  | 3,709  | 973                                  | 5,894                    |
| Disposal                 | (796)  | (11,307)   | (1,065)                              | (13,168)                 |
| At 31 December 2002      | <u>2,224</u>                                 | <u>6,678</u>   | <u>3,760</u>                         | <u>12,662</u>            |
| Net book value           |  |  |                                      |                          |
| At as 31 December 2002   | <u>1,767</u>                                 | <u>8,264</u>   | <u>2,890</u>                         | <u>12,921</u>            |

## (i) Subsidiaries

|                                | As at 31 December |                  |                  |
|--------------------------------|-------------------|------------------|------------------|
|                                | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Unlisted, at cost              | 69,970            | 80,730           | 80,730           |
| Due (to)/from subsidiaries (i) | <u>(5,567)</u>    | <u>1,423</u>     | <u>284</u>       |
|                                | <u>64,403</u>     | <u>82,153</u>    | <u>81,014</u>    |

(i) The amounts due from and to subsidiaries are unsecured, interest free and have no fixed repayment terms.

## (j) Associated companies

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Group</b>   |                   |                  |                  |
| Share of net assets, other than goodwill                               | <u>63,605</u>     | <u>7,289</u>     | <u>12,067</u>    |
| <b>Company</b>   |                   |                  |                  |
| Interest at cost, unlisted shares outside<br>Hong Kong (Note 8(b)(ii)) | <u>74,054</u>     | <u>–</u>         | <u>–</u>         |

Note:

(i) The Acquired Business of Business Weekly used to own 22.55% of Cité Publishing Limited (“Cité”) since its incorporation. In October 2001, the Acquired Business of Business Weekly disposed of its entire interest of Cité to Home Media Group Limited, a subsidiary of TOM at a gain of NT\$40,923,000 (note 8(b)(i)).

## (k) Investment securities

**Group**

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Equity securities, listed in Hong Kong | –                 | 21,306           | 15,123           |
| Unlisted equity securities             | <u>–</u>          | <u>52,250</u>    | <u>52,250</u>    |
|  | <u>–</u>          | <u>73,556</u>    | <u>67,373</u>    |

**Company**

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Equity securities, listed in Hong Kong | –                 | 21,306           | 15,123           |
| Unlisted equity securities             | <u>–</u>          | <u>52,250</u>    | <u>52,250</u>    |
|  | <u>–</u>          | <u>73,556</u>    | <u>67,373</u>    |

## (l) Inventories

|                                      | 2000            | As at 31 December<br>2001 | 2002            |
|--------------------------------------|-----------------|---------------------------|-----------------|
|                                      | <i>NT\$'000</i> | <i>NT\$'000</i>           | <i>NT\$'000</i> |
| <b>Group</b>                         |                 |                           |                 |
| Raw materials                        | 2,642           | 4,012                     | –               |
| Work in progress                     | 820             | 625                       | 513             |
| Finished goods                       |                 |                           |                 |
| – books and magazines                | 704             | 825                       | 754             |
| Provision for inventory obsolescence | (1,051)         | (575)                     | (116)           |
|                                      | <u>3,115</u>    | <u>4,887</u>              | <u>1,151</u>    |
| <b>Company</b>                       |                 |                           |                 |
| Raw materials                        | 2,642           | 4,012                     | –               |
| Work in progress                     | 34              | 8                         | –               |
| Provision for inventory obsolescence | (1,051)         | –                         | –               |
|                                      | <u>1,625</u>    | <u>4,020</u>              | <u>–</u>        |

As at 31 December 2000, 2001 and 2002, no inventories were stated at their net realisable value.

## (m) Amounts due from and to related companies

The amounts due from and to related companies are derived from trading transactions during the normal course of business of the Acquired Business of the Business Weekly Group. The amounts are unsecured, interest free and repayable on demand.

## (n) Loan to a fellow subsidiary

The balance as of 31 December 2002 represented a loan receivable of NT\$67,000,000 and related interest receivable of NT\$2,890,000 from a fellow subsidiary. The balance is unsecured, bears interest at 6% per annum and is repayable within one year.

## (o) Accounts receivable

A majority of the Acquired Business of the Business Weekly Group's sales is conducted on credit terms up to 90 days. The aging analyses of accounts receivable as at 31 December 2000, 2001 and 2002 are as follows:

|   | 2000            | As at 31 December<br>2001 | 2002            |
|---|-----------------|---------------------------|-----------------|
|   | <i>NT\$'000</i> | <i>NT\$'000</i>           | <i>NT\$'000</i> |
| <b>Group</b>  |                 |                           |                 |
| Current   | 118,800         | 94,654                    | 110,724         |
| Amount overdue:   |                 |                           |                 |
| 1 – 30 days   | 6,877           | 1,854                     | 6,557           |
| 31 – 90 days  | 2,037           | 875                       | 1,566           |
| Over 90 days  | 5,494           | 5,882                     | 2,866           |
|   | <u>133,208</u>  | <u>103,265</u>            | <u>121,713</u>  |
| Less: Provision for bad and doubtful debts<br>and sales returns | (11,175)        | (10,522)                  | (13,371)        |
|   | <u>122,033</u>  | <u>92,743</u>             | <u>108,342</u>  |

**Company**

|  | <b>As at 31 December</b>       |                                |                                |
|--|--------------------------------|--------------------------------|--------------------------------|
|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
| Current  | 84,449                         | 57,134                         | 68,548                         |
| Amount overdue:                                      |                                |                                |                                |
| 1 – 30 days  | 5,846                          | 841                            | 5,017                          |
| 31 – 90 days   | 1,941                          | 486                            | 1,268                          |
| Over 90 days   | 5,494                          | 3,302                          | 735                            |
|  | <u>97,730</u>                  | <u>61,763</u>                  | <u>75,568</u>                  |
| Less: Provision for doubtful debts and sales returns | <u>(7,962)</u>                 | <u>(7,818)</u>                 | <u>(7,085)</u>                 |
|  | <u><u>89,768</u></u>           | <u><u>53,945</u></u>           | <u><u>68,483</u></u>           |

**(p) Pledged bank deposit**

The pledged bank deposit of approximately NT\$1,500,000 (2001: NT\$1,500,000 and 2000: NT\$3,000,000) was placed as a security bond made by the Acquired Business of Business Weekly against a court judgement made against it for inaccurate reporting of an individual in one of its publications in 2000. In 2001, the Taiwan High Court ruled against the Acquired Business of Business Weekly and demanded the payment of compensatory damages of NT\$1,000,000 by the Acquired Business of Business Weekly to the plaintiff, together with interest accrued thereon. The Acquired Business of Business Weekly filed an appeal against the judgement with the Supreme Court and placed the pledged deposit as a security bond in order to facilitate the process of the appeal.

**(q) Accounts payable**

All the accounts payable of the Acquired Business of the Business Weekly Group and the Acquired Business of Business Weekly fall within the average credit periods of 90 days granted by the creditors.

**(r) Deferred taxation**

The movement of the deferred tax assets is as follows:

**Group**

|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| At 1 January                             | 558                            | 766                            | 8,137                          |
| Transfer from/(to) results of operations | <u>208</u>                     | <u>7,371</u>                   | <u>(3,912)</u>                 |
| At 31 December                           | <u><u>766</u></u>              | <u><u>8,137</u></u>            | <u><u>4,225</u></u>            |

**Company**

|  | <b>2000</b><br><i>NT\$'000</i> | <b>2001</b><br><i>NT\$'000</i> | <b>2002</b><br><i>NT\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| At 1 January                             | 558                            | 716                            | 4,400                          |
| Transfer from/(to) results of operations | <u>158</u>                     | <u>3,684</u>                   | <u>(2,818)</u>                 |
| At 31 December                           | <u><u>716</u></u>              | <u><u>4,400</u></u>            | <u><u>1,582</u></u>            |

(i) There was no material unprovided deferred taxation as at the end of each of the Relevant Periods.

## (s) Analysis of changes in equity

## Group

|   | Investment<br>revaluation<br>reserve<br>NT\$'000 | Reserves<br>NT\$'000 | (Accumulated<br>deficit)/<br>Retained<br>earnings<br>NT\$'000 | Total<br>NT\$'000 |
|---|--|----------------------|---|-------------------|
| As at 1 January 2000                            | -  | 73,083               | (6,814)   | 66,269            |
| Transfers                                       | -  | 63,052               | (35,043)  | 28,009            |
| Profit after minority interests                 | -  | -                    | 139,117   | 139,117           |
| Transfer to reserves                            | -  | 4,579                | (4,579)   | -                 |
| Goodwill eliminated ( <i>Note (i)</i> )         | -  | -                    | (70,369)  | (70,369)          |
| As at 31 December 2000                          | -  | 140,714              | 22,312  | 163,026           |
| Transfers                                       | -  | (89,740)             | (41,883)  | (131,623)         |
| Profit after minority interests                 | -  | -                    | 145,640   | 145,640           |
| Transfer to reserves                            | -  | 5,119                | (5,119)   | -                 |
| Goodwill eliminated                             | -  | -                    | (437)   | (437)             |
| As at 31 December 2001                          | -  | 56,093               | 120,513   | 176,606           |
| Transfers                                       | -  | (105,812)            | -   | (105,812)         |
| Profit after minority interests                 | -  | -                    | 109,859   | 109,859           |
| Transfers to reserves                           | -  | (23,209)             | 23,209  | -                 |
| Loss on revaluation of<br>investment securities | (6,182)  | -                    | -   | (6,182)           |
| As at 31 December 2002                          | <u>(6,182)</u>                                   | <u>(72,928)</u>      | <u>253,581</u>  | <u>174,471</u>    |

## Company

|   | Investment<br>revaluation<br>reserve<br>NT\$'000 | Reserves<br>NT\$'000 | Accumulated<br>deficit<br>NT\$'000 | Total<br>NT\$'000 |
|---|--|----------------------|------------------------------------|-------------------|
| As at 1 January 2000                            | -  | 73,083               | (269,656)                          | (196,573)         |
| Profit for the year                             | -  | -                    | 133,810                            | 133,810           |
| Transfer to reserves                            | -  | 4,579                | (4,579)                            | -                 |
| Transfers                                       | -  | 328,724              | (35,043)                           | 293,681           |
| As at 31 December 2000                          | -  | 406,386              | (175,468)                          | 230,918           |
| Transfer to reserves                            | -  | 5,119                | (5,119)                            | -                 |
| Goodwill eliminated                             | -  | -                    | (437)                              | (437)             |
| Profit for the year                             | -  | -                    | 124,431                            | 124,431           |
| Transfers                                       | -  | 5,751                | (139,373)                          | (133,622)         |
| As at 31 December 2001                          | -  | 417,256              | (195,966)                          | 221,290           |
| Profit for the year                             | -  | -                    | 103,256                            | 103,256           |
| Transfers                                       | -  | (103,813)            | -                                  | (103,813)         |
| Transfers to reserves                           | -  | (23,209)             | 23,209                             | -                 |
| Loss on revaluation of<br>investment securities | (6,182)  | -                    | -                                  | (6,182)           |
| As at 31 December 2002                          | <u>(6,182)</u>                                   | <u>290,234</u>       | <u>(69,501)</u>                    | <u>214,551</u>    |

## Note:

- (i) This represented goodwill arising from the acquisitions of subsidiaries of Nong Nong and Business Consulting, in July and December 2000, respectively.



## (t) Notes to consolidated cash flow statements

## (i) Reconciliation of operating profit to net cash inflow generated from operations

|  | Year ended 31 December |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Operating profit   | 174,025                | 156,804          | 151,057          |
| Depreciation   | 6,518                  | 6,659            | 8,991            |
| Loss on disposal of fixed assets                                   | 696                    | 403              | 4,191            |
| Gain on disposal of a long term investment                         | (37,098)               | –                | –                |
| Gain on disposal of an associated company                          | –                      | (40,923)         | –                |
| Interest income  | (4,709)                | (1,734)          | (2,895)          |
| Operating profit before working capital changes                    | 139,432                | 121,209          | 161,344          |
| Decrease/(increase) in inventories                                 | 299                    | (1,772)          | 3,736            |
| (Increase)/decrease in accounts receivable                         | (6,960)                | 29,290           | (15,599)         |
| Decrease/(increase) in other receivables, deposits and prepayments | 25,370                 | (1,420)          | 3,021            |
| (Increase)/decrease in net amounts due from related companies      | (54,299)               | 39,913           | 13,289           |
| Increase/(decrease) in accounts payable                            | 12,693                 | (8,149)          | (34,822)         |
| Increase/(decrease) in subscriptions received in advance           | 15,124                 | (8,019)          | 15,814           |
| (Decrease)/increase in other payables and accrued charges          | (886)                  | 2,140            | 25,772           |
| Increase in pension obligations                                    | 5,204                  | 3,374            | 2,664            |
| Net cash inflow generated from operations                          | <u>135,977</u>         | <u>176,566</u>   | <u>175,219</u>   |

## Analysis of changes in financing during the year

|  | Reserves         |                  |                  | Minority interests |                  |                  |
|--|------------------|------------------|------------------|--------------------|------------------|------------------|
|  | 2000<br>NT\$'000 | 2001<br>NT\$'000 | 2002<br>NT\$'000 | 2000<br>NT\$'000   | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| At 1 January                             | 73,083           | 140,714          | 56,093           | –                  | 5,509            | 16,278           |
| Minority interests' share of profits     | –                | –                | –                | 11                 | 2,764            | 739              |
| Cash inflows/(outflows)                  | 21,828           | (131,623)        | (105,812)        | –                  | 7,000            | 137              |
| Transfer from accumulated deficit        | 45,803           | 47,002           | (23,209)         | –                  | –                | –                |
| Acquisition of interests in subsidiaries | –                | –                | –                | 4,101              | –                | –                |
| Dilution of interest in subsidiaries*    | –                | –                | –                | 1,397              | 1,005            | –                |
| At 31 December                           | <u>140,714</u>   | <u>56,093</u>    | <u>(72,928)</u>  | <u>5,509</u>       | <u>16,278</u>    | <u>17,154</u>    |

\* The dilution of interest in subsidiaries represented the change in the share of net assets by minority interest as the shareholding in Nong Nong held by Business Weekly was diluted from 98% to 83.98% during the year ended 31 December 2000. The shareholding was further diluted during the year ended 31 December 2001 from 83.98% to 79.99%.

(ii) *Purchase of subsidiaries*

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Net assets acquired                         |                        |                  |                  |
| Fixed assets                                | 3,829                  | –                | –                |
| Inventories                                 | 1,388                  | –                | –                |
| Accounts receivable                         | 28,702                 | –                | –                |
| Other receivables, deposits and prepayments | 6,668                  | –                | –                |
| Bank balances and cash                      | 22,670                 | –                | –                |
| Accounts payable                            | (24,534)               | –                | –                |
| Subscriptions received in advance           | (2,472)                | –                | –                |
| Pension obligations                         | (4,082)                | –                | –                |
| Other payables and accrued charges          | (28,985)               | –                | –                |
| Taxation payable                            | (1,652)                | –                | –                |
| Minority interests                          | (4,101)                | –                | –                |
|   | <u>67,800</u>          | <u>–</u>         | <u>–</u>         |
| Goodwill                                    | 70,369                 | –                | –                |
|   | <u>67,800</u>          | <u>–</u>         | <u>–</u>         |
| Satisfied by                                |                        |                  |                  |
| Allotment of shares                         | –                      | –                | –                |
| Cash  | 67,800                 | –                | –                |
|   | <u>67,800</u>          | <u>–</u>         | <u>–</u>         |

Analysis of the net cash outflow in respect of purchase of subsidiaries:

|                                | Year ended 31 December |                  |                  |
|--------------------------------|------------------------|------------------|------------------|
|                                | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Cash consideration paid        | 67,800                 | –                | –                |
| Bank balance and cash acquired | (22,670)               | –                | –                |
|                                | <u>45,130</u>          | <u>–</u>         | <u>–</u>         |

(iii) *Major non-cash transaction*

- (i) Part of the sales proceeds for the disposal of an associated company during the year ended 31 December 2001 comprised investment securities amounting to NT\$73,556,000.

(u) **Banking facilities**

As at 31 December 2002, the Acquired Business of the Business Weekly Group had unsecured banking facilities totalling NT\$100 million, which were fully guaranteed by Mr Jin Wei-Tsun, James and Mr Yu Kuo-Ting, the directors of the Acquired Business of Business Weekly. The banking facilities had not been utilised as at and subsequent to 31 December 2002.

(v) **Commitments***Operating lease commitments*

At 31 December, the Acquired Business of the Business Weekly Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|  | <b>2000</b>     | <b>As at 31 December</b> |                 |
|--|-----------------|--------------------------|-----------------|
|  | <i>NT\$'000</i> | <b>2001</b>              | <b>2002</b>     |
|  |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Expiring in:                                     |                 |                          |                 |
| Not later than one year                          | 8,621           | 829                      | 15,154          |
| Later than one year and<br>not less than 5 years | 52              | –                        | 10,970          |
|  | <u>8,673</u>    | <u>829</u>               | <u>26,124</u>   |

(w) **Related party transactions**

Apart from those disclosed above, the Acquired Business of the Business Weekly Group had undertaken the following significant transactions with related companies in the normal course of business during the Relevant Periods:

|   |             | <b>Year ended 31 December</b> |                 |                 |
|---|-------------|-------------------------------|-----------------|-----------------|
|   | <i>Note</i> | <b>2000</b>                   | <b>2001</b>     | <b>2002</b>     |
|   |             | <i>NT\$'000</i>               | <i>NT\$'000</i> | <i>NT\$'000</i> |
| Cité Publishing Limited   |             |                               |                 |                 |
| – an associated company which later<br>became a fellow subsidiary                           |             |                               |                 |                 |
| Advertising expenses  | (i)         | 2,333                         | 3,726           | 867             |
| Panasia Publishing Co., Ltd.  |             |                               |                 |                 |
| – an associated company   |             |                               |                 |                 |
| Advertising revenue   | (i)         | –                             | 2,625           | 3,158           |
| Sharp Point Publishing Co., Ltd.  |             |                               |                 |                 |
| – a fellow subsidiary   |             |                               |                 |                 |
| Interest expenses   | 8(n)        | –                             | –               | (2,890)         |
| To Go Publishing Inc.*  |             |                               |                 |                 |
| Interest income   | (iii)       | 395                           | –               | –               |
| Rental expenses   | (ii)        | (131)                         | –               | –               |
| Advertising expenses  | (i)         | (1,800)                       | –               | –               |
| Sunbright Publishing Co., Ltd.*   |             |                               |                 |                 |
| Interest income   | (iii)       | 1,578                         | –               | –               |
| Advertising expenses  | (i)         | (32)                          | –               | –               |
| E-Business Weekly Publishing Inc.*  |             |                               |                 |                 |
| Rental expenses   | (ii)        | (351)                         | –               | –               |
| Abovewebs.com Ltd.*   |             |                               |                 |                 |
| Interest income   | (iii)       | 194                           | –               | –               |
| Barbizon Intercolloro<br>Publishing Co., Ltd.,<br>– a minority shareholder of a subsidiary* |             |                               |                 |                 |
| Rental expenses   | (ii)        | (589)                         | –               | –               |
| Mr. Pan Sy-Zuan, Director   |             |                               |                 |                 |
| Gain on disposal of a long term<br>investment   | 8(b)(ii)    | <u>37,098</u>                 | <u>–</u>        | <u>–</u>        |

- \* These represented companies previously owned by the Acquired Business of Business Weekly and were disposed of to a company beneficially owned by the then existing shareholders and directors of Business Weekly pursuant to the Reorganisation.

*Notes:*

- (i) Advertising and editing services provided to the related companies at terms agreed among the contract parties.
- (ii) Rental of office premises was charged to related companies based on the floor areas occupied by the respective companies.
- (iii) Interest on advances to directors and related companies were calculated at an interest rate of 7%.

## **9. SUBSEQUENT EVENT**

No material events took place subsequent to 31 December 2002.

