THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

This circular is not an offer of securities for sale in the United States ("US"). Securities of TOM Online Inc. may not be offered or sold in the US absent registration or an exemption from registration. Any public offering of securities of TOM Online Inc. to be made in the US will be made by means of a prospectus that may be obtained from the issuer and that will contain detailed information on TOM Online Inc. and its management, as well as its financial statements. TOM Online Inc. intends to register a part of the proposed offering in the US.

tom

TOM.COM LIMITED

(Incorporated in the Cayman Islands with limited liability)

VERY SUBSTANTIAL ACQUISITION INVOLVING THE ISSUE OF SHARES AND CONNECTED TRANSACTIONS

Proposed acquisition of 100% of the issued share capital of Puccini International Limited

Independent financial adviser to the Independent Board Committee

ROTHSCHILD

A letter from the Board (as defined herein) is set out on pages 12 to 44 of this circular, a letter from the Independent Board Committee (as defined herein) is set out on pages 45 to 46 of this circular and a letter from N M Rothschild & Sons (Hong Kong) Limited to the Independent Board Committee containing its advice to the Independent Board Committee is set out on pages 47 to 69 of this circular.

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 Wednesday, 19 November 2003 at 11:00 a.m. is set out on pages 383 to 384 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 48th 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 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.

3 November 2003

CHARACTERISTICS OF GEM

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

"2003 Audited Accounts"	the audited consolidated balance sheet of Puccini made up as at 31 December 2003 and the audited consolidated profit and loss account of Puccini for the year ending 31 December 2003 prepared in accordance with US GAAP
"2003 Net Profit"	the consolidated net profit after tax and before extraordinary items of Puccini as shown in the 2003 Audited Accounts (which, for the purpose of determining the Consideration, shall exclude amortisation of intangibles arising from the Acquisition, if any)
"2004 Audited Accounts"	the audited consolidated balance sheet of Puccini made up as at 31 December 2004 and the audited consolidated profit and loss account of Puccini for the year ending 31 December 2004 prepared in accordance with US GAAP
"2004 Net Profit"	the consolidated net profit after tax and before extraordinary items of Puccini as shown in the 2004 Audited Accounts (which, for the purpose of determining the Consideration, will exclude amortisation of intangibles arising from the Acquisition, if any)
"2004 Report Date"	the date of the auditors report on the 2004 Audited Accounts or such later date as the 2004 Audited Accounts are agreed between the parties or determined in accordance with the terms of the Sale and Purchase Agreement
"Acquisition" or "Puccini Acquisition"	the proposed acquisition of the Sale Share by Bright Horizon from the Vendor upon the terms and subject to the conditions set out in the Sale and Purchase Agreement
"associates"	has the same meaning as ascribed to it under the GEM Listing Rules
"Beijing Mobile"	Beijing Mobile Communications Company Limited (北京移動通信有限責任公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of China Mobile
"Beijing Mobile IVR Services Agreement"	the IVR Services agreement for the provision of information products dated 8 October 2003 entered into between LTWJi and Beijing Mobile
"Board"	the board of directors of the Company

"Borrower"	has the meaning ascribed to it in the sub-section headed "Unsecured loan from Cranwood" in the section headed "Other major terms" in Part B of the letter from the Board set out in this circular
"Bright Horizon"	Bright Horizon Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, and a direct wholly-owned subsidiary of Holdco and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date and as at Completion
"Business"	the business of provision of IVR Services currently carried out by LTWJi in the PRC
"Business Agreements"	(a) the Beijing Mobile IVR Services Agreement; (b) the 12586 IVR Services agreement for the provision of community-oriented products dated 3 July 2003 entered into between LTWJi and Beijing Mobile; and (c) the SMS services agreement entered into between LTWJi and Beijing Mobile effective from 1 May 2003, in each case as they may be supplemented, varied, amended, renewed or replaced (including where a different subsidiary of China Mobile replaces Beijing Mobile as the contracting party)
"Business Day"	a day (excluding Saturdays and days on which a tropical cyclone warning No. 8 or above or a "black" rain warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks generally are open in Hong Kong for the transaction of normal banking business
"Business Operation Agreement"	a business operation agreement to be entered into between WFOE, LTWJi, Mr. Wang and Ms. Wang prior to Completion, under which, among other things: (i) without the prior written consent of WFOE, LTWJi will not to engage in any activity that could have a material adverse effect on its assets, liabilities, equity and/or operations; and (ii) WFOE will guarantee the performance by LTWJi of its obligations under its transactions with third parties
"Cash Consideration"	the Initial Cash Consideration and the Earn-Out Cash Consideration (if any)
"CETV"	China Entertainment Television Broadcast Limited, a company incorporated in Hong Kong with limited liability and a non-wholly owned subsidiary of the Company