## D. FINANCIAL INFORMATION ON SHARP POINT

## 1. RESULTS OF OPERATIONS

The following is the results of the Acquired Business for the Relevant Periods prepared on the basis set out in Section 5 below:

|                                       | <i>Note</i> | <b>Year ended 31 December</b> |                      |                        |
|---------------------------------------|-------------|-------------------------------|----------------------|------------------------|
|                                       |             | <b>2000</b>                   | <b>2001</b>          | <b>2002</b>            |
|                                       |             | <i>NT\$'000</i>               | <i>NT\$'000</i>      | <i>NT\$'000</i>        |
| Turnover                              | 7(a)        | 470,086                       | 559,058              | 474,001                |
| Cost of sales                         |             | <u>(356,098)</u>              | <u>(366,967)</u>     | <u>(362,148)</u>       |
| Gross profit                          |             | 113,988                       | 192,091              | 111,853                |
| Other revenue                         | 7(a)        | 295                           | 466                  | 282                    |
| Selling and administrative expenses   |             | (108,611)                     | (115,977)            | (119,774)              |
| Other operating (expense)/income, net |             | <u>(415)</u>                  | <u>(981)</u>         | <u>1,019</u>           |
| Operating profit/(loss)               | 7(b)        | 5,257                         | 75,599               | (6,620)                |
| Finance costs                         | 7(c)        | <u>(1,148)</u>                | <u>(2,521)</u>       | <u>(3,008)</u>         |
| Profit/(loss) before taxation         |             | 4,109                         | 73,078               | (9,628)                |
| Taxation                              | 7(d)        | <u>(4,044)</u>                | <u>(20,627)</u>      | <u>(1,335)</u>         |
| Profit/(loss) after taxation          |             | <u><u>65</u></u>              | <u><u>52,451</u></u> | <u><u>(10,963)</u></u> |

## 2. BALANCE SHEETS

The following is the balance sheets of the Acquired Business as at 31 December 2000, 2001 and 2002 prepared on the basis set out in Section 5 below:

|  | Note | As at 31 December |                  |                  |
|--|------|-------------------|------------------|------------------|
|  |      | 2000<br>NT\$'000  | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| <b>Fixed assets</b>                          | 7(g) | 7,251             | 6,910            | 8,018            |
| <b>Deferred tax assets</b>                   | 7(h) | 5,719             | 7,238            | 19,218           |
|  |      | <u>12,970</u>     | <u>14,148</u>    | <u>27,236</u>    |
| <b>Current assets</b>                        |      |                   |                  |                  |
| Inventories                                  | 7(i) | 106,567           | 134,762          | 131,732          |
| Amount due from a related company            | 7(j) | 8,316             | –                | –                |
| Amounts due from fellow subsidiaries         | 7(j) | –                 | –                | 4,824            |
| Accounts receivable                          | 7(l) | 5,675             | 96,055           | 98,200           |
| Other receivables, deposits and prepayments  |      | 28,185            | 30,456           | 36,822           |
| Pledged bank deposits                        | 7(m) | 1,200             | 3,000            | 3,000            |
| Bank balances and cash                       |      | 29,367            | 30,303           | 37,363           |
|  |      | <u>179,310</u>    | <u>294,576</u>   | <u>311,941</u>   |
| <b>Current liabilities</b>                   |      |                   |                  |                  |
| Loan from a fellow subsidiary                | 7(k) | –                 | –                | (69,890)         |
| Accounts payable                             | 7(n) | (100,864)         | (102,317)        | (106,882)        |
| Other payables and accrued charges           |      | (67,697)          | (63,134)         | (60,557)         |
| Subscriptions received in advance            |      | (1,795)           | (2,556)          | (2,090)          |
| Taxation payable                             |      | (9,306)           | (17,134)         | (6,219)          |
| Short term loans                             |      | (12,215)          | (18,877)         | –                |
|  |      | <u>(191,877)</u>  | <u>(204,018)</u> | <u>(245,638)</u> |
| <b>Net current (liabilities)/assets</b>      |      | <u>(12,567)</u>   | <u>90,558</u>    | <u>66,303</u>    |
| <b>Total assets less current liabilities</b> |      | <u>403</u>        | <u>104,706</u>   | <u>93,539</u>    |
| <b>Represented/financed by:</b>              |      |                   |                  |                  |
| (Deficit)/Equity                             |      | (6,362)           | 98,139           | 87,176           |
| <b>Non-current liabilities</b>               |      |                   |                  |                  |
| Pension obligations                          | 7(o) | 6,765             | 6,567            | 6,363            |
|  |      | <u>403</u>        | <u>104,706</u>   | <u>93,539</u>    |

## 3. CASH FLOW STATEMENTS

The following is the cash flow statements of the Acquired Business for the Relevant Periods prepared on the basis set out in Section 5 below:

|   | Note     | Year ended 31 December |                   |                   |
|---|----------|------------------------|-------------------|-------------------|
|   |          | 2000<br>NT\$'000       | 2001<br>NT\$'000  | 2002<br>NT\$'000  |
| Net cash inflow/(outflow) generated                 |          |                        |                   |                   |
| from operations                                     | 7(q)(i)  | 16,874                 | (36,299)          | (10,096)          |
| Interest paid                                       |          | (1,148)                | (2,521)           | (3,008)           |
| Taiwan taxation paid                                |          | (456)                  | (14,318)          | (24,230)          |
|   |          | <u>          </u>      | <u>          </u> | <u>          </u> |
| Net cash inflow/(outflow) from operating activities |          | <u>15,270</u>          | <u>(53,138)</u>   | <u>(37,334)</u>   |
| Investing activities                                |          |                        |                   |                   |
| Purchase of fixed assets                            |          | (6,032)                | (3,170)           | (3,910)           |
| Proceeds from sale of fixed assets                  |          | 6                      | 332               | 181               |
|   |          | <u>          </u>      | <u>          </u> | <u>          </u> |
| Net cash outflow from operating activities          |          | <u>(6,026)</u>         | <u>(2,838)</u>    | <u>(3,729)</u>    |
| Net cash inflow/(outflow) before financing          |          | <u>9,244</u>           | <u>(55,976)</u>   | <u>(41,063)</u>   |
| Financing activities                                | 7(q)(ii) |                        |                   |                   |
| Net draw-down/(repayment) of loans                  |          | 4,215                  | 6,662             | (18,877)          |
| Increase in pledged bank deposits                   |          | (1,200)                | (1,800)           | –                 |
| Loan from a fellow subsidiary                       |          | –                      | –                 | 67,000            |
| Transfers in from equity                            |          | 10,000                 | 52,050            | –                 |
|   |          | <u>          </u>      | <u>          </u> | <u>          </u> |
| Net cash inflow from financing                      |          | <u>13,015</u>          | <u>56,912</u>     | <u>48,123</u>     |
| Increase in cash and cash equivalents               |          | 22,259                 | 936               | 7,060             |
| Cash and equivalents at 1 January                   |          | 7,108                  | 29,367            | 30,303            |
|   |          | <u>          </u>      | <u>          </u> | <u>          </u> |
| Cash and cash equivalents at 31 December            |          | <u>29,367</u>          | <u>30,303</u>     | <u>37,363</u>     |
| Analysis of balance of cash and cash equivalents    |          |                        |                   |                   |
| Bank balances and cash                              |          | <u>29,367</u>          | <u>30,303</u>     | <u>37,363</u>     |

**4. STATEMENTS OF CHANGES IN EQUITY**

The following is a summary of the statement of changes in equity of the Acquired Business for the Relevant Periods prepared on the basis set out in Section 5 below:

|   | <b>As at 31 December</b> |                   |                   |
|---|--------------------------|-------------------|-------------------|
|   | <b>2000</b>              | <b>2001</b>       | <b>2002</b>       |
|   | <i>NT\$'000</i>          | <i>NT\$'000</i>   | <i>NT\$'000</i>   |
| <b>Total (deficit)/equity as at 1 January</b> | (16,427)                 | (6,362)           | 98,139            |
| Profit/(loss) for the year                    | 65                       | 52,451            | (10,963)          |
| Transfers                                     | 10,000                   | 52,050            | –                 |
|   | <u>          </u>        | <u>          </u> | <u>          </u> |
| Total (deficit)/equity as at 31 December      | <u>(6,362)</u>           | <u>98,139</u>     | <u>87,176</u>     |

**5. BASIS OF PRESENTATION**

According to a stock purchase agreement dated 21 November 2001, TOM Print Media Group Limited, a wholly-owned subsidiary of TOM.COM Limited, acquired the publishing business operated by the Company through its wholly-owned subsidiary, Right Charm International Limited. In connection with the acquisition, the Company underwent a reorganisation (the “Reorganisation”) by putting all its then investments which were not engaged in the publishing business, into liquidation.

For the purpose of this report, the results of operations of the Company for the Relevant Periods as set out in Section 1 above only include the results of the Acquired Business pursuant to the Reorganisation as mentioned above, throughout the Relevant Periods.

The balance sheets of the Acquired Business as at 31 December 2000, 2001 and 2002 have been prepared to present only the assets and liabilities of the acquired business by TOM.COM Limited.

In addition, the underlying accounting records for the results of operations and cash flows of the Acquired Business for the year ended 31 December 2000 were substantially lost.

**6. PRINCIPAL ACCOUNTING POLICES**

The principal accounting policies adopted in this report are set out below. These policies conform with accounting principles generally accepted in Hong Kong. The Financial Information in this report is prepared under the historical cost convention.

**(a) Revenue recognition**

Revenue from publishing, distribution and circulation of magazines and books is recognised on the transfer of risk and ownership which generally coincides with the date of delivery. Unearned subscription fees received from subscribers are recorded as subscriptions received in advance in the balance sheets.



Advertising income is recognised as and when the advertisement is published.

Revenue from provision of editing and publishing services is recognised upon delivery of the services.

Interest income is recognised on an accrual basis taking into account the principal outstanding and the effective interest rate applicable.

**(b) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of tangible fixed assets is calculated to write off their costs on the straight-line basis over their expected useful lives. The expected useful lives used for this purpose are:

|  |               |
|--|---------------|
| Plant and machinery                      | 3 to 10 years |
| Computer equipment                       | 3 to 5 years  |
| Office equipment, furniture and fixtures | 2 to 10 years |
| Motor vehicles                           | 5 years       |
| Leasehold improvements                   | 3 to 5 years  |

Major costs incurred in restoring fixed assets to their normal working condition are charged to the results of operations. Improvements are capitalised and depreciated over their expected useful lives to the Acquired Business.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the results of operations.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the results of operations.

**(c) Inventories**

Inventories consist of finished goods which are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(d) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such of provision.

**(e) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the results of operations on a straight-line basis over the lease periods.

**(f) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(g) Translation of foreign currencies**

Transactions in currencies other than New Taiwan dollars are translated into New Taiwan dollars at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than New Taiwan dollars are incorporated into the accounts by translating currencies into New Taiwan dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the above translation policy are dealt with in the results of operations.

**(h) Pension obligations**

The Acquired Business operates a defined benefit plan and the assets of which is generally held in separate trustee-administered funds. The pension plan is generally funded by payments from the Acquired Business, taking account of the recommendations of independent qualified actuaries.

Pension costs are assessed using the projected unit credit cost method: the cost of providing pensions is charged to the results of operations so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of the employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

**(i) Borrowing costs**

All borrowing costs are charged to the results of operations in the year in which they are incurred.

**(j) Related party**

A related party is a company in which one or more of the directors or major shareholders of the Acquired Business have a significant direct or indirect beneficial interest either as directors or shareholders.

**(k) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Acquired Business. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(l) Segment reporting**

In accordance with the Acquired Business' internal financial reporting the Acquired Business has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

No separate segment information is presented since the Acquired Business is principally engaged in one single business segment of publication, distribution and circulation of magazines and books and provision of related services; and the business is principally conducted in Taiwan.

**7. NOTES TO FINANCIAL INFORMATION****(a) Turnover and revenues**

The Acquired Business is engaged principally in the publication, distribution and circulation of magazines and books for the youth, sales of advertising space in magazines and books and the provision of editing and publishing services. Revenues recognised during the Relevant Periods are as follows:

|   | Year ended 31 December |                       |                       |
|---|------------------------|-----------------------|-----------------------|
|   | 2000                   | 2001                  | 2002                  |
|   | NT\$'000               | NT\$'000              | NT\$'000              |
| Turnover  |                        |                       |                       |
| Sales of magazines and books,<br>net of discounts and returns | 449,558                | 506,570               | 417,026               |
| Magazine advertising income, net of<br>discounts              | 17,961                 | 43,591                | 52,703                |
| Sales of editing and publishing services                      | 2,567                  | 8,897                 | 4,272                 |
|   | <u>470,086</u>         | <u>559,058</u>        | <u>474,001</u>        |
| Other revenue   |                        |                       |                       |
| Interest income   | 295                    | 466                   | 282                   |
|   | <u>295</u>             | <u>466</u>            | <u>282</u>            |
| Total revenues  | <u><u>470,381</u></u>  | <u><u>559,524</u></u> | <u><u>474,283</u></u> |

**(b) Operating profit/(loss)**

The operating profit/(loss) is stated after crediting and charging the following:

|   | Year ended 31 December |               |          |
|---|------------------------|---------------|----------|
|   | 2000                   | 2001          | 2002     |
|   | NT\$'000               | NT\$'000      | NT\$'000 |
| <b>Crediting:</b>                                       |                        |               |          |
| Gain on disposal of fixed assets                        | –                      | 304           | 165      |
| Net exchange gain                                       | –                      | 378           | 1,241    |
| <b>Charging:</b>  |                        |               |          |
| Staff costs ( <i>Note 7(f)</i> )                        | 71,581                 | 81,122        | 76,561   |
| Cost of materials consumed                              | 86,985                 | 86,462        | 77,971   |
| Depreciation of fixed assets                            | 14,414                 | 3,483         | 2,786    |
| Operating lease rental in respect of land and buildings | 10,010                 | 12,732        | 10,482   |
| Auditors' remuneration                                  | 450                    | 450           | 600      |
| Loss on disposal of fixed assets                        | 1,239                  | –             | –        |
| Provision for bad and doubtful debts                    | 1,178                  | 532           | 492      |
| Provision for obsolete inventories                      | 18,430                 | 12,595        | 94,495   |
| Write-off of inventories                                | 2,264                  | 23,135        | –        |
|   | <u>2,264</u>           | <u>23,135</u> | <u>–</u> |

**(c) Finance costs**

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2000                   | 2001         | 2002         |
|  | NT\$'000               | NT\$'000     | NT\$'000     |
| Interest on bank loans   | 676                    | 1,288        | 118          |
| Interest on amount due to a related company ( <i>Note 7(t)</i> ) | 48                     | 1,233        | –            |
| Interest on loan from a fellow subsidiary ( <i>Note 7(k)</i> )   | –                      | –            | 2,890        |
| Other finance charges  | 424                    | –            | –            |
|  | <u>1,148</u>           | <u>2,521</u> | <u>3,008</u> |

**(d) Taxation**

Taxation comprised:

|  | Year ended 31 December |               |              |
|--|------------------------|---------------|--------------|
|  | 2000                   | 2001          | 2002         |
|  | NT\$'000               | NT\$'000      | NT\$'000     |
| Income tax in Taiwan                         |                        |               |              |
| – Current year ( <i>note ii</i> )            | 9,471                  | 20,190        | 10,438       |
| – Additional income tax ( <i>note iii</i> )  | –                      | 1,821         | 4,969        |
| – Under/(over) provision of prior years      | 292                    | 135           | (2,092)      |
| – Deferred taxation ( <i>see Note 7(h)</i> ) | (5,719)                | (1,519)       | (11,980)     |
|  | <u>4,044</u>           | <u>20,627</u> | <u>1,335</u> |

Notes:

- (i) No provision for Hong Kong profits tax has been made in the Financial Information as the Acquired Business had no assessable profits in Hong Kong during the Relevant Periods.

- (ii) The income tax in Taiwan during the Relevant Periods represented the tax charges on the assessable profits of the Acquired Business at a rate of 25%.
- (iii) According to the New Taiwan Imputation Tax, where the earnings of a company derived on or after 1 January 1998 remain undistributed within a specific timeframe, the undistributed earnings is subject to an additional income tax charging at a rate of 10%.

(e) **Earnings/(loss) per share**

No earnings/(loss) per share is presented as its inclusion, for the purpose of this report, is not considered meaningful because the results of operations of the Acquired Business for the Relevant Periods includes only the results of the Acquired Business.

(f) **Staff costs**

|  | Year ended 31 December |                  |                  |
|--|------------------------|------------------|------------------|
|  | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Wages and salaries   | 69,904                 | 79,350           | 74,659           |
| Discretionary bonuses                                      | –                      | 95               | 400              |
| Pension costs – defined benefits plan ( <i>Note 7(o)</i> ) | 1,677                  | 1,677            | 1,502            |
|  | <u>71,581</u>          | <u>81,122</u>    | <u>76,561</u>    |

*Emoluments of directors and employees*

(i) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors for the Relevant Periods are as follows:

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Fees  | –                      | –                | –                |
| Salaries, allowance and other benefits<br>in kind | 2,197                  | 3,008            | 3,069            |
| Discretionary bonuses                             | –                      | 234              | 197              |
|   | <u>2,197</u>           | <u>3,242</u>     | <u>3,266</u>     |

Two of the seven (2001: five; 2000: five) directors of the Acquired Business received emoluments. The two directors received individual emoluments of approximately NT\$2,036,000 and NT\$1,230,000 (2001: NT\$2,051,000 and NT\$1,191,000; 2000: NT\$1,217,000 and NT\$980,000) for the year ended 31 December 2002.

None of the Directors waived any emoluments during the Relevant Periods.

(ii) Five highest paid individuals

The five individuals whose emoluments were the highest in the Acquired Business during the Relevant Periods are as follows:

|           | Year ended 31 December |          |          |
|-----------|------------------------|----------|----------|
|           | 2000                   | 2001     | 2002     |
| Directors | 2                      | 2        | 2        |
| Employees | 3                      | 3        | 3        |
|           | <u>5</u>               | <u>5</u> | <u>5</u> |

Details of the emoluments of employees as mentioned above are as follows:

|                               | Year ended 31 December |                  |                  |
|-------------------------------|------------------------|------------------|------------------|
|                               | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Basic salaries and allowances | 4,075                  | 2,675            | 2,813            |
| Bonuses                       | –                      | 2,217            | 1,943            |
|                               | <u>4,075</u>           | <u>4,892</u>     | <u>4,756</u>     |

The emoluments of employees fell within the following bands:

|  | Year ended 31 December |          |          |
|--|------------------------|----------|----------|
|  | 2000                   | 2001     | 2002     |
| NT\$nil – NT\$4,000,000 (equivalent to<br>HK\$1,000,000) | <u>3</u>               | <u>3</u> | <u>3</u> |

- (iii) During the Relevant Periods, no emoluments of the five highest paid individuals, including the Directors, were incurred as inducements to join or upon joining the Acquired Business or as compensation for loss of office.

(g) **Fixed assets**

Movements of fixed assets for the Relevant Periods are as follows:

|                                 | Plant and<br>machinery<br>NT\$'000 | Computer<br>equipment<br>NT\$'000 | Office<br>equipment<br>furniture<br>and<br>fixtures<br>NT'000 | Motor<br>vehicles<br>NT\$'000 | Total<br>NT'000 |
|---------------------------------|------------------------------------|-----------------------------------|---|-------------------------------|-----------------|
| <b>Cost</b>                     |                                    |                                   |   |                               |                 |
| At 1 January 2000               | 11,087                             | –                                 | 21,735  | 2,987                         | 35,809          |
| Additions                       | 45                                 | –                                 | 5,987   | –                             | 6,032           |
| Disposal                        | (777)                              | –                                 | (5,093)   | (247)                         | (6,117)         |
| Transfers                       | <u>(1,255)</u>                     | <u>8,840</u>                      | <u>(7,585)</u>  | <u>–</u>                      | <u>–</u>        |
| At 31 December 2000             | <u>9,100</u>                       | <u>8,840</u>                      | <u>15,044</u>   | <u>2,740</u>                  | <u>35,724</u>   |
| <b>Accumulated depreciation</b> |                                    |                                   |   |                               |                 |
| At 1 January 2000               | 4,924                              | –                                 | 11,663  | 2,344                         | 18,931          |
| Charge for the year             | 4,594                              | –                                 | 9,177   | 643                           | 14,414          |
| Disposal                        | (430)                              | –                                 | (4,195)   | (247)                         | (4,872)         |
| Transfers                       | <u>(426)</u>                       | <u>3,813</u>                      | <u>(3,387)</u>  | <u>–</u>                      | <u>–</u>        |
| At 31 December 2000             | <u>8,662</u>                       | <u>3,813</u>                      | <u>13,258</u>   | <u>2,740</u>                  | <u>28,473</u>   |
| <b>Net book value</b>           |                                    |                                   |   |                               |                 |
| As at 31 December 2000          | <u>438</u>                         | <u>5,027</u>                      | <u>1,786</u>  | <u>–</u>                      | <u>7,251</u>    |

|                                 | Plant and<br>machinery<br>NT\$'000 | Computer<br>equipment<br>NT\$'000 | Office<br>equipment<br>furniture<br>and<br>fixtures<br>NT'000 | Motor<br>vehicles<br>NT\$'000 | Total<br>NT'000 |
|---------------------------------|------------------------------------|-----------------------------------|---|-------------------------------|-----------------|
| <b>Cost</b>                     |                                    |                                   |   |                               |                 |
| At 1 January 2001               | 9,100                              | 8,840                             | 15,044  | 2,740                         | 35,724          |
| Additions                       | –                                  | 2,139                             | 221   | 810                           | 3,170           |
| Disposal                        | (2,954)                            | (577)                             | (3,097)   | (1,651)                       | (8,279)         |
| At 31 December 2001             | <u>6,146</u>                       | <u>10,402</u>                     | <u>12,168</u>   | <u>1,899</u>                  | <u>30,615</u>   |
| <b>Accumulated depreciation</b> |                                    |                                   |   |                               |                 |
| At 1 January 2001               | 8,662                              | 3,813                             | 13,258  | 2,740                         | 28,473          |
| Charge for the year             | 412                                | 1,689                             | 1,280   | 102                           | 3,483           |
| Disposal                        | (2,951)                            | (555)                             | (3,094)   | (1,651)                       | (8,251)         |
| Transfers                       | –                                  | 2,044                             | (2,044)   | –                             | –               |
| At 31 December 2001             | <u>6,123</u>                       | <u>6,991</u>                      | <u>9,400</u>  | <u>1,191</u>                  | <u>23,705</u>   |
| <b>Net book value</b>           |                                    |                                   |   |                               |                 |
| As at 31 December 2001          | <u>23</u>                          | <u>3,411</u>                      | <u>2,768</u>  | <u>708</u>                    | <u>6,910</u>    |

|                                 | Plant and<br>machinery<br>NT\$'000 | Computer<br>equipment<br>NT\$'000 | Office<br>equipment<br>furniture<br>and<br>fixtures<br>NT\$'000 | Motor<br>vehicles<br>NT'000 | Leasehold<br>improvements<br>NT\$'000 | Total<br>NT'000 |
|---------------------------------|------------------------------------|-----------------------------------|---|-----------------------------|---------------------------------------|-----------------|
| <b>Cost</b>                     |                                    |                                   |   |                             |                                       |                 |
| At 1 January 2002               | 6,146                              | 10,402                            | 12,168  | 1,899                       | –                                     | 30,615          |
| Additions                       | –                                  | 3,651                             | 259   | –                           | –                                     | 3,910           |
| Disposal                        | (289)                              | (1,146)                           | (4,330)   | (777)                       | –                                     | (6,542)         |
| Transfers                       | –                                  | –                                 | (2,540)   | –                           | 2,540                                 | –               |
| At 31 December 2002             | <u>5,857</u>                       | <u>12,907</u>                     | <u>5,557</u>  | <u>1,122</u>                | <u>2,540</u>                          | <u>27,983</u>   |
| <b>Accumulated depreciation</b> |                                    |                                   |   |                             |                                       |                 |
| At 1 January 2002               | 6,123                              | 6,991                             | 9,400   | 1,191                       | –                                     | 23,705          |
| Charge for the year             | 23                                 | 1,731                             | 759   | 135                         | 138                                   | 2,786           |
| Disposal                        | (289)                              | (1,138)                           | (4,322)   | (777)                       | –                                     | (6,526)         |
| Transfers                       | –                                  | –                                 | (1,132)   | –                           | 1,132                                 | –               |
| At 31 December 2002             | <u>5,857</u>                       | <u>7,584</u>                      | <u>4,705</u>  | <u>549</u>                  | <u>1,270</u>                          | <u>19,965</u>   |
| <b>Net book value</b>           |                                    |                                   |   |                             |                                       |                 |
| As at 31 December 2002          | <u>–</u>                           | <u>5,323</u>                      | <u>852</u>  | <u>573</u>                  | <u>1,270</u>                          | <u>8,018</u>    |

**(h) Deferred tax assets**

Movements of deferred tax assets are as follows:

|                                 | 2000<br><i>NT\$'000</i> | 2001<br><i>NT\$'000</i> | 2002<br><i>NT\$'000</i> |
|---------------------------------|-------------------------|-------------------------|-------------------------|
| At 1 January                    | –                       | 5,719                   | 7,238                   |
| Charge to results of operations | 5,719                   | 1,519                   | 11,980                  |
| At 31 December                  | <u>5,719</u>            | <u>7,238</u>            | <u>19,218</u>           |

**(i) Inventories**

|                                      | 2000<br><i>NT\$'000</i> | As at 31 December<br>2001<br><i>NT\$'000</i> | 2002<br><i>NT\$'000</i> |
|--------------------------------------|-------------------------|--|-------------------------|
| Finished goods – books and magazines | 124,997                 | 150,997                                      | 192,755                 |
| Provision for inventory obsolescence | (18,430)                | (16,235)                                     | (61,023)                |
|                                      | <u>106,567</u>          | <u>134,762</u>                               | <u>131,732</u>          |

As at 31 December 2000, 2001 and 2002, no inventories were stated at their net realisable value.

**(j) Amounts due from/to a related company/fellow subsidiaries**

The amounts due from a related company/fellow subsidiaries are derived from trading transactions during the normal course of business of the Acquired Business. The amounts are unsecured, interest-free and repayable on demand.

**(k) Loan from a fellow subsidiary**

The balance as of 31 December 2002 represents a loan principal balance of NT\$67,000,000 and related interest payable of NT\$2,890,000 due to a fellow subsidiary. The balance is unsecured, bear interest at 6% per annum and repayable within one year.

**(l) Accounts receivable**

The Acquired Business usually grants credit of approximately 60 days to its customers. The aging analyses of the outstanding accounts receivable balance at the end of each of the Relevant Periods are as follows:

|   | 2000<br><i>NT\$'000</i> | As at 31 December<br>2001<br><i>NT\$'000</i> | 2002<br><i>NT\$'000</i> |
|---|-------------------------|--|-------------------------|
| 1 – 60 days   | 14,889                  | 110,773                                      | 103,639                 |
| 61 – 120 days   | 160                     | 1,634  | 18,074                  |
| 121 – 180 days  | 615                     | 2,087  | 4,621                   |
| Over 180 days   | 2,451                   | 723  | 4,906                   |
|   | <u>18,115</u>           | <u>115,217</u>                               | <u>131,240</u>          |
| Less: Provision for bad and doubtful debts<br>and sales returns | (12,440)                | (19,162)                                     | (33,040)                |
|   | <u>5,675</u>            | <u>96,055</u>                                | <u>98,200</u>           |

**(m) Pledged bank deposits**

The balance is pledged with a bank as a performance guarantee to a customer under the normal course of business.



**(n) Accounts payable**

The aging analyses of the accounts payable balance at the end of each of the Relevant Periods are as follows:

|                | <b>2000</b>     | <b>As at 31 December</b> | <b>2002</b>     |
|----------------|-----------------|--------------------------|-----------------|
|                | <i>NT\$'000</i> | <i>2001</i>              | <i>NT\$'000</i> |
|                |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| 0 – 30 days    | 33,569          | 41,332                   | 43,920          |
| 31 – 60 days   | 36,936          | 15,733                   | 31,740          |
| 61 – 120 days  | 23,766          | 36,486                   | 21,060          |
| 121 – 180 days | 1,139           | 3,533                    | 1,427           |
| Over 180 days  | 5,454           | 5,233                    | 8,735           |
|                | <u>100,864</u>  | <u>102,317</u>           | <u>106,882</u>  |

**(o) Retirement benefit costs**

The Acquired Business operates a retirement scheme providing benefits to all eligible employees based on the final pay payable to them before retirement. The Acquired Business has an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned. The contributions are determined by a qualified actuary in Taiwan. Certain assets of the scheme are deposited with the Central Trust of China in Taiwan and held separately from those of the Acquired Business.

The actuarial valuation of Acquired Business was performed by PricewaterhouseCoopers Management Consultants Company Ltd. for the years ended 31 December 2000 and 2001, and by KPMG Consulting Co., Ltd. for the year ended 31 December 2002. Both are qualified actuaries in Taiwan. The retirement scheme has been valued using the projected unit credit cost method based on the following principal assumptions:

|                           | <b>2000</b> | <b>2001</b> | <b>2002</b> |
|---------------------------|-------------|-------------|-------------|
| Discount rate             | 5.75%       | 4.25%       | 4.00%       |
| Expected return on assets | 5.75%       | 4.00%       | 3.25%       |
| Salary increase           | 3.00%       | 2.50%       | 2.75%       |

The amounts recognised in the balance sheets are determined as follows:

|                                       | <b>2000</b>     | <b>As at 31 December</b> | <b>2002</b>     |
|---------------------------------------|-----------------|--------------------------|-----------------|
|                                       | <i>NT\$'000</i> | <i>2001</i>              | <i>NT\$'000</i> |
|                                       |                 | <i>NT\$'000</i>          | <i>NT\$'000</i> |
| Present value of funded obligations   | 11,271          | 15,031                   | 17,019          |
| Fair value of plan assets             | <u>(4,506)</u>  | <u>(6,522)</u>           | <u>(8,457)</u>  |
| Present value of unfunded obligations | 6,765           | 8,509                    | 8,562           |
| Unrecognised past service costs       | <u>–</u>        | <u>(1,942)</u>           | <u>(2,199)</u>  |
| Liability in the balance sheet        | <u>6,765</u>    | <u>6,567</u>             | <u>6,363</u>    |

The amounts recognised in the Acquired Business' results of operations for the Relevant Periods are determined as follows:

|  | For the year ended 31 December |                   |                   |
|--|--------------------------------|-------------------|-------------------|
|  | 2000<br>NT\$'000               | 2001<br>NT\$'000  | 2002<br>NT\$'000  |
| Current service costs                      | 1,139                          | 1,288             | 1,069             |
| Interest costs                             | 648                            | 648               | 639               |
| Expected return of plan assets             | (110)                          | (259)             | (261)             |
| Net actuarial losses recognised            | —                              | —                 | 55                |
|  | <u>          </u>              | <u>          </u> | <u>          </u> |
| Total, included in staff costs (Note 7(f)) | <u>1,677</u>                   | <u>1,677</u>      | <u>1,502</u>      |

Movement in the liability recognised in the balance sheets:

|                    | As at 31 December |                   |                   |
|--------------------|-------------------|-------------------|-------------------|
|                    | 2000<br>NT\$'000  | 2001<br>NT\$'000  | 2002<br>NT\$'000  |
| At 1 January       | 6,529             | 6,765             | 6,567             |
| Total expenses     | 1,677             | 1,677             | 1,502             |
| Contributions paid | (1,441)           | (1,875)           | (1,706)           |
|                    | <u>          </u> | <u>          </u> | <u>          </u> |
| At 31 December     | <u>6,765</u>      | <u>6,567</u>      | <u>6,363</u>      |

(p) Analysis of changes in equity

|                        | Reserves<br>NT\$'000 | Accumulated<br>deficit<br>NT\$'000 | Total<br>NT\$'000 |
|------------------------|----------------------|------------------------------------|-------------------|
| As at 1 January 2000   | 32,000               | (48,427)                           | (16,427)          |
| Profit after taxation  | —                    | 65                                 | 65                |
| Transfers              | 10,000               | —                                  | 10,000            |
|                        | <u>          </u>    | <u>          </u>                  | <u>          </u> |
| As at 31 December 2000 | 42,000               | (48,362)                           | (6,362)           |
| Profit after taxation  | —                    | 52,451                             | 52,451            |
| Transfers              | 60,960               | (8,910)                            | 52,050            |
|                        | <u>          </u>    | <u>          </u>                  | <u>          </u> |
| As at 31 December 2001 | 102,960              | (4,821)                            | 98,139            |
| Loss after taxation    | —                    | (10,963)                           | (10,963)          |
| Transfers              | 4,446                | (4,446)                            | —                 |
|                        | <u>          </u>    | <u>          </u>                  | <u>          </u> |
| As at 31 December 2002 | <u>107,406</u>       | <u>(20,230)</u>                    | <u>87,176</u>     |

**(q) Notes to cash flow statements***(i) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operations*

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Operating profit/(loss)   | 5,257                  | 75,599           | (6,620)          |
| Depreciation  | 14,414                 | 3,483            | 2,786            |
| Loss/(gain) on disposal of fixed assets   | 1,239                  | (304)            | (165)            |
|   | <u>20,910</u>          | <u>78,778</u>    | <u>(3,999)</u>   |
| Changes in working capital:   |                        |                  |                  |
| (Increase)/decrease in inventories  | (61,636)               | (28,195)         | 3,030            |
| Decrease/(increase) in accounts receivable  | 10,416                 | (90,380)         | (2,145)          |
| Increase in other receivables, deposits and prepayments                               | (9,985)                | (2,271)          | (6,366)          |
| Increase/(decrease) in net amounts due from related companies and fellow subsidiaries | 823                    | 8,316            | (1,934)          |
| Increase in accounts payable  | 29,956                 | 1,453            | 4,565            |
| Increase/(decrease) in other payables and accrued charges                             | 24,595                 | (4,563)          | (2,577)          |
| Increase/(decrease) in subscriptions received in advance                              | 1,795                  | 761              | (466)            |
| Decrease in pension obligations   | -                      | (198)            | (204)            |
|   | <u>-</u>               | <u>(198)</u>     | <u>(204)</u>     |
| Net cash inflow/(outflow) generated from operations                                   | <u>16,874</u>          | <u>(36,299)</u>  | <u>(10,096)</u>  |

*(ii) Analysis of changes in financing during the year*

|                                      | Loan from a fellow subsidiary |                  |                  | Reserves         |                  |                  | Pledged bank deposits |                  |                  | Short term bank loans |                  |                  |
|--------------------------------------|-------------------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|-----------------------|------------------|------------------|
|                                      | 2000<br>NT\$'000              | 2001<br>NT\$'000 | 2002<br>NT\$'000 | 2000<br>NT\$'000 | 2001<br>NT\$'000 | 2002<br>NT\$'000 | 2000<br>NT\$'000      | 2001<br>NT\$'000 | 2002<br>NT\$'000 | 2000<br>NT\$'000      | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| At 1 January                         | -                             | -                | -                | 32,000           | 42,000           | 102,960          | -                     | (1,200)          | (3,000)          | 8,000                 | 12,215           | 18,877           |
| Cash inflows/(outflows)              | -                             | -                | 67,000           | 10,000           | 52,050           | -                | (1,200)               | (1,800)          | -                | 4,215                 | 6,662            | (18,877)         |
| Interest accrual                     | -                             | -                | 2,890            | -                | -                | -                | -                     | -                | -                | -                     | -                | -                |
| Transfer in from accumulated deficit | -                             | -                | -                | -                | 8,910            | 4,446            | -                     | -                | -                | -                     | -                | -                |
| At 31 December                       | <u>-</u>                      | <u>-</u>         | <u>69,890</u>    | <u>42,000</u>    | <u>102,960</u>   | <u>107,406</u>   | <u>(1,200)</u>        | <u>(3,000)</u>   | <u>(3,000)</u>   | <u>12,215</u>         | <u>18,877</u>    | <u>-</u>         |

*(iii) Significant non-cash transaction*

The Acquired Business directly wrote off obsolete inventory items or offset these items against provision set up by the Acquired Business in the amounts of approximately NT\$2,264,000, NT\$37,925,000 and NT\$49,707,000 for the year ended 31 December 2000, 2001 and 2002, respectively.

**(r) Banking facilities**

As at 31 December 2002, the Acquired Business had unsecured banking facilities totalling NT\$8,000,000, which were fully guaranteed by Huang Chen Lung and Chen Shi Fang, the directors of the Acquired Business, and Liao Kuei-Hwa, an employee of the Acquired Business. The banking facilities had not been utilised as at and subsequent to 31 December 2002.

(s) **Operating lease commitments**

At 31 December 2002, the Acquired Business had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

|   | 2000<br>NT\$'000 | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
|---|------------------|------------------|------------------|
| Not later than one year                           | 11,310           | 11,964           | 6,204            |
| Later than one year and not later than five years | 15,709           | 10,135           | 4,887            |
|   | <u>27,019</u>    | <u>22,099</u>    | <u>11,091</u>    |

(t) **Related party transactions**

Apart from those disclosed above, the Acquired Business had the following significant transactions with related companies in the normal course of business during the Relevant Periods:

|   | Year ended 31 December |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2000<br>NT\$'000       | 2001<br>NT\$'000 | 2002<br>NT\$'000 |
| Nonghsueh Co. Ltd – a company controlled by certain then shareholders of the Company* |                        |                  |                  |
| Distribution of magazines and books (Note i)  | 255,296                | 245,732          | –                |
| Interest paid (Note ii)   | 48                     | 1,233            | –                |
| Cité Publishing Limited<br>– a fellow subsidiary                                      |                        |                  |                  |
| Distribution of magazines and books (Note i)  | –                      | –                | 10,661           |
| Business Weekly Publishing Inc.<br>– a fellow subsidiary                              |                        |                  |                  |
| Interest paid (Note 7(k))   | –                      | –                | 2,890            |
|   | <u>–</u>               | <u>–</u>         | <u>2,890</u>     |

\* No longer a related company subsequent to TOM's acquisition of the Acquired Business in November 2001

- (i) The distribution services were, in the opinion of the directors, conducted in the normal course of business under terms mutually agreed.
- (ii) Interest was paid for loans from the related company for working capital requirement. The loans bore interest at 14.4% per annum and were fully repaid before 31 December 2002.

**8. SUBSEQUENT EVENT**

No material events took place subsequent to 31 December 2002.

Set out below are summaries of the results and balance sheets of Acquired Businesses under Cité Publishing Holding Limited, together with the relevant notes to the accounts, as extracted from the accountants' reports on each of Acquired Businesses under Cité Publishing Holding Limited included in the circular of TOM already submitted to the Shareholders on 9 April 2003 in respect of the acquisition of an aggregate of 11.645% of the issued share capital of Cité Publishing Holding Limited. The disclosure of the information below is in compliance of the relevant provision under the GEM Listing Rules.

#### **E. ACQUIRED BUSINESSES UNDER CITÉ PUBLISHING HOLDING LIMITED (UNAUDITED)**

The four acquired businesses ("Acquired Businesses") under Cité Publishing Holding Limited ("Cité Publishing Holding"), namely Cité, PC Home, Sharp Point and Business Weekly, have been included in the consolidated financial statements of TOM since their respective acquisitions by TOM through its directly or indirectly owned subsidiaries in September 2001 (for PC Home and Cité), November 2001 (for Sharp Point) and in January 2002 (for Business Weekly).

Pursuant to the Print Media Group Restructuring and the Cité Acquisition, the four Acquired Businesses will be operating as subsidiaries under Cité Publishing Holding with TOM holding effective beneficial interests of 88.355% in PC Home, Sharp Point and Business Weekly and 88.328% in Cité after completion.

The following additional financial information is prepared to demonstrate, for indication and information only, the combined operating results of these four Acquired Businesses for the years ended 31 December 2000, 2001 and 2002 (including the period before their respective acquisitions by TOM) as well as the combined net assets of these four Acquired Businesses as at 31 December 2002 for reference of the readers of this Circular.

In addition, this additional financial information also attempts to illustrate, for indication and information only, the pro-forma share of the combined net profits of the four Acquired Businesses by TOM for the Relevant Periods, as well as TOM's pro-forma share of the combined net assets as at 31 December 2002, as if the completion of the Print Media Group Restructuring and the Cité Acquisition had been effectuated on 1 January 2000.

#### **1. BASIS OF PREPARATION**

The following are summaries of the unaudited statements of adjusted combined results of operations and combined net assets of the Acquired Businesses held by TOM through Cité Publishing Holding, prepared based on the financial information of each of Acquired Businesses for the Relevant Periods, as extracted from each of their accountants' reports as set out in Appendices II to V to this Circular. Adjustments have been made to eliminate any inter-group transactions undertaken by these Acquired Businesses during the Relevant Periods.

2. UNAUDITED COMBINED RESULTS OF OPERATIONS OF THE ACQUIRED BUSINESSES  
UNDER CITÉ PUBLISHING HOLDING FOR THE RELEVANT PERIODS

|  | Year ended 31 December 2000 |                        |                                   |                                | Adjustments<br>NT\$'000 | Note | Combined<br>NT\$'000 |
|--|-----------------------------|------------------------|-----------------------------------|--------------------------------|-------------------------|------|----------------------|
|  | Cité<br>NT\$'000            | PC<br>Home<br>NT\$'000 | Sharp<br>Point<br>NT\$'000<br>(4) | Business<br>Weekly<br>NT\$'000 |                         |      |                      |
| Turnover   | 840,712                     | 981,225                | 470,086                           | 546,372                        | (2,333)                 | 2    | 2,836,062            |
| Cost of sales  | (565,395)                   | (538,247)              | (356,098)                         | (203,876)                      |                         |      | (1,663,616)          |
| Gross profit   | 275,317                     | 442,978                | 113,988                           | 342,496                        |                         |      | 1,172,446            |
| Other revenue  | 4,479                       | 2,595                  | 295                               | 4,709                          |                         |      | 12,078               |
| Selling and administrative<br>expenses                 | (263,286)                   | (539,783)              | (108,611)                         | (215,724)                      | 2,333                   | 2    | (1,125,071)          |
| Gain on disposal of a<br>long term investment          | -                           | -                      | -                                 | 37,098                         |                         |      | 37,098               |
| Other operating income/(loss), net                     | 10,214                      | 5,840                  | (415)                             | 5,446                          |                         |      | 21,085               |
| Operating profit/(loss)                                | 26,724                      | (88,370)               | 5,257                             | 174,025                        |                         |      | 117,636              |
| Finance costs  | (11,778)                    | (1,097)                | (1,148)                           | -                              |                         |      | (14,023)             |
| Share of results of<br>associated companies            | -                           | 6,521                  | -                                 | 1,449                          | 240                     | 1    | 8,210                |
| Profit/(loss) before taxation                          | 14,946                      | (82,946)               | 4,109                             | 175,474                        |                         |      | 111,823              |
| Taxation   | (15,470)                    | (19,878)               | (4,044)                           | (36,346)                       |                         |      | (75,738)             |
| Profit/(loss) after taxation                           | (524)                       | (102,824)              | 65                                | 139,128                        |                         |      | 36,085               |
| Minority interests                                     | 2,992                       | 2,198                  | -                                 | (11)                           |                         |      | 5,179                |
| Profit/(loss) after deduction<br>of minority interests | <u>2,468</u>                | <u>(100,626)</u>       | <u>65</u>                         | <u>139,117</u>                 |                         |      | <u>41,264</u>        |
| Pro-forma combined profit/(loss)<br>entitled by TOM    | <u>2,180</u>                | <u>(88,908)</u>        | <u>57</u>                         | <u>123,129</u>                 |                         | 3    | <u>36,458</u>        |

## Notes:

1. Business Weekly used to hold 22.55% of effective equity interest in Cité before 1 January 2000 and up to September 2001. This represents the elimination of Business Weekly's share of loss of Cité under equity accounting.
2. This adjustment represents the advertising revenue/expense between Business Weekly and Cité.
3. This represents the pro-forma equity interest in the Acquired Businesses held by TOM as to 88.355% equity interest in each of Business Weekly, PC Home and Sharp Point, and 88.328% equity interest in Cité, assuming that the shareholding structure after Completion of the Print Media Group Restructuring and the Cité Acquisition had been effectuated on 1 January 2000.
4. As mentioned in the Accountants' Report on Sharp Point included in Appendix V to the Circular, the reporting accountants, PricewaterhouseCoopers Hong Kong, were unable to perform an audit on the results of operations of the acquired business of Sharp Point due to the absence of accounting records. A disclaimer of opinion was rendered on the results of operations and cashflows of the Acquired Business of Sharp Point for the year ended 31 December 2000.

|  | Year ended 31 December 2001 |                        |                            |                                |                         | Note | Combined<br>NT\$'000 |
|--|-----------------------------|------------------------|----------------------------|--------------------------------|-------------------------|------|----------------------|
|  | Cité<br>NT\$'000            | PC<br>Home<br>NT\$'000 | Sharp<br>Point<br>NT\$'000 | Business<br>Weekly<br>NT\$'000 | Adjustments<br>NT\$'000 |      |                      |
| Turnover   | 855,432                     | 825,530                | 559,058                    | 624,711                        | (5,218)                 | 1    | 2,859,513            |
| Cost of sales  | (472,215)                   | (399,658)              | (366,967)                  | (268,621)                      | 1,492                   | 1    | (1,505,969)          |
| Gross profit   | 383,217                     | 425,872                | 192,091                    | 356,090                        |                         |      | 1,353,544            |
| Other revenue  | 2,321                       | 5,158                  | 466                        | 1,734                          |                         |      | 9,679                |
| Selling and administrative<br>expenses                 | (310,052)                   | (447,913)              | (115,977)                  | (264,144)                      | 3,726                   | 1    | (1,134,360)          |
| Gain on disposal of an<br>associated company           | -                           | -                      | -                          | 40,923                         | (40,923)                | 1    | -                    |
| Other operating income/(loss), net                     | 22,854                      | 14,276                 | (981)                      | 22,201                         |                         |      | 58,350               |
| Operating profit/(loss)                                | 98,340                      | (2,607)                | 75,599                     | 156,804                        |                         |      | 287,213              |
| Finance costs  | (8,372)                     | (1,954)                | (2,521)                    | -                              |                         |      | (12,847)             |
| Share of results of<br>associated companies            | -                           | 375                    | -                          | 10,900                         | (10,411)                | 1    | 864                  |
| Profit/(loss) before taxation                          | 89,968                      | (4,186)                | 73,078                     | 167,704                        |                         |      | 275,230              |
| Taxation   | (26,916)                    | (5,101)                | (20,627)                   | (19,300)                       |                         |      | (71,944)             |
| Profit/(loss) after taxation                           | 63,052                      | (9,287)                | 52,451                     | 148,404                        |                         |      | 203,286              |
| Minority interests                                     | (1,497)                     | 2,764                  | -                          | (2,764)                        |                         |      | (1,497)              |
| Profit/(loss) after deduction of<br>minority interests | 61,555                      | (6,523)                | 52,451                     | 145,640                        |                         |      | 201,789              |
| Pro-forma combined profit/(loss)<br>entitled by TOM    | 54,370                      | (5,763)                | 46,343                     | 83,324                         |                         | 2    | 178,274              |

*Notes:*

1. These represent the adjustment on the following items:
  - i. Elimination of the then sales commissions between PC Home and Cité.
  - ii. Elimination of Business Weekly's 22.55% equity interest in the profit of Cité from January to September 2001.
  - iii. Reversal of the gain on disposal of Business Weekly's 22.55% equity interest in Cité in October 2001.
  - iv. Elimination of advertising revenue/expense between Cité and Business Weekly.
2. This represents the pro-forma equity interest in the Acquired Businesses held by TOM as to 88.355% equity interest in each of Business Weekly, PC Home and Sharp Point, and 88.328% equity interest in Cité, assuming that the shareholding structure after Completion of the Print Media Group Restructuring and the Cité Acquisition had been effectuated on 1 January 2000.

|  | Year ended 31 December 2002 |            |                |                    |             | Note | Combined<br>NT\$'000 |
|--|-----------------------------|------------|----------------|--------------------|-------------|------|----------------------|
|  | Cité                        | PC<br>Home | Sharp<br>Point | Business<br>Weekly | Adjustments |      |                      |
|  | NT\$'000                    | NT\$'000   | NT\$'000       | NT\$'000           | NT\$'000    |      |                      |
| Turnover   | 943,384                     | 961,725    | 474,001        | 677,359            | (20,312)    | 1    | 3,036,157            |
| Cost of sales  | (518,342)                   | (422,027)  | (362,148)      | (260,313)          | 20,312      | 1    | (1,542,518)          |
| Gross profit   | 425,042                     | 539,698    | 111,853        | 417,046            |             |      | 1,493,639            |
| Other revenue  | 950                         | 1,766      | 282            | 3,451              | (2,890)     | 1    | 3,559                |
| Selling and administrative expenses                    | (334,719)                   | (444,188)  | (119,774)      | (278,621)          |             |      | (1,177,302)          |
| Other operating income, net                            | 14,854                      | 5,489      | 1,019          | 9,181              |             |      | 30,543               |
| Operating profit/(loss)                                | 106,127                     | 102,765    | (6,620)        | 151,057            |             |      | 350,439              |
| Finance costs  | (6,780)                     | (1,227)    | (3,008)        | -                  | 2,890       | 1    | (8,125)              |
| Share of results of<br>associated companies            | -                           | 555        | -              | 5,334              |             |      | 5,889                |
| Profit/(loss) before taxation                          | 99,347                      | 102,093    | (9,628)        | 156,391            |             |      | 348,203              |
| Taxation   | (29,327)                    | (12,242)   | (1,335)        | (45,793)           |             |      | (88,697)             |
| Profit/(loss) after taxation                           | 70,020                      | 89,851     | (10,963)       | 110,598            |             |      | 259,506              |
| Minority interest                                      | (3,283)                     | (2,329)    | -              | (739)              |             |      | (6,351)              |
| Profit/(loss) after deduction of<br>minority interests | 66,737                      | 87,522     | (10,963)       | 109,859            |             |      | 253,155              |
| Pro-forma combined profit/(loss)<br>entitled by TOM    | 58,947                      | 77,330     | (9,686)        | 97,066             |             | 2    | 223,657              |

*Notes:*

1. This represents the elimination of
  - (i) sales and purchases between Cité and Sharp Point;
  - (ii) sales commission between PC Home and Cité;
  - (iii) interest on loan from Sharp Point to Business Weekly;
  - (iv) advertising revenue/expense between Cité and Business Weekly.
2. This represents the pro-forma equity interest in the Acquired Businesses held by TOM as to 88.355% equity interest in each of Business Weekly, PC Home and Sharp Point, and 88.328% equity interest in Cité, assuming that the shareholding structure after Completion of the Print Media Group Restructuring and the Cité Acquisition had been effectuated on 1 January 2000.



## 3. UNAUDITED COMBINED NET ASSETS OF THE ACQUIRED BUSINESSES UNDER CITÉ PUBLISHING HOLDING AS AT 31 DECEMBER 2002

|   | Cité           | PC<br>Home     | Sharp<br>Point | Business<br>Weekly | Adjustments | Note | Combined       |
|---|----------------|----------------|----------------|--------------------|-------------|------|----------------|
|   | NT\$'000       | NT\$'000       | NT\$'000       | NT\$'000           | NT\$'000    |      | NT\$'000       |
| Fixed assets                                  | 32,806         | 34,366         | 8,018          | 20,831             |             |      | 96,021         |
| Intangible assets                             | –              | 7,702          | –              | –                  |             |      | 7,702          |
| Deferred tax assets                           | 12,704         | 20,222         | 19,218         | 4,225              |             |      | 56,369         |
| Associated companies                          | –              | 2,342          | –              | 12,067             |             |      | 14,409         |
| Investment securities                         | 34,986         | 63,034         | –              | 67,373             |             |      | 165,393        |
| Current assets                                | 797,175        | 547,216        | 311,941        | 386,159            | (100,573)   | 1    | 1,941,918      |
| Current liabilities                           | (483,247)      | (382,429)      | (245,638)      | (276,201)          | 100,573     | 1    | (1,286,942)    |
| <b>Net current assets</b>                     | <b>313,928</b> | <b>164,787</b> | <b>66,303</b>  | <b>109,958</b>     |             |      | <b>654,976</b> |
| <b>Total assets less current liabilities</b>  | <b>394,424</b> | <b>292,453</b> | <b>93,539</b>  | <b>214,454</b>     |             |      | <b>994,870</b> |
| <b>Non-current liabilities</b>                |                |                |                |                    |             |      |                |
| Loan from immediate holding company (Note 3)  | –              | (195,370)      | –              | –                  |             |      | (195,370)      |
| Long term loans                               | (9,813)        | –              | –              | –                  |             |      | (9,813)        |
| Pension obligations                           | (25,203)       | (25,701)       | (6,363)        | (22,829)           |             |      | (80,096)       |
| Minority interests                            | (11,732)       | (6,678)        | –              | (17,154)           |             |      | (35,564)       |
| <b>Net assets</b>                             | <b>347,676</b> | <b>64,704</b>  | <b>87,176</b>  | <b>174,471</b>     |             |      | <b>674,027</b> |
| Additional pro-forma adjustment               | –              | 195,370        | –              | –                  |             | 3    | 195,370        |
| Adjusted net assets                           | 347,676        | 260,074        | 87,176         | 174,471            |             |      | 869,397        |
| Pro-forma combined net assets entitled by TOM | 307,095        | 229,788        | 77,024         | 154,154            |             | 2    | 768,061        |

## Notes:

1. This represents the elimination of the then intercompany balances among the Acquired Businesses.
2. This represents the pro-forma equity interests in the Acquired Businesses held by TOM as to 88.355% equity interest in each of Business Weekly, PC Home and Sharp Point, and 88.328% equity interest in Cité, assuming that the shareholding structure after Completion of the Print Media Group Restructuring and the Cité Acquisition had been effectuated on 1 January 2000.
3. This represents a shareholder loan extended by TOM to PC Home through the immediate holding company of PC Home. The amount was added back to the net assets of PC Home as at 31 December 2002 to facilitate the computation of the pro-forma combined net assets of PC Home entitled by TOM.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the TOM Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests or short positions of the Directors and 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 SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Long positions in Shares

| Name of Directors         | Capacity                             | Number of Shares   |                  |                     |                 | Total     | Approximate percentage of shareholding |
|---------------------------|--------------------------------------|--------------------|------------------|---------------------|-----------------|-----------|--|
|                           |                                      | Personal interests | Family interests | Corporate interests | Other interests |           |  |
| Sing Wang ( <i>Note</i> ) | Interest of a controlled corporation | –                  | –                | 5,898,000           | –               | 5,898,000 | 0.15%                                  |
| Wang Lei Lei              | Beneficial owner                     | 300,000            | –                | –                   | –               | 300,000   | 0.01%                                  |

*Note:* By virtue of the SFO, Mr. Sing Wang is deemed to be interested in 5,898,000 Shares held by Amerinvest Technology Associates I Limited, which is wholly-owned by him.

**(b) Rights to acquire Shares**

Pursuant to the Pre-IPO Share Option Plan and/or the Share Option Scheme, certain Directors were granted share options to subscribe for Shares, details of which as at the Latest Practicable Date were as follows:

| Name of Directors | Date of grant | Number of share options outstanding as at the Latest Practicable Date | Option period         | Subscription price per Share (HK\$) |
|-------------------|---------------|---|-----------------------|-------------------------------------|
| Sing Wang         | 30/6/2000     | 3,000,000   | 30/6/2000-29/6/2010   | 5.27                                |
|                   | 8/8/2000      | 2,138,000   | 8/8/2000-7/8/2010     | 5.30                                |
|                   | 7/2/2002      | 20,000,000  | 7/2/2002-6/2/2012     | 3.76                                |
| James Sha         | 15/11/2000    | 15,000,000  | 15/11/2000-14/11/2010 | 5.30                                |
| Wang Lei Lei      | 11/2/2000     | 9,080,000   | 11/2/2000-10/2/2010   | 1.78                                |
|                   | 7/2/2002      | 850,000   | 7/2/2002-6/2/2012     | 3.76                                |

**(c) Short positions in associated corporations**

Even though each of the companies are wholly-owned subsidiaries of the Company by reason of the option and pledge arrangements entered into by Mr. Sing Wang and Mr. Wang Lei Lei, however on strict interpretation of the SFO Rules and in strict compliance with the requirements of the SFO, disclosures were made and details of the short positions of the Directors as at the Latest Practicable Date were as follows:

1. Mr. Sing Wang, a Director has as of 6 December 1999 granted an option to a wholly-owned subsidiary of the Company in respect of his 9% (RMB2,070,000) equity interest in 深圳市新飛網信息技術有限公司 (“Shenzhen Freenet”) whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Sing Wang’s equity interest in Shenzhen Freenet at an exercise price of RMB2,070,000. In addition, Mr. Sing Wang has also pledged all his equity interests in Shenzhen Freenet to the aforesaid wholly-owned subsidiary of the Company, which also serves to secure his obligations under the option. Shenzhen Freenet is a wholly-owned subsidiary of the Company through the aforesaid option and pledge arrangement with Mr. Sing Wang and other shareholders of Shenzhen Freenet.

2. Mr. Wang Lei Lei, a Director has granted to certain wholly-owned subsidiaries of the Company options whereby such wholly-owned subsidiaries of the Company shall have the right at any time at their sole discretion to acquire all of Mr. Wang Lei Lei's equity interests in the companies below:
- (a) in respect of Shenzhen Freenet, an option was granted as of 2 November 2000 in respect of his 20% (RMB4,600,000) equity interest in Shenzhen Freenet whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in Shenzhen Freenet at an exercise price of RMB4,600,000;
  - (b) in respect of 深圳市新飛訊能廣告有限公司 (“新飛訊能廣告”), an option was granted as of 18 April 2001 in respect of his 10% (RMB100,000) equity interest in 新飛訊能廣告 whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in 新飛訊能廣告 at an exercise price of RMB100,000;
  - (c) in respect of 昆明風馳企業管理顧問諮詢有限公司 (“風馳顧問”), an option was granted as of 6 December 2000 in respect of his 20% (RMB1,122,000) equity interest in 風馳顧問 whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in 風馳顧問 at an exercise price of RMB1,122,000;
  - (d) in respect of 北京雷霆萬鈞網絡科技有限責任公司 (“雷霆萬鈞”), an option was granted as of 12 June 2001 in respect of his 20% (RMB2,200,000) equity interest in 雷霆萬鈞 whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in 雷霆萬鈞 at an exercise price of RMB2,200,000;
  - (e) in respect of 北京唐碼國際廣告有限公司 (“唐碼國際廣告”), an option was granted as of 12 June 2001 in respect of his 20% (RMB200,000) equity interest in 唐碼國際廣告 whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in 唐碼國際廣告 at an exercise price of RMB200,000; and
  - (f) in respect of 深圳市新易網通網絡信息技術有限公司 (“新易網通”), an option was granted as of 24 December 2001 in respect of his 10% (RMB100,000) equity interest in 新易網通 whereby such wholly-owned subsidiary of the Company has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in 新易網通 at an exercise price of RMB100,000.

In each case, Mr. Wang Lei Lei has pledged all his equity interest in each of these companies to the relevant wholly-owned subsidiaries of the Company to secure his obligations under the respective options.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

### 3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons/companies (not being a Director or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

| Name of shareholders  | Capacity  | No. of Shares held          | Approximate percentage of shareholding |
|---|---|-----------------------------|--|
| Li Ka-shing   | Founder of discretionary trusts & interest of controlled corporations | 1,429,024,545 (Notes 1 & 2) | 37.35%                                 |
| Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust) | Trustee & beneficiary of a trust                                      | 1,429,024,545 (Notes 1 & 2) | 37.35%                                 |
| Li Ka-Shing Unity Trustcorp Limited (as trustee of another discretionary trust)                         | Trustee & beneficiary of a trust                                      | 1,429,024,545 (Notes 1 & 2) | 37.35%                                 |
| Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)                   | Trustee   | 1,429,024,545 (Notes 1 & 2) | 37.35%                                 |
| Cheung Kong (Holdings) Limited  | Interest of controlled corporations                                   | 1,429,024,545 (Notes 1 & 2) | 37.35%                                 |
| Cheung Kong Investment Company Limited  | Interest of controlled corporations                                   | 476,341,182 (Note 1)        | 12.45%                                 |
| Cheung Kong Holdings (China) Limited  | Interest of controlled corporations                                   | 476,341,182 (Note 1)        | 12.45%                                 |
| Sunnylink Enterprises Limited   | Interest of a controlled corporation                                  | 476,341,182 (Note 1)        | 12.45%                                 |
| Romefield Limited   | Beneficial owner  | 476,341,182 (Note 1)        | 12.45%                                 |
| Hutchison Whampoa Limited   | Interest of a controlled corporation                                  | 952,683,363 (Note 2)        | 24.90%                                 |
| Hutchison International Limited   | Interest of a controlled corporation                                  | 952,683,363 (Note 2)        | 24.90%                                 |
| Easterhouse Limited   | Beneficial owner  | 952,683,363 (Note 2)        | 24.90%                                 |
| Chau Hoi Shuen  | Interest of controlled corporations                                   | 952,683,363 (Note 3)        | 24.90%                                 |
| Cranwood Company Limited  | Beneficial owner & interest of controlled corporations                | 952,683,363 (Note 3)        | 24.90%                                 |
| Schumann International Limited  | Beneficial owner  | 580,000,000 (Note 3)        | 15.16%                                 |
| Handel International Limited  | Beneficial owner  | 348,000,000 (Note 3)        | 9.10%                                  |

*Notes:*

- (1) Romefield Limited is a wholly-owned subsidiary of Sunnynlink Enterprises Limited, which in turn is a wholly-owned subsidiary of Cheung Kong Holdings (China) Limited. Cheung Kong Holdings (China) Limited is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited.

By virtue of the SFO, Cheung Kong Investment Company Limited, Cheung Kong Holdings (China) Limited and Sunnynlink Enterprises Limited are all deemed to be interested in the 476,341,182 Shares held by Romefield Limited.

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited. Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 hold units in The Li Ka-Shing Unity Trust.

- (2) Easterhouse Limited is a wholly-owned subsidiary of Hutchison International Limited, which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited. By virtue of the SFO, Hutchison Whampoa Limited and Hutchison International Limited are deemed to be interested in the 952,683,363 Shares held by Easterhouse Limited.

In addition, subsidiaries of Cheung Kong (Holdings) Limited are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa Limited. By virtue of the SFO, Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, Li Ka-Shing Unity Trustee Corporation Limited, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Company Limited and Cheung Kong (Holdings) Limited are all deemed to be interested in the 476,341,182 Shares and 952,683,363 Shares held by Romefield Limited and Easterhouse Limited, respectively.

- (3) Schumann International Limited and Handel International Limited are companies controlled by Cranwood Company Limited and Ms. Chau Hoi Shuen is entitled to exercise more than one-third of the voting power at the general meetings of Cranwood Company Limited.

By virtue of the SFO, Cranwood Company Limited is deemed to be interested in the 580,000,000 Shares and 348,000,000 Shares held by Schumann International Limited and Handel International Limited, respectively, in addition to 24,683,363 Shares held by itself.

By virtue of the SFO, Ms. Chau Hoi Shuen is deemed to be interested in 24,683,363 Shares, 580,000,000 Shares and 348,000,000 Shares held by Cranwood Company Limited, Schumann International Limited and Handel International Limited, respectively.

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following companies/persons were interested in 10% or more of the equity interests of the subsidiaries of the Company:

| Name of subsidiaries                       | Name of shareholders                        | No. and class of shares held    | Percentage of shareholding |
|--|---|---------------------------------|----------------------------|
| Y.C. Press Advertising Limited             | Fung's Advertising Limited                  | 600 ordinary shares             | 10%                        |
| Y.C. Press Advertising Limited             | Yangcheng Enterprise Limited                | 1,200 ordinary shares           | 20%                        |
| YCP Advertising Limited                    | Fung's Advertising Limited                  | 1 ordinary share                | 10%                        |
| YCP Advertising Limited                    | Yangcheng Enterprise Limited                | 2 ordinary shares               | 20%                        |
| Beijing GreaTom United Technology Co. Ltd. | Great Wall Computer Software & Systems Ltd. | Registered capital RMB5,000,000 | 20%                        |
| Beijing GreaTom United Technology Co. Ltd. | Great Wall Technology Company Ltd.          | Registered capital RMB2,500,000 | 10%                        |
| 廣東羊城報業廣告有限公司                               | 羊城晚報經濟發展總公司                                 | Registered capital RMB396,000   | 20%                        |
| 廣東羊城報業廣告有限公司                               | Zhong Hai Qiang                             | Registered capital RMB198,000   | 10%                        |
| 廣東羊城報業體育發展有限公司                             | 羊城晚報經濟發展總公司                                 | Registered capital RMB1,000,000 | 20%                        |
| 廣東羊城報業體育發展有限公司                             | Zhong Hai Qiang                             | Registered capital RMB500,000   | 10%                        |
| 廣東羊城廣告有限公司                                 | 羊城晚報經濟發展總公司                                 | Registered capital RMB1,000,000 | 20%                        |
| 廣東羊城廣告有限公司                                 | Zhong Hai Qiang                             | Registered capital RMB500,000   | 10%                        |

| Name of subsidiaries                                      | Name of shareholders                            | No. and class of shares held     | Percentage of shareholding |
|---|---|----------------------------------|----------------------------|
| Perfect Team Limited                                      | China Media Network (BVI) Limited               | 1,400,000 ordinary shares        | 35%                        |
| Yazhou Zhoukan Holdings Limited                           | Skyland International Investment Limited        | 5,000 ordinary shares            | 50%                        |
| Cernet Information Technology Company Limited             | 賽爾網絡有限公司  | Registered capital RMB29,400,000 | 49%                        |
| Nong Nong Magazine Co., Ltd.                              | Barbizon Interculture Publication Co., Ltd.     | 50,000 ordinary shares           | 20%                        |
| Panasia Publishing Co., Ltd.                              | Mariz Gestao E Investimentos Limitada           | 700,000 ordinary shares          | 35%                        |
| Tennis Management Limited                                 | Spectrum International Holding Limited          | 40 ordinary shares               | 40%                        |
| Shandong Qilu International Outdoor Media Company Limited | Jinan Qilu Xinjiye Advertising Company Limited  | Registered capital RMB4,400,000  | 40%                        |
| Liaoning New Star Guangming Media Assets Company Limited  | New Star Prosperity Advertising Company Limited | Registered capital RMB4,000,000  | 40%                        |
| Shenyang Sano Global Media Company Limited                | Shenyang Sano Jinxiang Advertising Co., Ltd.    | Registered capital RMB1,200,000  | 40%                        |
| Xiamen Bomei Lianhe Advertising Company Limited           | Xiamen Bomei Advertising Company Limited        | Registered capital RMB600,000    | 40%                        |



| Name of subsidiaries   | Name of shareholders   | No. and class of shares held    | Percentage of shareholding |
|--|--|---------------------------------|----------------------------|
| Henan New Tianming Advertising & Information Chuanbo Company Limited | Beijing Tianming International Investment Management Company Limited | Registered capital RMB3,000,000 | 50%                        |
| Qingdao Chunyu Advertising Chuanbo Company Limited                   | Qingdao Chunyu Advertising and Décor Construction Company Limited    | Registered capital RMB450,000   | 30%                        |
| Sichuan Southwest Outdoor Media Company Limited                      | Sichuan Southwest International Advertising Company                  | Registered capital RMB900,000   | 30%                        |
| Fujian Seeout Guangming Media Advertising Company Limited            | Fujian Seeout Outdoor Advertising Company Limited                    | Registered capital RMB1,500,000 | 30%                        |
| CNPIT TOM Culture Company Limited                                    | 中圖信息技術有限公司   | Registered capital RMB1,500,000 | 30%                        |
| 廣州市鴻翔音像製作有限公司  | Zhang Hongcheng (alias Zhang Baocheng)                               | Registered capital RMB400,000   | 50%                        |
| Hong Xiang Entertainment (Hong Kong) Co. Limited                     | Zhang Hongcheng (alias Zhang Baocheng)                               | 1 ordinary share                | 50%                        |

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the TOM Group.

#### 4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Frank Sixt and Mrs. Susan Chow, the Chairman of the Company and a non-executive Director, respectively, are executive directors of HWL and directors of certain of its associates (collectively referred to as "HWL Group"). Mr. Frank Sixt is also a non-executive director of CKH. Mr. Edmond Ip, a non-executive Director, is an executive director of CKH and a director of certain of its associates (collectively referred to as "CKH Group"). Both the HWL Group and the CKH Group are engaged in e-commerce projects and operate general information portals. The Directors believe that there is a risk that such businesses may compete with those of the TOM Group.

Mr. Wang Lei Lei, a non-executive Director, is a director and a shareholder of Beijing Lei Ting Wu Ji Network Technology Limited ("Lei Ting Wu Ji") whose main business consists of the provision of wireless data services. Mr. Wang Lei Lei is also a director and a shareholder of Communication Over The Air Inc. ("Communication OTA") whose main business consists of the provision of WAP technical programming and application services. Mr. Wang Lei Lei has granted options to Devine Gem Management Limited (beneficially owned by Ms. Chau Hoi Shuen), under which, Devine Gem Management Limited is entitled at any time to acquire all of Mr. Wang Lei Lei's equity/shareholding interests in Lei Ting Wu Ji and Communication OTA. The Directors believe that there is a risk that such businesses may compete with those of the TOM Group. However, the Directors are also of the view that the invaluable experience of Mr. Wang Lei Lei in the Internet industry will complement the development of the TOM Group's business.

Save as disclosed above, none of the Directors or the management Shareholders or their respective associates have any interests in a business, which competes or may compete with the business of the TOM Group.

#### 5. OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, options to subscribe for an aggregate of 123,304,000 Shares granted pursuant to the Pre-IPO Share Option Plan and the Share Option Scheme were outstanding. Details of which are as follows:

##### (1) Pre-IPO Share Option Plan

As at the Latest Practicable Date, options to subscribe for an aggregate of 16,196,000 Shares at a subscription price of HK\$1.78 per Share were outstanding. These options were granted to 3 persons who are employees of the TOM Group at the date of grant. All of these options have a duration of 10 years from 11 February 2000, but shall lapse where the grantee ceases to be employed by the TOM Group or the HWL group of companies.

**(2) Share Option Scheme**

Options to subscribe for an aggregate of 107,108,000 Shares (which includes the options granted to Mr. Sing Wang, Mr. James Sha and Mr. Wang Lei Lei as disclosed above) were outstanding as at the Latest Practicable Date, breakdown of which are set out below:

| <b>Date of grant</b> | <b>No. of share options</b> | <b>No. of employees</b> | <b>Subscription price per Share<br/>(HK\$)</b> | <b>Option period (Note)<br/>(commencing from date of grant and terminating ten years thereafter)</b> |
|----------------------|-----------------------------|-------------------------|--|--|
| 23/3/2000            | 2,764,000                   | 65                      | 11.30  | 23/3/2000-22/3/2010  |
| 31/5/2000            | 2,332,000                   | 1                       | 4.685  | 31/5/2000-30/5/2010  |
| 26/6/2000            | 1,282,000                   | 36                      | 5.89   | 26/6/2000-25/6/2010  |
| 30/6/2000            | 3,000,000                   | 1                       | 5.27   | 30/6/2000-29/6/2010  |
| 8/8/2000             | 19,102,000                  | 157                     | 5.30   | 8/8/2000-7/8/2010  |
| 9/11/2000            | 1,120,000                   | 1                       | 5.30   | 9/11/2000-8/11/2010  |
| 15/11/2000           | 15,000,000                  | 1                       | 5.30   | 15/11/2000-14/11/2010  |
| 7/2/2002             | 62,508,000                  | 44                      | 3.76   | 7/2/2002-6/2/2012  |

*Note:* Those options that have been vested may be exercised within the option period, unless they have been cancelled. Generally, the options are vested in different tranches (some of which are conditional).

**6. MATERIAL ADVERSE CHANGE**

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2002, the date to which the latest published combined financials results of the Company were made up.

**7. LITIGATION**

No member of the TOM Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the TOM Group.

**8. EXPERT**

The following is the qualification of the expert who has given opinion or advice, which is contained in this circular:

| <b>Name</b>            | <b>Qualification</b>         |
|------------------------|------------------------------|
| PricewaterhouseCoopers | Certified public accountants |

As at the Latest Practicable Date, PricewaterhouseCoopers, certified public accountants, Hong Kong has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter, which has been prepared for inclusion in this circular, and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, PricewaterhouseCoopers does not have any shareholding interest in any member of the TOM Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the TOM Group.

**9. SERVICE CONTRACTS**

Each of Mr. Sing Wang and Ms. Tommei Tong, being all the executive Directors and Mr. Wang Lei Lei, being a non-executive Director, has entered into a continuous service contract with the TOM Group commencing from 1 June 2000 in the case of Mr. Sing Wang, 17 March 2003 in the case of Ms. Tommei Tong, and 1 January 2000 in the case of Mr. Wang Lei Lei (prior to his appointment as a Director, he was and still continues to be an employee of the TOM Group). The terms of each contract are continuous unless terminated by not less than three months' notice in writing served by either party on the other. Each of these Directors is entitled to the basic salary set out below (subject to review in December of each year). In addition, the above Directors are also entitled to a management bonus payable in December of each year at the discretion of the Board. Neither of the above Directors is entitled to vote on board resolutions in relation to any management bonus payable to him or her. The current basic annual salaries of the above Directors are as follows:

|              | <i>HK\$</i> |
|--------------|-------------|
| Sing Wang    | 2,768,016   |
| Tommei Tong  | 1,502,040   |
| Wang Lei Lei | 1,053,919   |

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the TOM Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**10. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by the TOM Group within two years preceding the Latest Practicable Date or may be material:

1. A joint venture agreement dated 16 July 2001 entered into between tom.com (china) investment limited (“TOM China”) and 中圖信息技術有限公司 in relation to the establishment of a joint venture company, CNPIT TOM Culture Company Limited (北京中圖通文化諮詢有限公司) (“TOM Cultural”) held in the respective proportion of 70% and 30%.
2. A sub-tenancy agreement dated 19 July 2001 entered into between TOM.COM INTERNATIONAL LIMITED (“TOM International”) and Metro Broadcast Corporation Limited (“Metro”) in respect of premises situated at Studio I, 47th Floor, The Center, 99 Queen’s Road Central, Central, Hong Kong for a period of 2 years and 8 months expiring on 31 December 2003.
3. A sale and purchase agreement dated 23 July 2001 entered into TOM China and 中圖信息技術有限公司 relating to the purchase of software.
4. A subscription agreement dated 7 August 2001 (“HMG Subscription Agreement”) entered into between Home Media Group Limited (“HMG”), Domatic International Limited (“Domatic”), TOM International, the Initial Shareholders (as defined in the HMG Subscription Agreement), the Management Shareholders (as defined in the HMG Subscription Agreement), the PC Home Shareholders (as defined in the HMG Subscription Agreement), the Cité Shareholders (as defined in the HMG Subscription Agreement), PC Home and Cité whereby Domatic agreed to subscribe for shares in HMG representing 49% of the issued share capital of HMG.
5. A capital injection agreement dated 17 August 2001 entered into between Shenzhen Freenet and 賽爾網絡有限公司 (“Cernet”) relating to the establishment of Cernet Online Company Limited (“COL”) in their respective proportion of 37% and 63%.
6. An articles of association of COL dated 17 August 2001.
7. A joint venture agreement dated 17 August 2001 entered into between TOM China and Cernet in relation to the establishment of Cernet Information Technology Company Limited (“CIT”) held in the respective proportion of 51% and 49%.
8. An articles of association of CIT dated 17 August 2001.
9. A share pledge agreement dated 18 August 2001 entered into between Lahiji Vale Limited (“Lahiji”) and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 雷霆萬鈞 to Lahiji.
10. A share pledge agreement dated 18 August 2001 entered into between Lahiji and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 唐碼國際廣告 to Lahiji.

11. A sole exclusive right to purchase shares agreement dated 18 August 2001 entered into among others, Lahiji, Mr. Wang Lei Lei and Ms. Wang Xiu Ling in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 雷霆萬鈞.
12. A sole exclusive right to purchase shares agreement dated 18 August 2001 entered into among others, Lahiji, Mr. Wang Lei Lei and Ms. Wang Xiu Ling in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 唐碼國際廣告.
13. A loan agreement dated 18 August 2001 entered into between Lahiji and Ms. Wang Xiu Ling whereby Lahiji agreed to grant a loan to Ms. Wang Xiu Ling for general working capital of 雷霆萬鈞.
14. A loan agreement dated 18 August 2001 entered into between Lahiji and Ms. Wang Xiu Ling whereby Lahiji agreed to grant a loan to Ms. Wang Xiu Ling for general working capital of 唐碼國際廣告.
15. A declaration of trust dated 18 August 2001 by Ms. Wang Xiu Ling in favour of Lahiji in respect of 20% shareholding in 雷霆萬鈞.
16. A declaration of trust dated 18 August 2001 by Ms. Wang Xiu Ling in favour of Lahiji in respect of 20% shareholding in 唐碼國際廣告.
17. A share transfer agreement dated 18 August 2001 entered into between 仇岩 and Ms. Wang Xiu Ling whereby 仇岩 agreed to transfer her entire equity interest in 雷霆萬鈞 to Ms. Wang Xiu Ling.
18. A share transfer agreement dated 18 August 2001 entered into between 仇岩 and Ms. Wang Xiu Ling whereby 仇岩 agreed to transfer her entire equity interest in 唐碼國際廣告 to Ms. Wang Xiu Ling.
19. A subscription agreement dated 20 August 2001 entered into among others, Perfect Team Limited (“Perfect Team”), China Media Network (BVI) Limited (“China Media”), TOM Centro Limited (“TOM Centro”) and ADV Group Limited (“ADV”) whereby TOM Centro agreed to subscribe for 2,600,000 ordinary shares in Perfect Team, such agreement was amended by way of a supplemental agreement dated 1 December 2001 entered into between the same parties.
20. A shareholders agreement dated 20 August 2001 entered into among others, China Media, TOM Centro and Perfect Team in relation to the operation and affairs of Perfect Team.
21. An agreement for sale and purchase of shares in Capital Standard Management Limited (“Capital”) dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser.
22. An agreement for sale and purchase of a debt dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser whereby China Media agreed to sell and Perfect Team agreed to purchase a debt owned by York Island (Guangzhou) Limited (“YIG”), such agreement being amended on the same date entered into between the same parties.

23. An agreement for sale and purchase of shares in YIG dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser.
24. An agreement for sale and purchase of shares in York Island (Beijing) Limited (“YIB”) dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser.
25. An agreement for sale and purchase of shares in York Island (Chengdu) Limited (“YIC”) dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser.
26. An agreement for sale and purchase of shares in Teng Lung (China) Advertising Company Limited (“Teng Lung (China)”) dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser.
27. A deed of assignment of debt dated 20 August 2001 entered into between China Media, Perfect Team and YIG with respect to the agreement for sale and purchase of debt dated 20 August 2001.
28. An agreement for sale and purchase of a debt dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser whereby China Media agreed to sell and Perfect Team agreed to purchase a debt owned by Capital, such agreement being amended on the same date entered into between the same parties.
29. A deed of assignment of debt dated 20 August 2001 entered into between China Media, Perfect Team and Capital with respect to the agreement for sale and purchase of debt dated 20 August 2001.
30. An agreement for sale and purchase of a debt dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser whereby China Media agreed to sell and Perfect Team agreed to purchase a debt owned by YIB, such agreement being amended on the same date entered into between the same parties.
31. A deed of assignment of debt dated 20 August 2001 entered into between China Media, Perfect Team and YIB with respect to the agreement for sale and purchase of debt dated 20 August 2001.
32. An agreement for sale and purchase of a debt dated 20 August 2001 entered into between China Media as vendor and Perfect Team as purchaser whereby China Media agreed to sell and Perfect Team agreed to purchase a debt owned by YIC, such agreement being amended on the same date entered into between the same parties.
33. A deed of assignment of debt dated 20 August 2001 entered into between China Media, Perfect Team and YIC with respect to the agreement for sale and purchase of debt dated 20 August 2001.

34. A loan agreement dated 22 August 2001 entered into between TOM Centro as lender and China Media as borrower whereby TOM Centro agreed to grant a facility to China Media solely to finance the repayment of the loan of ING Bank N.V., Hong Kong Branch and Teng Lung (China).
35. A guarantee dated 22 August 2001 entered into between ADV as guarantor and TOM Centro as lender whereby ADV guaranteed the obligations of China Media to repay the loan under the loan agreement dated 22 August 2001.
36. A share mortgage dated 22 August 2001 entered into between China Media as borrower and TOM Centro as lender whereby China Media as beneficial owner of Perfect Team agreed to charge by way of first legal mortgage 1,400,000 Perfect Team shares of USD1.00 each to TOM Centro as a continuing security for due and punctual payment to repay under the loan agreement dated 22 August 2001.
37. A subordination deed dated 22 August 2001 entered into between ADV as subordinated lender, China Media as borrower and TOM Centro as lender in relation to subordination of all loans advanced or to be advanced by ADV to China Media and any rights, claims and actions which TOM Centro may have against China Media.
38. A framework agreement dated 4 September 2001 entered into between Shanghai Maya Audio Company Limited (“Maya Audio”), 上海美亞投資有限公司 (“美亞投資”) and T Advertising Limited (“T Advertising”) whereby 美亞投資 agreed to sell 50% and 5% of its equity interests in Shanghai Maya Cultural Transmission Company Limited (“Maya Cultural”) to T Advertising and Maya Audio respectively. Such agreement was amended by a supplemental agreement dated 31 December 2001 entered into between the same parties.
39. A loan agreement dated 6 September 2001 entered into between Beijing Redsail Netlegend Data Network Technology Company Limited (“Redsail”), 北京紅帆譽翔公用電話有限公司 (“Redsail Yuxiang”), 北京三錦泰和科技發展有限公司 (“三錦泰和”) and Shenzhen Freenet whereby Shenzhen Freenet provided a shareholder’s loan to Redsail as working capital.
40. An articles of association of TOM Cultural dated 11 September 2001.
41. A second agreement for sale and purchase of a debt dated 18 September 2001 entered into between China Media as vendor and Perfect Team as purchaser whereby China Media agreed to sell and Perfect Team agreed to purchase a debt owned by YIG, such agreement being amended on the same date entered into between the same parties.
42. A second deed of assignment of debt dated 18 September 2001 entered into between China Media, Perfect Team and YIG with respect to the second agreement for sale and purchase of debt dated 18 September 2001.
43. A convertible bond financing summary dated 21 September 2001 relating to bond convertible into common shares of AA Stocks International Limited (“AA Stocks”) with All Asia Financial LLC (“All Asia”) and TOM Stocks Limited (“TOM Stocks”) as bondholders respectively.



44. A loan agreement dated 30 September 2001 entered into between TOM China and 中國銀行北京市分行 (Bank of China, Beijing Branch) whereby 中國銀行北京市分行 agreed to grant a loan to TOM China.
45. A pledge agreement dated 30 September 2001 entered into between TOM China and 中國銀行北京市分行 (Bank of China, Beijing Branch) whereby TOM China agreed to pledge all properties as specified in the schedule of the pledge agreement pursuant to the loan agreement of same date.
46. An agreement dated 3 October 2001 entered into between BNI Business Network Corporation (“BNI”), Mr. Jan Hung-Tze (“Mr. Jan”) and PC Home.
47. A share transfer agreement dated 11 October 2001 entered into between Maya Audio, 美亞投資 and T Advertising in relation to the transfer of shares in Maya Cultural whereby 美亞投資 agreed to sell 50% and 5% of its equity interests in Maya Cultural to T Advertising and Maya Audio respectively.
48. A share pledge contract dated 11 October 2001 entered into between Perfect Team and 鄧建明 (“Mr. Tang”) pursuant to which Mr. Tang agreed to charge his 35% equity interest in 廣州市天域騰龍廣告有限公司 (“天域騰龍”) to Perfect Team.
49. A share pledge contract dated 11 October 2001 entered into between Perfect Team and 馮志剛 (“Mr. Fung”) pursuant to which Mr. Fung agreed to charge his 65% equity interest in 天域騰龍 to Perfect Team.
50. A declaration of trust dated 11 October 2001 in respect of 65% shareholding of 天域騰龍 made by Mr. Fung in favour of Perfect Team.
51. A declaration of trust dated 11 October 2001 in respect of 35% shareholding of 天域騰龍 made by Mr. Tang in favour of Perfect Team.
52. An exclusive right to purchase contract dated 11 October 2001 entered into between Perfect Team, Mr. Fung and Mr. Tang pursuant to which each of Mr. Fung and Mr. Tang granted Perfect Team an exclusive right to purchase the entire equity interest in 天域騰龍.
53. A loan agreement dated 11 October 2001 entered into between Perfect Team and Mr. Fung in respect of an advance by Perfect Team to Mr. Fung.
54. A loan agreement dated 11 October 2001 entered into between Perfect Team and Mr. Tang in respect of an advance by Perfect Team to Mr. Tang.
55. A foreign investment application approval dated 17 October 2001 issued by 經濟部投資審議委員會 in relation to the foreign investment in PC Home by HMG.

56. A framework agreement dated 24 October 2001 entered into between Beijing GreaTom United Technology Co. Ltd. (“Beijing GreaTom”) and KT Freetel Company Limited (“KT Freetel”) in relation to the intention to acquire an equity interest in Beijing GreaTom by KT Freetel.
57. An agreement (代付代購協議) dated 24 October 2001 entered into between TOM China and Cernet pursuant to which TOM China agreed to loan Cernet a certain sum to enable Cernet to purchase certain hardware and software for the future operation of the joint venture companies upon their establishment.
58. A supplemental agreement No. 1 to the HMG Subscription Agreement dated 31 October 2001 entered into between HMG, Domatic, persons named in Exhibit A, B, C & D of the HMG Subscription Agreement, PC Home, Cité and TOM International.
59. A shareholders’ agreement dated 31 October 2001 entered into between Domatic, Mr. Jan, Ho Fei-Peng (“Mr. Ho”), HMG, TOM International and persons named in Schedule 1 to the shareholders’ agreement.
60. An escrow agreement dated 31 October 2001 entered into between HMG, Mr. Jan, Mr. Ho, persons named in Annexure B to the escrow agreement, Domatic and Tsar & Tsai Law Firm.
61. A commission agreement in November 2001 entered into between Beijing GreaTom and Ensys Company Limited (“Ensys”) in relation to a commission paid to Ensys equal to 3.75% of total investment of KT Freetel pursuant to a framework agreement dated 24 October 2001 entered into between Beijing GreaTom and KT Freetel.
62. An articles of association of 新易網通 dated 5 November 2001.
63. A consultancy agreement dated 8 November 2001 entered into between TOM International and 中國家庭醫生雜誌社 (“Family Doctor”) whereby TOM International agreed to advance a certain sum to Family Doctor as a prepayment for the provision of consultancy services.
64. An equity interest transfer contract dated 11 November 2001 entered into between 廣東華達康投資有限公司 (“Hua Da Kang”), 廣州新嶸信息產業有限公司 (“Xinrong”), 中國國際旅行社總社 (“CITSHO”), 雷霆萬鈞 and 唐碼國際廣告 whereby CITSHO agreed to transfer its 30% equity interest in China Travel Network Company Limited (“CTN”) to 雷霆萬鈞; Xinrong agreed to transfer its 35% equity interest in CTN to 雷霆萬鈞; and Hua Da Kang agreed to transfer its 15% and 20% equity interests in CTN to 雷霆萬鈞 and 唐碼國際廣告 respectively.
65. An articles of association of CTN dated 18 November 2001.

66. A joint venture contract dated 19 November 2001 entered into between TOM.com Sports Development Limited (“TOM Sports”) and 中體產業股份有限公司 (China Sports Association) in relation to the establishment of a sino-foreign equity joint venture held in equal proportion which will undertake sporting events, sports-related marketing, sports events management and organization of sports events as supplemented by an undated supplemental agreement entered into between the same parties.
67. A stock purchase agreement dated 21 November 2001 (“SP Stock Purchase Agreement”) entered into between Right Charm International Limited (“Right Charm”), Michael Huang, persons named in Schedule 1 of the SP Stock Purchase Agreement and Sharp Point pursuant to which Right Charm acquired the entire issued share capital of Sharp Point, such agreement being amended by the supplemental agreements dated 27 December 2001, 8 February 2002 and 21 August 2003 respectively.
68. An escrow agreement dated as of 30 November 2001 entered into between T Holdings Limited (“T Holdings”), Green Treasure Holdings Limited (“Green Treasure”), Cranwood Company Limited and Woo, Kwan, Lee & Lo pursuant to the share purchase agreement dated as of 19 December 2000, as amended and supplemented by two supplemental agreements dated 20 June 2001 and 31 August 2001 respectively.
69. An escrow agreement dated as of 30 November 2001 entered into between T Holdings, Green Treasure, Romefield and Woo, Kwan, Lee & Lo pursuant to the share purchase agreement dated as of 19 December 2000, as amended and supplemented by two supplemental agreements dated 20 June 2001 and 31 August 2001 respectively.
70. An escrow agreement dated as of 30 November 2001 entered into between T Holdings, Green Treasure, Easterhouse and Woo, Kwan, Lee & Lo pursuant to the share purchase agreement dated as of 19 December 2000, as amended and supplemented by two supplemental agreements dated 20 June 2001 and 31 August 2001 respectively.
71. A loan assignment deed dated 30 November 2001 entered into between T Holdings, Green Treasure and T Advertising whereby T Holdings agreed to assign to Green Treasure its rights in the loan owed by T Advertising to T Holdings.
72. A share purchase agreement dated 6 December 2001 entered into between Barbizon Interculture Publication Co., Ltd. (“BIP”) and Nong Nong Magazine Co., Ltd. (“NNM”) in respect of the acquisition of 200,000 shares of Panasia Publishing Co., Ltd. By BIP from NNM.
73. A deed of novation dated 6 December 2001 entered into between YIG as assignor, Perfect Team as assignee and TOM Centro as creditor to novate all obligations of YIG in respect of the aggregate outstanding principal amount of the first loan deed and the second loan deed, and all interest accrued thereon up to and including the date of completion of the transactions contemplated under a) a first loan deed dated 8 June 2001 entered into between TOM Centro, ADV, China Media, YIG and Capital; b) a second loan deed dated 26 June 2001 entered into between TOM Centro, ADV, China Media, YIG and Capital; and c) the

subscription agreement dated 20 August 2001 entered into between Perfect Team, TOM Centro, China Media and ADV be transferred and novated to Perfect Team at completion.

74. A facility letter dated 10 December 2001 to the Company from Smart Smith Limited (“SSL”) under which SSL advanced a shareholder’s loan to the Company.
75. A facility letter dated 10 December 2001 to the Company from Cranwood under which Cranwood advanced a shareholder’s loan to the Company.
76. A facility letter dated 10 December 2001 to the Company from Timor International Limited (“TIL”) under which TIL advanced a shareholder’s loan to the Company.
77. A stock purchase agreement dated 11 December 2001 (“BW Stock Purchase Agreement”) entered into between Diamond Profits Limited (“Diamond”), James Jin, Kuo Ting Yu, Wen Jing Wang, persons named in Schedule 1A of the BW Stock Purchase Agreement, persons named in Schedule 1B of the BW Stock Purchase Agreement, Business Weekly and TOM International pursuant to which Diamond intends to purchase 100% interest of Business Weekly.
78. A share sale and purchase agreement dated 14 December 2001 entered into between CITSHO, CTN Holdings Limited (“CTN Holdings”), Super Travel Limited (“Super Travel”), Hua Da Kang, Guangdong Suntek Information Industrial Co., Ltd. (“Suntek”), Xinrong, Beijing Planet Network Travel Information Technology Limited (“Beijing Planet”) and CTN whereby Super Travel shall acquire 45% of the entire issue shares in Blue Quartz Limited (“Blue Quartz”) from CTN Holdings and Beijing Planet shall acquire the entire registered capital of CTN.
79. A supplemental loan agreement dated as at 15 December 2001 entered into between Shenzhen Freenet as borrower and Mr. Sing Wang as lender.
80. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and 商周投資股份有限公司 (“BW Investment”) in respect of the acquisition of 5,995,000 shares of 商周數位股份有限公司 by BW Investment.
81. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 4,791,667 shares of 生活情報媒體事業股份有限公司 by BW Investment.
82. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 4,961,354 shares of 商智文化事業股份有限公司 by BW Investment.
83. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 3,999,754 shares of 商周線上股份有限公司 by BW Investment.

84. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 5,000,000 shares of 網路家庭投資開發股份有限公司 by BW Investment.
85. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 1,307,254 shares of 網路家庭國際資訊股份有限公司 by BW Investment.
86. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 847,200 shares of 逐鹿網股份有限公司 by BW Investment.
87. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 200,000 shares of 健康家庭文化事業股份有限公司 by BW Investment.
88. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 50,000 shares of 時達科技管理顧問股份有限公司 by BW Investment.
89. A share purchase agreement dated 15 December 2001 entered into between Business Weekly and BW Investment in respect of the acquisition of 999,000 shares of 台商股份有限公司 by BW Investment.
90. A sales agreement dated 20 December 2001 entered into between 雷霆萬鈞 and 北京華楊聯眾廣告公司 in relation to sale of TOM163 上網卡.
91. A loan agreement dated 24 December 2001 entered into between Advanced Internet Services Limited (“AIS”) and Mr. Wang Lei Lei whereby AIS agreed to grant a loan to Mr. Wang Lei Lei for general working capital of 新易網通.
92. A share pledge agreement dated 24 December 2001 entered into between AIS and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in 新易網通 to AIS.
93. A sole exclusive right to purchase shares agreement dated 24 December 2001 entered into between AIS and Mr. Wang Lei Lei in relation to the sole exclusive right for AIS to purchase Mr. Wang Lei Lei’s entire equity interest in 新易網通.
94. A declaration of trust dated 24 December 2001 by Mr. Wang Lei Lei in favour of AIS in respect of 10% shareholding in 新易網通.
95. A loan agreement dated 28 December 2001 between Lahiji and Mr. Wang Lei Lei whereby Lahiji agreed to grant a loan to Mr. Wang Lei Lei for general working capital of 雷霆萬鈞.

96. A loan agreement dated 28 December 2001 between Lahiji and Ms. Wang Xiu Ling whereby Lahiji agreed to grant a loan to Ms. Wang Xiu Ling for general working capital of 雷霆萬鈞.
97. A share pledge agreement dated 28 December 2001 entered into between Lahiji and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in 雷霆萬鈞 to Lahiji.
98. A share pledge agreement dated 28 December 2001 entered into between Lahiji and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 雷霆萬鈞 to Lahiji.
99. A sole exclusive right to purchase shares agreement dated 28 December 2001 entered into among others, Lahiji, Mr. Wang Lei Lei and Ms. Wang Xiu Ling in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 雷霆萬鈞.
100. An agreement dated 31 December 2001 entered into between Maya Audio, 美亞投資 and T Advertising in relation to the transfer of shares in Maya Cultural whereby T Advertising agreed to acquire a 50% equity interest (40% equity interest from Maya Audio and 10% equity interest from 美亞投資), which supplements a share transfer agreement dated 18 April 2001 and a supplemental agreement dated 23 July 2001, both entered into between the same parties.
101. A settlement agreement entered into between BNI, Beijing Business News International Information Co., Mr. Jan and HMG in 2002.
102. A deed of surrender dated 2 January 2002 entered into between TOM International, The Center (47) Limited and The Center (48) Limited whereby TOM International surrendered all those offices nos. 4710 to 4713 (both inclusive), 47th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.
103. A loan agreement dated 7 January 2002 entered into between Laurstinus Limited ("Laurstinus") and Beijing Super Channel Network Limited ("Beijing Super Channel") whereby Laurstinus advanced to Beijing Super Channel a certain sum.
104. An articles of association of 廣東羊城廣告有限公司 dated 17 January 2002.
105. An addendum dated 18 January 2002 entered into between persons named in Schedule A to the addendum being holders of shares in Business Weekly ("BW Shares"), Diamond, TOM International, James Jin, Kuo Ting Yu, Wen Jing Wang, persons named in schedule 1A of the BW Stock Purchase Agreement and persons named in schedule 1B of the BW Stock Purchase Agreement.
106. A foreign investment application approval dated 18 January 2002 issued by 經濟部投資審議委員會 in relation to the foreign investment in Sharp Point by Right Charm.

107. An articles of association of PC Home (7th amendment) dated 21 January 2002 which supersedes the former articles of association of PC Home dated 6 November 1995 which was also amended on 31 March 1998, 2 April 1999, 22 November 1999, 18 April 2000 and 22 June 2001.
108. A framework agreement dated 28 January 2002 entered into between Qingdao Chunyu Advertising and Décor Construction Company Limited (“Chunyu”), Ou-yang Gang (“Mr. Ou-yang”) and TOM Outdoor Media Group Limited (formerly known as TOM.com Outdoor Media Group Limited) (“TOM OMG”) whereby TOM OMG agreed to acquire 70% of the equity interest in Qingdao Chunyu Advertising Chuanbo Company Limited (“Chunyu Advertising”), as amended by the supplemental agreements dated 27 September 2002 and 20 December 2002 respectively entered into between the same parties.
109. A framework agreement dated 1 February 2002 entered into between Qilu International Advertising Company Limited (“Qilu”), Jinan Qilu Xinjiye Outdoor Advertising Company Limited (“Jinan Qilu”), Meng Xian-wei and TOM OMG whereby TOM OMG has agreed to acquire 60% of the equity interest in Shandong Qilu International Outdoor Media Company Limited (“Qilu Media”), as amended by the supplemental agreements dated 27 September 2002 and 20 December 2002 respectively entered into between the same parties.
110. A supplemental articles of association dated 6 February 2002, 15 March 2000, 8 March 2000, 31 October 2000 and 20 April 1999 which supplement the articles of association dated 8 June 1998 with respect to 廣東羊城報業體育發展有限公司 (“廣東羊城體育”).
111. A deed of termination dated 7 February 2002 entered into between CTN Holdings, Super Travel and Blue Quartz whereby the parties agreed to terminate the shareholders agreement dated 4 October 1999 entered into between the parties and to release each party from all obligations owed to the other parties under such shareholders agreement upon the terms and conditions set out in the deed of termination.
112. A non-competition and confidentiality deed dated 7 February 2002 entered into between Blue Quartz, CTN, W.T. Consolid Investment Holdings Limited, Suntek and Super Travel relating to a share sale and purchase agreement dated 14 December 2001 and an equity transfer contract dated 11 November 2001.
113. A framework agreement dated 28 February 2002 entered into between New Star Prosperity Advertising Company Limited (“New Star”), Li Pei-an, Wang Bing-bing and TOM OMG whereby TOM OMG has agreed to acquire 60% of the equity interest in Liaoning New Star Guangming Media Assets Company Limited (“New Star Media”), as amended by the supplemental agreements dated 27 September 2002 and 20 December 2002 respectively entered into between the same parties.
114. A framework agreement dated 5 March 2002 entered into between TOM Solutions Limited (“TOM Solutions”), Zhang Bao-cheng (“Mr. Zhang”) whereby TOM Solutions has agreed to acquire 50% of the equity interest in a sino-foreign joint venture enterprise to be established in the PRC by Mr. Zhang, as amended by a supplemental agreement dated 27 December 2002 and 30 June 2003.

115. A loan agreement dated 8 March 2002 entered into between Beijing Super Channel and Laurstinus whereby Laurstinus advanced a certain sum to Beijing Super Channel.
116. A framework agreement dated 13 March 2002 entered into between TOM OMG, Henan Tianming Advertising Company Limited (“Tianming”) and Jiang Ming whereby TOM OMG has agreed to acquire 50% of the equity interest in Henan New Tianming Advertising & Information Chuanbo Company Limited (“Tianming Advertising”), as amended by the supplemental agreements dated 29 November 2002, 20 December 2002 and 23 July 2003 respectively entered into between the same parties.
117. A loan agreement dated 27 March 2002 entered into between Aztec Technology (Club) Limited (“Aztec”), SoftChina Limited (“SoftChina”) and Texcept Limited (“Texcept”) whereby SoftChina agreed to provide security for a short term loan facility to be granted by Texcept to Aztec.
118. A first fixed and floating charge over assets of Aztec dated 27 March 2002 entered into between Aztec as borrower and Texcept as lender whereby Texcept agreed to grant a short term loan facility to Aztec conditional upon (inter alia) entering into the first fixed and floating charge.
119. An assignment of rental deposits dated 27 March 2002 entered into between Aztec, SoftChina and Texcept whereby Aztec as 1st assignor together with and SoftChina as 2nd assignor agreed to assign the rental deposits in favour of Texcept as security for the short term loan facility advanced under the loan agreement dated 27 March 2002.
120. A loan agreement dated 10 April 2002 entered into between TOM OMG, Chunyu and Mr. Ou-yang whereby TOM OMG agreed to advance a certain sum to Mr. Ou-yang.
121. A share pledge agreement dated 10 April 2002 entered into between 新飛訊能廣告, 青島春雨實業有限公司 and Mr. Ou-yang pursuant to which 青島春雨實業有限公司 and Mr. Ou-yang agreed to charge their 60% and 20% respective equity interest in Chunyu to 新飛訊能廣告 in consideration of the loan advanced pursuant to the loan agreement dated 10 April 2002.
122. An articles of association of Cité (7th amendment) dated 15 April 2002 which supersedes the former articles of association of Cité dated 11 September 1996 which was also amended on 20 June 1996, 6 January 1997, 27 March 2000, 31 May 2000, 15 January 2001 and 15 November 2001.
123. A public non-exclusive telecommunications service licence issued by the Office of the Telecommunications Authority in Hong Kong to TOM International dated 16 April 2002 relating to the provision of public service, as well as to possess, establish, use and maintain certain radiocommunications apparatus to provide the public service and to deal in and demonstrate with a view to sell such apparatus or material for radiocommunication.



124. A termination agreement dated 24 April 2002 entered into between 羊城晚報經濟發展總公司, TOM China and Fung's Advertising Limited terminating the joint-venture agreement dated 12 January 2001 entered into between the same parties with respect to the establishment of 廣東羊城國際體育發展有限公司 in the PRC.
125. 候車亭及獨家經營權轉讓協議書 dated 27 April 2002 entered into between Shenyang Sano Jinxiang Advertising Company Limited ("Sano") and 遼寧歐亞橋廣告有限公司 whereby Sano agreed to purchase seventy-seven 候車亭 and the exclusive operation rights thereof.
126. An articles of association (19th amendment) of Sharp Point dated 29 April 2002 which supersedes the former articles of association of Sharp Point dated 3 June 1982 which was also amended on 20 February 1987, 29 March 1988, 23 August 1988, 4 August 1989, 8 July 1991, 30 June 1992, 26 November 1992, 14 October 1993, 24 October 1994, 14 January 1995, 14 March 1997, 27 December 1998, 7 March 2000, 6 December 2000, 22 March 2001, 1 June 2001, 30 June 2001 and 6 February 2002.
127. A supplemental agreement dated 16 May 2002 entered into between Marie Claire Album S.A. ("MCA"), Societe D'information Et De Creations SARL ("SIC"), BIP, NNM, the Company, Business Weekly and Diamond which supplements the shareholders' agreement dated 8 November 2000 entered into between MCA, SIC, BIP, NNM and Business Weekly relating to Asia Press Publishing Co., Ltd. (formerly known as Interasia Publishing Co., Ltd.).
128. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of Lahiji in respect of the 80% equity interest in 唐碼國際廣告.
129. A declaration of trust dated 30 May 2002 given by Ms. Wang Xiu Ling in favour of Lahiji in respect of the 20% equity interest in 唐碼國際廣告.
130. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of Lahiji in respect of the 80% equity interest in 雷霆萬鈞.
131. A declaration of trust dated 30 May 2002 given by Ms. Wang Xiu Ling in favour of Lahiji in respect of the 20% equity interest in 雷霆萬鈞.
132. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of AIS in respect of the 90% equity interest in Shenzhen Freenet.
133. A declaration of trust dated 30 May 2002 given by Mr. Sing Wang in favour of AIS in respect of the 9% equity interest in Shenzhen Freenet.
134. A declaration of trust dated 30 May 2002 given by Mr. Wang Peng in favour of Lahiji in respect of the 1% equity interest in Shenzhen Freenet.
135. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of AIS in respect of the 10% equity interest in 新飛訊能廣告.

136. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of AIS in respect of the 10% equity interest in 新易網通.
137. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of Commercelink Profits Limited (“Commercelink”) in respect of the 70% equity interest in 廣東羊城報業廣告有限公司 (“廣東羊城報業廣告”).
138. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of Commercelink in respect of the 70% equity interest in 廣東羊城體育.
139. A declaration of trust dated 30 May 2002 given by Mr. Wang Lei Lei in favour of Hitech Profits Limited (“Hitech”) in respect of the 75% equity interest in 風馳顧問.
140. A share pledge agreement dated 1 June 2002 entered into between 新飛訊能廣告 and Mr. Wang Cheng-Cheng whereby Mr. Wang Cheng-Cheng agreed to pledge his 80% equity interest in Sano to 新飛訊能廣告.
141. A loan agreement dated 1 June 2002 between TOM OMG, Mr. Wang Cheng-Cheng and Sano whereby TOM OMG agreed to advance a certain sum to Mr. Wang Cheng-Cheng.
142. A supplemental shareholders’ agreement dated 3 June 2002 entered into between AA Stocks, All Asia, TOM Stocks, Westport Financial LLC (“Westport”) and MKT Holdings (Cayman Islands) Limited (“MKT”) whereby the parties agreed to amend the shareholders’ agreement dated 28 April 2000.
143. An articles of association dated 10 June 2002 of Shenzhen Freenet which supplements the articles of association of Shenzhen Freenet dated 2 November 1999 which was also amended on 30 March 2000, 25 December 2000, 30 January 2001, 20 March 2001, 8 May 2001 and 20 November 2002.
144. A second supplemental articles of association dated 17 June 2002 which supplements the articles of association dated 17 December 1999 with respect to Shanghai Super Channel Network Limited, as amended by the first supplemental articles of association dated 17 May 2000.
145. A framework agreement dated 21 June 2002 entered into between TOM OMG, Sano, and Mr. Wang Cheng-cheng whereby TOM OMG has agreed to acquire 60% of the equity interest in Shenyang Sano Global Media Company Limited (“Sano Media”), as amended by a supplemental agreement dated 20 December 2002 entered into between the same parties.
146. A framework agreement dated 21 June 2002 entered into between TOM OMG, Beijing Yanhuang Times Advertising Corporation (“Yanhuang”) and Zhao Songqing (“Ms. Zhao”) whereby TOM OMG has agreed to acquire 50% of the equity interest in an outdoor media advertising company to be established in the PRC by Yanhuang and Ms. Zhao, as amended by a supplemental agreement dated 21 March 2003 and as terminated by a letter agreement dated 31 May 2003 entered into the same parties.

147. A framework agreement dated 26 June 2002 entered into between TOM OMG, Xiamen Bomei Advertising Company Limited, Chen Maosheng and Chen Huiqian whereby TOM OMG has agreed to acquire 60% of the equity interest in Xiamen Bomei Lianhe Advertising Company Limited (“Bomei Advertising”), as amended by a supplemental agreement dated 20 December 2002 entered into between the same parties.
148. A framework agreement dated 26 June 2002 entered into between TOM OMG, Fujian Seeout Outdoor Advertising Company Limited (“Seeout”), Li Guoping and Guo Xiaoyang and whereby TOM OMG has agreed to acquire 70% of the equity interest in Fujian Seeout Guangming Media Advertising Company Limited (“Seeout Media”), as amended by a supplemental agreement dated 15 January 2003 entered into between the same parties.
149. A loan agreement dated 27 June 2002 entered into between Mr. Wang Lei Lei as borrower, AIS as lender and Shenzhen Freenet pursuant to which AIS agreed to grant a loan to Mr. Wang Lei Lei to invest in Shenzhen Freenet as registered capital.
150. A loan agreement dated 27 June 2002 entered into between Mr. Wang Peng as borrower, Mr. Wang Lei Lei as lender and Shenzhen Freenet pursuant to which Mr. Wang Lei Lei agreed to grant a loan to Mr. Wang Peng to invest in Shenzhen Freenet as registered capital.
151. A loan agreement dated 27 June 2002 entered into between Mr. Sing Wang as borrower, Mr. Wang Lei Lei as lender and Shenzhen Freenet pursuant to which Mr. Wang Lei Lei agreed to grant a loan to Mr. Sing Wang to invest in Shenzhen Freenet as registered capital.
152. A loan agreement dated 8 July 2002 entered into between China Media and TOM Centro as lender and Perfect Team as borrower pursuant to which China Media and TOM Centro agreed to advance a loan to Perfect Team.
153. A memorandum of understanding (“ATV.com MOU”) dated 9 July 2002 entered into between TOM TV and esun Holdings Limited (“eSun”) pursuant to which TOM TV agreed to acquire from eSun 50% of the entire issued share capital of and loans to HKATV.com Limited.
154. A memorandum of understanding (“ATV MOU”) dated 9 July 2002 entered into between TOM Television Group Limited (which is a company incorporated in Hong Kong with limited liability) (“TOM TV (HK)”) and Lai Sun Development Company Limited (“Lai Sun”) pursuant to which TOM TV (HK) agreed to acquire from Lai Sun 32.75% of the entire issued share capital of and loans to Asia Television Limited.
155. A declaration of trust dated 18 July 2002 given by Mr. Fung in favour of Perfect Team in respect of the 65% equity interest in 天域騰龍.
156. A declaration of trust dated 25 July 2002 given by Li Jian in favour of Hitech in respect of the 25% equity interest in 風馳顧問.

157. A declaration of trust dated 25 July 2002 given by Li Jian in favour of World Focus Developments Limited (“World Focus”) in respect of the 75% equity interest in Kunming Guojia Technology Development Co. Ltd. (“Guojia”).
158. A declaration of trust dated 25 July 2002 given by 楊振昆 in favour of World Focus in respect of the 25% equity interest in Guojia.
159. A declaration of trust dated 30 July 2002 given by Mr. Tang in favour of Perfect Team in respect of the 35% equity interest in 天域騰龍.
160. A framework agreement dated 1 August 2002 entered into between TOM OMG, Sichuan Southwest International Advertising Company, Chengdu Boguang Broadcasting Information Company Limited whereby TOM OMG agreed to acquire 70% of the equity interest in Sichuan Southwest Outdoor Media Company Limited (“Southwest Media”), as amended by the supplemental agreements dated 20 December 2002 and 15 January 2003 entered into between the same parties.
161. A declaration of trust dated 7 August 2002 entered into between New Star and New Star Media.
162. An articles of association of 雷霆萬鈞 on 8 August 2002.
163. An articles of association of 唐碼國際廣告 on 8 August 2002.
164. A share transfer agreement dated 8 August 2002 entered into between Mr. Wang Lei Lei and Ms. Wang Xiu Ling whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 雷霆萬鈞 to Ms. Wang Xiu Ling.
165. A share transfer agreement dated 8 August 2002 entered into between Mr. Wang Lei Lei and Ms. Wang Xiu Ling whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 唐碼國際廣告 to Ms. Wang Xiu Ling.
166. A declaration of trust dated 8 August 2002 by Mr. Wang Lei Lei in favour of Lahiji in respect of 20% shareholding in 唐碼國際廣告.
167. A declaration of trust dated 8 August 2002 by Ms. Wang Xiu Ling in favour of Lahiji in respect of 80% shareholding in 唐碼國際廣告.
168. A declaration of trust dated 8 August 2002 by Mr. Wang Lei Lei in favour of Lahiji in respect of 20% shareholding in 雷霆萬鈞.
169. A declaration of trust dated 8 August 2002 by Ms. Wang Xiu Ling in favour of Lahiji in respect of 80% shareholding in 雷霆萬鈞.
170. A sole exclusive right to purchase shares agreement dated 8 August 2002 entered into among others, Lahiji, Ms. Wang Xiu Ling and Mr. Wang Lei Lei in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 雷霆萬鈞.

171. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 雷霆萬鈞 to Lahiji.
172. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in 雷霆萬鈞 to Lahiji.
173. A loan agreement dated 8 August 2002 between Lahiji and Ms. Wang Xiu Ling whereby Lahiji agreed to grant a loan to Ms. Wang Xiu Ling for general working capital of 雷霆萬鈞.
174. A loan agreement dated 8 August 2002 between Lahiji and Mr. Wang Lei Lei whereby Lahiji agreed to grant a loan to Mr. Wang Lei Lei for general working capital of 雷霆萬鈞.
175. A sole exclusive right to purchase shares agreement dated 8 August 2002 entered into among others, Lahiji, Ms. Wang Xiu Ling and Mr. Wang Lei Lei in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 唐碼國際廣告.
176. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 唐碼國際廣告 to Lahiji.
177. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in 唐碼國際廣告 to Lahiji.
178. A loan agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang Xiu Ling whereby Lahiji agreed to grant a loan to Ms. Wang Xiu Ling for general working capital of 唐碼國際廣告.
179. A loan agreement dated 8 August 2002 entered into between Lahiji and Mr. Wang Lei Lei whereby Lahiji agreed to grant a loan to Mr. Wang Lei Lei for general working capital of 唐碼國際廣告.
180. A share purchase agreement dated 15 August 2002 entered into between Spectrum International Holding Limited (“Spectrum International”), Modern Perfect Developments Limited (“Modern Perfect”), Lincoln Serejo Venancio (“Mr. Venancio”) and Tennis Management Limited (“Tennis Management”) with respect to the sale and purchase of 60% of the issued share capital of Tennis Management (“TML Share Purchase Agreement”).
181. A termination agreement dated 19 August 2002 entered into between TOM TV and eSun terminating the ATV.com MOU.
182. A termination agreement dated 19 August 2002 entered into between TOM TV (HK) and Lai Sun terminating the ATV MOU.

183. A loan agreement dated 21 August 2002 entered into between Commercelink, AIS and Mr. Wang Lei Lei whereby AIS advanced to Mr. Wang Lei Lei a certain sum for his onward lending to Commercelink.
184. A loan agreement dated 21 August 2002 entered into between Shenzhen Freenet, AIS and Mr. Wang Lei Lei whereby AIS advanced to Mr. Wang Lei Lei a certain sum for his onward lending to Shenzhen Freenet.
185. A loan agreement dated 21 August 2002 entered into between Shenzhen Freenet, Mr. Wang Peng and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei advanced to Mr. Wang Peng a certain sum for his onward lending to Shenzhen Freenet.
186. An exercise notice dated 23 August 2002 given by TOM Fashion Limited (“TOM Fashion”) to Opus Consultants Limited (“Opus”), Push Design Limited (“Push Design”) and Alpine Holdings International Limited (“Alpine”) whereby TOM Fashion gives notice to exercise the option to purchase the shares of She.com International Holdings Limited (“She.com”) in accordance with the shareholders’ agreement dated 25 May 2000 as supplemented by, inter alia: (i) a deed of adherence dated 29 August 2000 entered into between She.com and Extremes Enterprises Limited (“Extremes”); (ii) the deed of adherence and supplemental agreement to the shareholders’ agreement dated 24 May 2001 entered into between Alpine, She.com, TOM Fashion, Opus, Push Design, Derek Emory Yeung (“Derek Yeung”), Lam Wai Shan (“LWS”), Jeremy Lam Hou Wai (“Jeremy Lam”) and Extremes; and (iii) the supplemental agreement dated 24 November 2001 entered into between Alpine, TOM Fashion, Opus, Push Design, She.com, Derek Yeung, LWS, Jeremy Lam and Extremes. (“She.com Shareholders’ Agreement”).
187. A declaration of trust dated 1 September 2002 entered into between Qilu, Jinan Qilu and Qilu Media.
188. A pledge agreement dated 1 September 2002 entered into between Qilu, Jinan Qilu and Qilu Media.
189. A loan agreement dated 3 September 2002 entered into between Beijing Super Channel and TOM China whereby TOM China advanced to Beijing Super Channel a certain sum.
190. A capital transfer agreement dated 5 September 2002 entered into between Mr. Wang Lei Lei, Ms. Wang Xiu Ling and 風馳顧問, under which, Mr. Wang Lei Lei agreed to transfer his capital injected in 風馳顧問 to Ms. Wang Xiu Ling.
191. A declaration of trust dated 5 September 2002 by Mr. Wang Lei Lei in favour of Hitech in respect of 20% shareholding in 風馳顧問.
192. A declaration of trust dated 5 September 2002 by Ms. Wang Xiu Ling in favour of Hitech in respect of 55% shareholding in 風馳顧問.

193. A sole exclusive right to purchase shares agreement dated 5 September 2002 entered into among others, Hitech, Li Jian, Ms. Wang Xiu Ling and Mr. Wang Lei Lei in relation to the sole exclusive right for Hitech to purchase entire equity interest of 風馳顧問.
194. A share pledge agreement dated 5 September 2002 entered into between Hitech and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 風馳顧問 to Hitech.
195. A share pledge agreement dated 5 September 2002 entered into between Hitech and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in 風馳顧問 to Hitech.
196. A sale and purchase agreement dated 6 September 2002 entered into between TOM International and 36 Solutions Limited (“36 Solutions”) relating to the acquisition of web development and marketing production business.
197. A vendor disclosure letter dated 6 September 2002 to Modern Perfect given by Spectrum International and Mr. Venancio.
198. A letter of intent dated 9 September 2002 entered into between 生活 • 讀書 • 新知三聯書店 and TOM International with respect to the establishment of a joint venture in the PRC.
199. A loan agreement dated 11 September 2002 entered into between Beijing Super Channel and TOM China whereby TOM China advanced to Beijing Super Channel a certain sum.
200. A letter of intent dated 18 September 2002 entered into between 電腦報社, 重慶中科普傳媒發展股份有限公司 and TOM International relating to the establishment of a joint venture company in the PRC.
201. A shareholders’ agreement dated 20 September 2002 (“TML Shareholders’ Agreement”) entered into between Modern Perfect, Spectrum International, Mr. Venancio and Tennis Management.
202. A letter dated 20 September 2002 given by TOM International to Spectrum International confirming that in the event that Modern Perfect is unable to perform its obligation under clause 26 of the TML Shareholders’ Agreement, such obligation shall be undertaken by TOM International.
203. A deed of indemnity dated 20 September 2002 entered into between Spectrum International, Mr. Venancio, Tennis Management and Modern Perfect whereby Spectrum International and Mr. Venancio have agreed to give certain tax indemnities in favour of Tennis Management and its subsidiaries.
204. A deed of charge dated 20 September 2002 entered into between Spectrum International and Modern Perfect pursuant to which Spectrum International agreed to enter into this deed in favour of Modern Perfect in order to secure certain obligation of Spectrum International under the TML Share Purchase Agreement.

205. A management service agreement dated 20 September 2002 entered into between Spectrum Plus Limited, Tennis Management and Mr. Venancio relating to the provision of management services to Tennis Management and its subsidiaries.
206. A licence agreement dated 20 September 2002 entered into between Green World International Limited (“Green World”), Salem Open Limited (“Salem Open”), Mr. Venancio and Modern Perfect pursuant to which Green World agreed to grant Salem Open an exclusive and irrevocable licence.
207. An escrow letter dated 20 September 2002 relating to the appointment of Barlow Lyde & Gilbert (“BLG”) as an escrow agent by Spectrum International and Modern Perfect to hold the certificate for 18,299,238 Shares, as amended by a supplemental escrow agreement dated 20 March 2003, 20 April 2003 and 28 May 2003 with respect to the extension of the appointment of BLG as an escrow agent.
208. A termination deed dated 20 September 2002 entered into between Salem Open and China Sports Limited (“China Sports”) relating to the termination of a licence agreement dated 2 August 1997.
209. A termination deed dated 20 September 2002 entered into between China Sports and Green World relating to the termination of a licence agreement dated 20 June 2001.
210. A termination deed dated 20 September 2002 entered into between Spectrum Plus Limited and Media Serv Limited (“Media Serv”) relating to the termination of a management agreement dated 1 January 2002.
211. A supplemental articles of association dated 24 September 2002 which supplements the articles of association dated 8 June 1998 with respect to 廣東羊城體育. Such articles of association was also amended on 20 April 1999, 8 March 2000, 15 March 2000, 31 October 2000 and 6 February 2002.
212. A supplemental articles of association dated 24 September 2002 which supplements the articles of association dated 27 June 1996 with respect to 廣東羊城報業廣告. Such articles of association was also amended on 31 October 2000.
213. A share transfer agreement dated 24 September 2002 entered into between Mr. Wang Lei Lei and Ms. Wang Xiu Ling whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 廣東羊城體育 to Ms. Wang Xiu Ling.
214. A share transfer agreement dated 24 September 2002 entered into between Mr. Wang Lei Lei and Ms. Wang Xiu Ling whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 廣東羊城報業廣告 to Ms. Wang Xiu Ling.
215. A declaration of trust dated 24 September 2002 by Ms. Wang Xiu Ling in favour of Commercelink in respect of 70% shareholding in 廣東羊城報業廣告.



216. A sole exclusive right to purchase shares agreement dated 24 September 2002 entered into among others, Commercelink and Ms. Wang Xiu Ling in relation to the sole exclusive right for Commercelink to purchase Ms. Wang Xiu Ling's entire equity interest of 廣東羊城報業廣告.
217. A share pledge agreement dated 24 September 2002 entered into between Commercelink and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 廣東羊城報業廣告 to Commercelink.
218. A declaration of trust dated 24 September 2002 by Ms. Wang Xiu Ling in favour of Commercelink in respect of 70% shareholding in 廣東羊城體育.
219. A sole exclusive right to purchase shares agreement dated 24 September 2002 entered into among others, Commercelink and Ms. Wang Xiu Ling in relation to the sole exclusive right for Commercelink to purchase Ms. Wang Xiu Ling's entire equity interest of 廣東羊城體育.
220. A share pledge agreement dated 24 September 2002 entered into between Commercelink and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in 廣東羊城體育 to Commercelink.
221. A service agreement dated 12 October 2002 entered into between TOM International and 36 Solutions with respect to the provision of certain services to 36 Solutions by TOM International.
222. An articles of association (13th amendment) of Business Weekly dated 18 October 2002 which supersedes the former articles of association of Business Weekly dated 13 October 1987 which was also amended on 6 April 1988, 17 September 1988, 13 November 1990, 25 June 1991, 19 November 1991, 11 June 1995, 25 June 1996, 30 December 1999, 22 February 2000, 20 November 2001, 20 March 2002 and 23 September 2002.
223. A letter dated 18 October 2002 given by TOM Fashion to Opus, Push Design and Alpine with respect to the extension of option period to purchase the shares of She.com pursuant to the She.com Shareholders' Agreement.
224. A supplemental agreement dated 29 October 2002 entered into between Diamond and 宏嘉創業投資股份有限公司 which supplements the BW Stock Purchase Agreement.
225. A deed of adherence dated 29 October 2002 given by Windsor Hill Corporation in favour of Diamond and TOM International.
226. A supplemental agreement dated 29 October 2002 entered into between Diamond and PC Home which supplements to the BW Stock Purchase Agreement.
227. A deed of adherence dated 29 October 2002 given by PC Home in favour of Diamond and TOM International.

228. A supplemental agreement dated 29 October 2002 entered into between Diamond, Chih Nan Investment Co., Ltd., Jeng Da Investment Co., Ltd. and James Jin which supplements to the BW Stock Purchase Agreement.
229. A deed of adherence dated 29 October 2002 given by Golden River Holdings Limited in favour of Diamond and TOM International.
230. A declaration of trust dated 1 November 2002 entered into between Seeout and Seeout Media.
231. A pledge agreement dated 1 November 2002 entered into between Seeout and Seeout Media.
232. An articles of association dated 11 November 2002 of 風馳顧問 which supersedes the former article of association of 風馳顧問 dated 2 December 2000.
233. A memorandum of understanding dated 21 November 2002 entered into between TOM International, Henan Ming Sheng Advertising Co. Ltd., Niu Zhi Min and Wang Li Jun relating to the formation of a joint venture company in the PRC.
234. A memorandum of understanding dated 21 November 2002 entered into between TOM International, Beijing Charm Art & Advertising Co. Ltd., Dang He and Chou Wei Hua relating to the formation of a joint venture company in the PRC.
235. A share transfer agreement dated 25 November 2002 with respect to the transfer of 70% equity interests in Shenzhen Freenet from Mr. Wang Lei Lei to Ms. Wang Xiu Ling.
236. A declaration of trust dated 25 November 2002 by Mr. Wang Lei Lei in favour of AIS in respect of 20% shareholding in Shenzhen Freenet.
237. A declaration of trust dated 25 November 2002 by Ms. Wang Xiu Ling in favour of AIS in respect of 70% shareholding in Shenzhen Freenet.
238. A sole exclusive right to purchase shares agreement dated 25 November 2002 entered into among others, AIS, Mr. Sing Wang, Mr. Wang Peng, Mr. Wang Lei Lei and Ms. Wang Xiu Ling in relation to the sole exclusive right for AIS to purchase the entire equity interest of Shenzhen Freenet.
239. A share pledge agreement dated 25 November 2002 entered into between AIS and Ms. Wang Xiu Ling whereby Ms. Wang Xiu Ling agreed to pledge her entire equity interest in Shenzhen Freenet to AIS.
240. A share pledge agreement dated 25 November 2002 entered into between AIS and Mr. Wang Lei Lei whereby Mr. Wang Lei Lei agreed to pledge his entire equity interest in Shenzhen Freenet to AIS.

241. A novation agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, AIS and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to Shenzhen Freenet pursuant to the loan agreement dated 17 January 2001 entered into between Mr. Wang Lei Lei and AIS.
242. A novation agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, AIS and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the loan agreement dated 17 January 2001 entered into between Mr. Wang Lei Lei and Shenzhen Freenet.
243. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Mr. Sing Wang and Shenzhen Freenet with respect to termination of the loan agreement dated 21 August 2002 entered into between the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Sing Wang for contributing to the registered capital of Shenzhen Freenet.
244. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Mr. Sing Wang and Shenzhen Freenet with respect to termination of the loan agreement dated 30 March 2001 entered into between the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Sing Wang for contributing to the registered capital of Shenzhen Freenet.
245. A termination & novation agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, AIS and Shenzhen Freenet with respect to (1) termination of the loan agreement dated 21 August 2002 entered into between Mr. Wang Lei Lei and Shenzhen Freenet whereby Mr. Wang Lei Lei advanced a certain sum to Shenzhen Freenet exclusively for contributing to the registered capital of Shenzhen Freenet; and (2) novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS with respect to a certain sum of the shareholders' loan under the same loan agreement.
246. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the novation agreement dated 2 March 2001 entered into between Mr. Sing Wang, Mr. Wang Lei Lei and Shenzhen Freenet whereby Mr. Sing Wang has assigned all his rights title interest and benefits of and novated all his obligations and liabilities under the loan agreement dated 10 December 1999 to Mr. Wang Lei Lei.
247. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to Shenzhen Freenet pursuant to the novation agreement dated 2 March 2001 entered into between Mr. Sing Wang, Mr. Wang Lei Lei and AIS whereby Mr. Sing Wang has assigned all his rights, title, interest and benefits of and novated all his obligations and liabilities under the loan agreement dated 10 December 1999 to Mr. Wang Lei Lei.

248. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the novation agreement dated 2 March 2001 entered into between Mr. Sing Wang, Mr. Wang Lei Lei and Shenzhen Freenet whereby Mr. Sing Wang has assigned all his rights, title, interest and benefits of and novated all his obligations and liabilities under the loan agreement dated 15 December 2000 to Mr. Wang Lei Lei.
249. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to Shenzhen Freenet pursuant to the novation agreement dated 2 March 2001 entered into between Sing Wang, Mr. Wang Lei Lei and AIS whereby Mr. Sing Wang has assigned all his rights, title, interest and benefits of and novated all his obligations and liabilities under the loan agreement dated 2nd November 2000 to Mr. Wang Lei Lei.
250. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to Shenzhen Freenet pursuant to the first loan agreement dated 29 December 2000 and the second loan agreement dated 5 June 2001, both entered into between Mr. Wang Lei Lei and AIS.
251. A novation agreement dated 25 November 2002 entered into between AIS, Mr. Wang Lei Lei and Shenzhen Freenet relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the first loan agreement dated 29 December 2000 and the second loan agreement dated 5 June 2001, both entered into between Mr. Wang Lei Lei and Shenzhen Freenet.
252. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to the termination of a loan agreement dated 21 May 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
253. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and Mr. Sing Wang with respect to the termination of a loan agreement dated 21 May 2001 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Sing Wang for his onward lending to Shenzhen Freenet.
254. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and Mr. Wang Peng with respect to the termination of a loan agreement dated 21 May 2001 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Wang Peng for his onward lending to Shenzhen Freenet.
255. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to the termination of a loan agreement dated 27 June 2002 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.

256. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and Mr. Sing Wang with respect to the termination of a loan agreement dated 27 June 2002 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Sing Wang for his onward lending to Shenzhen Freenet.
257. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Mr. Wang Peng and Shenzhen Freenet with respect to the termination of a loan agreement dated 27 June 2002 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Wang Peng for his onward lending to Shenzhen Freenet.
258. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Mr. Wang Peng and Shenzhen Freenet with respect to the termination of a loan agreement dated 21 August 2002 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Wang Peng for his onward lending to Shenzhen Freenet.
259. A termination and novation agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to: (i) the termination of a loan agreement dated 21 August 2002 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet; and (ii) the novation of obligations and liabilities from Mr. Wang Lei Lei to Shenzhen Freenet pursuant to the loan agreement dated 21 August 2002 with respect to the certain sum of the shareholders' loan.
260. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei and AIS with respect to the termination of a supplemental loan agreement dated 30 March 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
261. A termination agreement dated 25 November 2002 entered into between Mr. Wang Lei Lei, Mr. Wang Peng and Shenzhen Freenet with respect to the termination of a loan agreement dated 30 March 2001 entered into the same parties whereby Mr. Wang Lei Lei advanced a certain sum to Mr. Sing Wang for his onward lending to Shenzhen Freenet.
262. An articles of association of Qilu Media in December 2002.
263. An articles of association of Chunyu Advertising in December 2002.
264. An articles of association of Bomei Advertising in December 2002.
265. A novation agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the loan agreement dated 29 December 2000 and supplemental loan agreement dated 30 March 2001 entered into between the same parties.
266. A novation agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS relating to the novation of all rights, obligations and liabilities from Mr. Wang Lei Lei to AIS pursuant to the loan agreement dated 21 August 2002 entered into between the same parties.

267. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to the termination of a loan agreement dated 21 August 2002 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
268. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to the termination of a loan agreement dated 21 May 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
269. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei, Shenzhen Freenet and AIS with respect to the termination of a loan agreement dated 27 June 2002 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
270. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and AIS with respect to the termination of a loan agreement dated 29 December 2000 and a supplemental agreement dated 30 December 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to Shenzhen Freenet.
271. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and Lahiji with respect to the termination of a loan agreement dated 8 August 2002 entered into the same parties whereby Lahiji advanced a certain sum to Mr. Wang Lei Lei to invest in 唐碼國際廣告.
272. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and AIS with respect to the termination of a loan agreement dated 24 December 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to 新易網通.
273. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and Hitech with respect to the termination of a loan agreement dated 6 December 2000 entered into the same parties whereby Hitech advanced a certain sum to Mr. Wang Lei Lei to invest in 風馳顧問.
274. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and Lahiji with respect to the termination of a loan agreement dated 8 August 2002 entered into the same parties whereby Lahiji advanced a certain sum to Mr. Wang Lei Lei to invest in 雷霆萬鈞.
275. A termination agreement dated 1 December 2002 entered into between Mr. Wang Lei Lei and AIS with respect to the termination of a loan agreement dated 18 April 2001 entered into the same parties whereby AIS advanced a certain sum to Mr. Wang Lei Lei for his onward lending to 新飛訊能廣告.

276. A sale and purchase agreement dated 3 December 2002 entered into between Texcept and Team Wish Enterprises Limited relating to the purchase of assets.
277. A deed of settlement dated 4 December 2002 entered into between TOM International and International Merchandising Corporation relating to the termination of an agreement dated 8 March 2000 entered into between the same parties.
278. An articles of association of Sano Media dated 4 December 2002.
279. An articles of association of New Star Media dated 5 December 2002.
280. A sale and purchase agreement dated 6 December 2002 entered into between Cup Limited and TOM (Cup Magazine) Publishing Limited (“TOM (Cup Magazine)”) with respect to the transfer of the business and proprietorship of Cup Magazine and AV Magazine (“Magazines”), certain employees, certain fixed assets and the past contents of the Magazines to TOM (Cup Magazine).
281. An articles of association of Southwest Media dated 12 December 2002.
282. An articles of association of Tianming Advertising dated 19 December 2002.
283. An articles of association of Seeout Media dated 26 December 2002.
284. A subscription agreement dated 27 December 2002 (“Cit  Subscription Agreement”) entered into between Cit  Publishing Holding, TOM Print Media Group Limited (“TOM Print Media”), persons named in schedule 1 of Cit  Subscription Agreement and Mr. Jan in respect of subscription of new shares in Cit  Publishing Holding and sale and purchase of shareholding interests in Business Weekly, Sharp Point and HMG as amended by a supplemental agreement dated 31 March 2003, 30 April 2003 and 31 May 2003 entered into between the same parties.
285. A share sale and purchase agreement dated 17 January 2003 entered into between TOM Print Media and Business Weekly.
286. A letter dated 17 January 2003 given by TOM Fashion to Opus, Push Design and Alpine with respect to the extension of option period to purchase the shares of She.com pursuant to the She.com Shareholders’ Agreement.
287. A stock purchase agreement dated 14 February 2003 entered into between TOM Print Media, Cit  Publishing Holding and Mr. Jan with respect to the acquisition of up to an aggregate of 11.645% of the issued share capital of Cit  Publishing Holding by TOM Print Media, such agreement was being amended by a supplemental agreement dated 30 April 2003 entered into between the same parties.
288. A letter dated 20 March 2003 given by TOM Fashion to Opus, Push Design and Alpine whereby the option period is expired and lapsed on 21 March 2003.

289. A facility letter dated 1 April 2003 entered into between The Development Bank of Singapore Limited as the lender and the Company as the borrower.
290. A surrender agreement dated 14 April 2003 entered into between Metro and the Company.
291. An assignment deed dated 15 April 2003 entered into between Salem Open, Media Serv and Green World whereby Media Serv has been granted a right to host, organise and operate tennis tournaments authorised by ATP Tour, Inc in Beijing, the PRC.
292. A framework agreement dated 30 April 2003 entered into between TOM International, Redsail Yuxiang and 三錦泰和 with respect to the acquisition of 60% of the equity interest in Redsail as amended by a supplemental agreement dated 30 May 2003 entered into between the same parties.
293. An equity transfer agreement dated 30 April 2003 entered into between Redsail Yuxiang, 三錦泰和 and 雷霆萬鈞 with respect to the acquisition of 60% of the equity interest in Redsail as amended by an agreement dated 30 May 2003 entered into between the same parties.
294. An articles of association of Redsail dated 5 May 2003.
295. A licence agreement dated 15 May 2003 entered into between Texcept as the licensor and SoftChina as the licensee whereby Texcept agreed to grant the license to use the assets to SoftChina.
296. A deed of waiver dated 9 June 2003 entered into between Alpine, TOM Fashion and Extremes whereby She.com absolutely and irrevocably waives and renounces all its rights pursuant to Clause 10 of She.com Shareholders' Agreement.
297. A share purchase agreement dated 18 June 2003 entered into between TOM Stocks, EC.COM INC. ("EC.COM"), Moses Tsang Kwok Tai ("Mr. Tsang"), All Asia and AA Stocks relating to the sale and purchase of 252,641 shares in AA Stocks to EC.COM by TOM Stocks.
298. A termination agreement to the shareholders' agreement dated 28 April 2000 and new shareholders' agreement dated 18 June 2003 entered into between AA Stocks, All Asia, TOM Stocks, Westport, MKT, EC.COM and Mr. Tsang relating to the sale and purchase of 252,641 shares in AA Stocks to EC.COM by TOM Stocks.
299. A service agreement dated 18 June 2003 entered into between TOM International and AA Stocks.com Limited for the provision of co-location and facility management services to AA Stocks.com Limited by TOM International.
300. A share purchase agreement dated 2 July 2003 entered into between TBSAP, TOM TV, TBS and the Company relating to the sale and purchase of 64.07% of the issued share capital of CETV.



301. A deed of indemnity dated 2 July 2003 entered into between the Company and TBSAP relating to the proposed acquisition of 4,800 CETV Shares from Lark.
302. A deed of indemnity dated 2 July 2003 entered into between the Company and TBSAP relating to the proposed acquisition of 1,200 CETV Shares from Mr. Chua.
303. A letter of disclosure dated 2 July 2003 from TBSAP to TOM TV.
304. An advertising services agreement dated 2 July 2003 entered into between CKH and TOM International for the provision of print, publishing, advertising and other services to CKH and its subsidiaries (from time to time) by TOM International.
305. An advertising services agreement dated 2 July 2003 entered into between Hutchison International Limited (“HIL”) and TOM International for the provision of print, publishing, advertising and other services to HIL and its subsidiaries (from time to time) by TOM International.
306. A service agreement dated 2 July 2003 entered into between HIL and TOM International relating to provision of administrative services and operation-related consultancy to TOM International and its subsidiaries (from time to time) by HIL and its subsidiaries.
307. An information technology consultancy agreement dated 2 July 2003 entered into between HIL and TOM International relating to provision of information technology consultancy services to TOM International and its subsidiaries (from time to time) by HIL and its subsidiaries.
308. A media services agreement dated 2 July 2003 entered into between Hutchison Global Communications Limited and TOM International for the provision of telecommunications, internet related and other media services to the Company and its subsidiaries.
309. A media services agreement dated 2 July 2003 entered into between Hutchison Telecommunications (Hong Kong) Limited and TOM International for the provision of telecommunications, internet related and other media services to the Company and its subsidiaries.
310. A tenancy agreement dated 2 July 2003 entered into between Beijing Oriental Plaza Company Limited (“Beijing Oriental”) and Beijing Super Channel in relation to the lease of the whole of 8th Floor, Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC for a period of 3 years expiring on 14 June 2006.
311. A tenancy agreement 2 July 2003 entered into between Beijing Oriental and TOM China in relation to the lease of Rooms 1-6, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC for a period of 3 years expiring on 14 June 2006.

312. A tenancy agreement 2 July 2003 entered into between Beijing Oriental and TOM China in relation to the lease of Rooms 7-8, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza, No. 1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC for a period of 3 years expiring on 14 June 2006.
313. A placing agreement dated 3 July 2003 entered into between Schumann International Limited, Citigroup Global Markets Asia Limited and the Company, pursuant to which Citigroup Global Markets Asia Limited will purchase or procure purchasers to acquire, and Schumann International Limited will sell in aggregate 450,000,000 existing shares of the Company at a price of HK\$2.30 per share.
314. A subscription agreement dated 3 July 2003 entered into between the Company as an issuer and Schumann International Limited as a subscriber, pursuant to which Schumann International Limited has conditionally agreed to subscribe for 450,000,000 new shares of the Company in total at HK\$2.30 per share.
315. A loan agreement dated 22 July 2003 entered into between TOM OMG, Li Jian and Dynamic Net Developments Limited (“Dynamic”) whereby TOM OMG agreed to lend a certain sum to Li Jian and Dynamic.
316. A share pledge agreement dated 25 July 2003 entered into between Redsail Yuxiang; 趙學英, Resail and 雷霆萬鈞 in relation to the pledge of the 6,300,430 shares of the Company by Redsail Yuxiang in favour of 雷霆萬鈞 and Redsail.
317. A share pledge agreement dated 25 July 2003 entered into between 三錦泰和, 趙學英, Redsail and 雷霆萬鈞 in relation to the pedge of the 1,414,362 shares of the Company by 三錦泰和 in favour of 雷霆萬鈞 and Redsail.
318. An agreement dated 21 July 2003 entered into between Cité Publishing Holding, TOM Print Media, Pan Sy Zuan and Mr. Jan whereby Pan Sy Zuan agreed to (i) sell to Cité Publishing Holding all his shareholding in HMG; (ii) subscribe for 0.78% of the enlarged issued share capital of Cité Publishing Holding; and (iii) sell one half of his shareholding in Cité Publishing Holding to TOM Print Media on substantially the same terms and conditions as those offered to the other minority shareholders of HMG.

## 11. GENERAL

- (a) The head office and principal place of business of the Company is at 48 Floor, The Center, 99 Queen’s Road Central, Central, Hong Kong. The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17 Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (b) The Compliance Officer and the Qualified Accountant of the Company is Ms. Tommei Tong. She holds a Bachelor of Social Sciences Degree from the University of Hong Kong in 1986. She is also a Fellow of Chartered Association of Certified Accountants in the UK and an Associate of Hong Kong Society of Accountants.

- (c) The Company Secretary of the Company is Ms. Angela Mak. Ms. Mak holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of New South Wales in Australia and has been admitted as a solicitor in New South Wales (Australia), England and Wales and Hong Kong.
- (d) The Company has established an audit committee on 21 January 2000 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the TOM Group. The audit committee comprises an executive Director, Ms. Tommei Tong and two independent non-executive Directors, namely Mrs. Lee Pui Ling, Angelina and Mr. Cheong Ying Chew, Henry, further details of whom are set out below:
- (i) Mrs. Lee Pui Ling, Angelina, aged 54, is a practising solicitor. She has a Bachelor of Laws degree and is a Fellow of the Institute of Chartered Accountants in England and Wales. She is active in public service and currently serves on a number of statutory, advisory and appeal committees. She is also a director of a number of other listed companies in Hong Kong.
- (ii) Mr. Cheong Ying Chew, Henry, aged 55. He holds a Bachelor of Science degree in Mathematics and a Master of Science degree in Operational Research and Management. He is a director of certain other listed companies in Hong Kong. Mr. Cheong is a member of the Process Review Panel for the Securities and Future Commission, a member of the GEM Listing Committee, Main Board Listing Committee and Derivatives Market Consultative Panel of the Hong Kong Exchanges and Clearing Limited and also a member of the Corporate Advisory Council of the Hong Kong Securities Institute.
- (iii) Ms. Tommei Tong, aged 38, is Chief Financial Officer and an executive Director. Prior to joining the Company, she was a partner of Arthur Andersen & Co. in charge of the financial services practice in China. Prior to that, she was the Chief Financial Officer and the Chief Operating Officer of Ping An Insurance, China's second largest insurer and a financial conglomerate with diversified interests in securities and investments. Ms. Tong holds a Bachelor of Social Sciences Degree from the University of Hong Kong in 1986. She is also a Fellow of Chartered Association of Certified Accountants in the UK and an Associate of Hong Kong Society of Accountants.
- (e) Dealings in Shares may be settled through the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited, and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will affect their rights and interests.
- (f) Save as disclosed in this circular, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.

- (g) Save as disclosed in this circular:
  - (i) none of the Directors or expert of this appendix has any direct or indirect interest in any assets which have been, since 31 December 2002, the date to which the latest published audited financial results of the Company were made up, to the Latest Practicable Date, acquired or disposed of by or leased to any member of the TOM Group or are proposed to be acquired or disposed of by or leased to any member of the TOM Group; and
  - (ii) none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the TOM Group.
- (h) The English text of this circular shall prevail over the Chinese text.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 48 Floor, The Center, 99 Queen's Road Central, Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 11 September 2003:

- (a) the Memorandum of Association and Articles of Association of the Company;
- (b) the prospectus dated 18 February 2000 of the Company;
- (c) the material contracts referred to in the section headed "Material Contracts" of this appendix;
- (d) the service contracts referred to in the section headed "Service Contracts" of this appendix;
- (e) the annual report of the Company for each of the years ended 31 December 2001, 2002 and the interim report of the Company for the six months ended 30 June 2003;
- (f) the accountants' reports from PricewaterhouseCoopers, the texts of which are set out on pages 51 to 137 of this circular;
- (g) the written consent of PricewaterhouseCoopers referred to in paragraph 8 of this appendix;
- (h) the written statement signed by PricewaterhouseCoopers setting out the adjustments made by them in arriving at the figures shown in the Accountants' Report on CETV set out in Appendix III of this circular and giving the reasons therefor;
- (i) a copy of each of the circulars of the Company issued since 1 January 2003;
- (j) the Share Purchase Agreement;
- (k) an engrossed copy of the Shareholders Deed;

- (l) an engrossed copy of the Option Deed;
- (m) an engrossed copy of the Sub-Lease;
- (n) an engrossed copy of the Services Agreement;
- (o) an engrossed copy of the Program Management Agreement;
- (p) an engrossed copy of the Asset Purchase Agreement;
- (q) an engrossed copy of the Tax Deed; and
- (r) the Indemnity Deeds.



## TOM.COM LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“Meeting”) of TOM.COM LIMITED (“Company”) will be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 11 September 2003 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the terms of, and the transactions contemplated under, a share purchase agreement dated 2 July 2003 entered into between Turner Broadcasting System Asia Pacific, Inc. (“TBSAP”), TOM Television Group Limited (“TOM TV”), Turner Broadcasting System, Inc. (“TBS”) and the Company (“Share Purchase Agreement”) (a copy of which has been produced to the Meeting, and marked “A” and signed by the chairman of the Meeting for the purpose of identification), including, without limitation:
  - (i) the acquisition of 19,222 ordinary shares of HK\$0.30 each in the capital of China Entertainment Television Broadcast Limited (“CETV”) (“CETV Shares”) by TOM TV from TBSAP at an aggregate consideration of HK\$53,868,750, which will be satisfied by the allotment and issue of 21,250,000 shares of HK\$0.10 each in the capital of the Company (“Consideration Shares”) upon the terms and subject to the conditions set out in the Share Purchase Agreement (“Acquisition”); and
  - (ii) the allotment and issue of the Consideration Shares upon the terms and subject to the conditions set out in the Share Purchase Agreement,

and the execution by each of TOM TV and the Company of, and the performance of its obligations under, the Share Purchase Agreement be and are hereby approved, confirmed and ratified; and

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## NOTICE OF THE EGM

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- (b) the directors of the Company (“Directors”) be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Share Purchase Agreement and to make such amendments to the Share Purchase Agreement as the Directors may consider necessary, desirable or appropriate in connection therewith.”
  
- 2. **“THAT** subject to the passing of ordinary resolution no. 1 above:
  - (a) the terms of, and the transactions contemplated under, a shareholders deed to be entered into between TOM TV, TBSAP, CETV, the Company and TBS at completion of the Acquisition (“Completion”) in respect of the operation and management of CETV (“Shareholders Deed”) (an engrossed copy of which has been produced to the Meeting, and marked “B” and signed by the chairman of the Meeting for the purpose of identification), and the execution by each of CETV, TOM TV and the Company of, and the performance of its obligations under, the Shareholders Deed be and are hereby approved; and
  - (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Shareholders Deed and to make such amendments to the Shareholders Deed as the Directors may consider necessary, desirable or appropriate in connection therewith.”
  
- 3. **“THAT** subject to the passing of ordinary resolution no. 1 above:
  - (a) the terms of, and the transactions contemplated under, an option deed to be entered into between TOM TV, TBSAP, the Company and TBS at Completion (“Option Deed”) (an engrossed copy of which has been produced to the Meeting, and marked “C” and signed by the chairman of the Meeting for the purpose of identification), including, without limitation:
    - (i) the granting by TOM TV to TBSAP of an irrevocable and exclusive right to acquire all or part of the CETV Shares held by the Company and its subsidiaries (“Group”) during a period commencing on and from the first day immediately following the expiry of the thirty month after the date of Completion (“Completion Date”) and ending on 30 June 2007 (“First Call Option”) and the exercise of the First Call Option upon the terms and subject to the conditions set out in the Option Deed;

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## NOTICE OF THE EGM

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(ii) the granting by TOM TV to TBSAP of an irrevocable and exclusive right to acquire all or part of the CETV Shares held by the Group as at the following dates:

- a. 1 July 2007;
- b. 1 July 2008;
- c. 1 July 2009; and
- d. 1 July 2010,

(“Fixed Call Option”) and the exercise of the Fixed Call Option upon the terms and subject to the conditions set out in the Option Deed; and

(iii) the acceptance by TOM TV of an irrevocable and exclusive right to require TBSAP to acquire all of the Group’s remaining CETV Shares at the same exercise price of the First Call Option or the Fixed Call Option (as the case may be) upon the terms and subject to the conditions set out in the Option Deed,

and the execution by each of TOM TV and the Company of, and the performance of its obligations under, the Option Deed be and are hereby approved; and

(b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Option Deed and to make such amendments to the Option Deed as the Directors may consider necessary, desirable or appropriate in connection therewith.”

4. **“THAT** subject to the passing of ordinary resolution no. 1 above:

(a) the terms of, and the transactions contemplated under, a sublease agreement to be entered into between TBS and CETV at Completion in respect of the utilisation by CETV of Asia Satellite Telecommunications Company Limited (“AsiaSat”) 3S satellite transponder capacity supplied by AsiaSat to TBS under a transponder utilisation agreement dated 1 December 1999 entered into between TBS and AsiaSat (“Sub-Lease”) (an engrossed copy of which has been produced to the Meeting, and marked “D” and signed by the chairman of the Meeting for the purpose of identification), and the execution by CETV of, and the performance of its obligations under, the Sub-Lease be and are hereby approved; and

(b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Sub-Lease and to make such amendments to the Sub-Lease as the Directors may consider necessary, desirable or appropriate in connection therewith.”



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## NOTICE OF THE EGM

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5. **“THAT** subject to the passing of ordinary resolution no. 1 above:
- (a) the terms of, and the transactions contemplated under, a services agreement to be entered into between TBSAP and CETV at Completion in respect of the provision of certain services by TBSAP to CETV (“Services Agreement”) (an engrossed copy of which has been produced to the Meeting, and marked “E” and signed by the chairman of the Meeting for the purpose of identification), and the execution by CETV of, and the performance of its obligations under, the Services Agreement be and are hereby approved; and
  - (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Services Agreement and to make such amendments to the Services Agreement as the Directors may consider necessary, desirable or appropriate in connection therewith.”
6. **“THAT** subject to the passing of ordinary resolution no. 1 above:
- (a) the terms of, and the transactions contemplated under, a program management agreement to be entered into between TBSAP, CETV and TOM TV at Completion in respect of the provision of certain programming management services by TBSAP to CETV (“Program Management Agreement”) (an engrossed copy of which has been produced to the Meeting, and marked “F” and signed by the chairman of the Meeting for the purpose of identification), and the execution by CETV of, and the performance of its obligations under, the Program Management Agreement be and are hereby approved; and
  - (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Program Management Agreement and to make such amendments to the Program Management Agreement as the Directors may consider necessary, desirable or appropriate in connection therewith.”
7. **“THAT** subject to the passing of ordinary resolution no. 1 above:
- (a) the terms of, and the transactions contemplated under, an asset purchase agreement to be entered into between TBSAP and CETV at Completion in respect of the acquisition of certain office equipment by CETV from TBSAP (“Asset Purchase Agreement”) (an engrossed copy of which has been produced to the Meeting, and marked “G” and signed by the chairman of the Meeting for the purpose of identification), and the execution by CETV of, and the performance of its obligations under, the Asset Purchase Agreement be and are hereby approved; and

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## NOTICE OF THE EGM

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- (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Asset Purchase Agreement and to make such amendments to the Asset Purchase Agreement as the Directors may consider necessary, desirable or appropriate in connection therewith.”

8. **“THAT** subject to the passing of ordinary resolution no. 1 above:

- (a) the terms of, and the transactions contemplated under, a deed of indemnity to be executed by TBSAP in favour of CETV at Completion in respect of certain tax liabilities incurred by CETV from 31 May 2000 to the Completion Date which have not been disclosed in the audited accounts of CETV for the years ended 31 December 2001 and 31 December 2002, respectively (“Tax Deed”) (an engrossed copy of which has been produced to the Meeting, and marked “H” and signed by the chairman of the Meeting for the purpose of identification), and the execution by CETV of, and the performance of its obligations under, the Tax Deed be and are hereby approved; and
- (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Tax Deed and to make such amendments to the Tax Deed as the Directors may consider necessary, desirable or appropriate in connection therewith.”

9. **“THAT:**

- (a) the terms of, and the transactions contemplated under:
  - (i) a deed of indemnity dated 2 July 2003 executed by the Company in favour of TBSAP in respect of the proposed acquisition of 4,800 CETV Shares by TBSAP from Lark International Multimedia Limited (a copy of which has been produced to the Meeting, and marked “I” and signed by the chairman of the Meeting for the purpose of identification); and
  - (ii) a deed of indemnity dated 2 July 2003 executed by the Company in favour of TBSAP in respect of the proposed acquisition of 1,200 CETV Shares by TBSAP from Mr. CHUA Wah Peng, Robert (a copy of which has been produced to the Meeting, and marked “J” and signed by the chairman of the Meeting for the purpose of identification),

(collectively, “Indemnity Deeds”) and the execution by the Company of, and the performance of its obligations under, the Indemnity Deeds be and are hereby approved, confirmed and ratified; and

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## NOTICE OF THE EGM

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- (b) the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider necessary, desirable or appropriate for the purposes of, or in connection with, the implementation of the Indemnity Deeds and to make such amendments to the Indemnity Deeds as the Directors may consider necessary, desirable or appropriate in connection therewith.”

By Order of the Board  
**TOM.COM LIMITED**  
**Angela Mak**  
*Company Secretary*

Hong Kong, 26 August 2003

*Head office and principal place of business:*

48 Floor  
The Center  
99 Queen's Road Central  
Central, Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the principal place of business of the Company at 48 Floor, The Center, 99 Queen's Road Central, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.