"China Mobile"	China Mobile (Hong Kong) Limited, which is a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange and the New York Stock Exchange
"Code"	the Hong Kong Code on Takeovers and Mergers
"Company"	TOM.COM LIMITED, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on GEM
"Competing Business"	has the meaning ascribed to it in the section headed "Non-competition" in Part B of the letter from the Board set out in this circular
"Completion"	completion of the Acquisition upon the terms and subject to the conditions set out in the Sale and Purchase Agreement
"Conditions"	has the meaning ascribed to it in the section headed "Conditions precedent" in Part B of the letter from the Board set out in this circular
"Consideration"	the Initial Consideration and the Earn-Out Consideration
"Consideration Shares"	the Initial Consideration Shares and the Earn-Out Consideration Shares
"Continuing Connected Transactions"	certain transactions contemplated under the Technical and Consultancy Services Agreement as described in the section headed "Contractual Arrangements" in Part M of the letter from the Board set out in this circular
"Contractual Arrangements"	(a) the Loan Assignment Agreements; (b) the Business Operation Agreement; (c) the Equity Pledge Agreements; (d) the Technical and Consultancy Services Agreement; and (e) the Option Agreements
"Cranwood"	Cranwood Company Limited, a company incorporated in the Republic of Liberia, which owns or is otherwise deemed under the SFO to be interested in 952,683,363 Shares (representing approximately 24.70% of the issued share capital of the Company) as at the Latest Practicable Date, as further described in Part D of the letter from the Board set out in this circular

"Devine Gem"	Devine Gem Management Limited, a company incorporated in the British Virgin Islands with limited liability, which is indirectly wholly-owned by Ms. Chau
"Directors"	the directors of the Company
"Earn-Out Amount"	(a) an amount equal to 7.7 times the 2004 Net Profit; or (b) in the event that the 2004 Net Profit is less than an amount equal to 1.2 times the 2003 Net Profit, an amount equal to 6 times the 2004 Net Profit (for the purpose of this paragraph, the minimum amount of the 2003 Net Profit will be RMB40 million), provided that the maximum amount of the Earn-Out Amount will not be more than US$150 million
"Earn-Out Cash Consideration"	has the meaning ascribed to it in paragraph 4.5(a) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Earn-Out Consideration"	the additional amount of consideration for the Acquisition as set out in paragraph 4.3 in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Earn-Out Consideration Shares"	has the meaning ascribed to it in paragraph 4.5(b)(i) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Easterhouse"	Easterhouse Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Hutchison Whampoa Limited, which owns 952,683,363 Shares (representing approximately 24.70% of the issued share capital of the Company) as at the Latest Practicable Date
"Economic Benefits"	has the meaning ascribed to it in paragraph 13.1 in the section headed "Other major terms" in Part B of the letter from the Board set out in this circular
"EGM"	the extraordinary general meeting of the Shareholders of the Company convened by the Board to be held at 11:00 a.m. on Wednesday, 19 November 2003 at Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong for considering and, if appropriate, approving the Acquisition, the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be) and the Continuing Connected Transactions

"Enlarged Capital"	the issued share capital of the Company as enlarged by the issue of the TOM Consideration Shares (assuming that: (i) the amount of the Consideration is US$150 million; (ii) all of the 50% of the TOM Consideration Shares will be satisfied by the issue and allotment of Shares (in the manner mentioned in paragraph 4.5(b)(ii) in the section headed "Consideration"); and (iii) no further Shares (other than the TOM Consideration Shares) will be issued on or before Completion)
"Enlarged TOM Group"	the TOM Group immediately after Completion
"Equity Pledge Agreements"	equity pledge agreements to be entered into between WFOE and each of Mr. Wang and Ms. Wang prior to Completion, under which each of Mr. Wang and Ms. Wang will pledge all of his/her equity interest in LTWJi to WFOE as a security for the performance by LTWJi of its obligations under the Technical and Consultancy Services Agreement
"Escrow Agent"	has the meaning ascribed to it in paragraph 5.2 in the section headed "Payment terms" in Part B of the letter from the Board set out in this circular
"Escrow Period"	has the meaning ascribed to it in paragraph 5.2 in the section headed "Payment terms" in Part B of the letter from the Board set out in this circular
"Existing Capital"	3,856,690,338 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
"Final Payment Date"	the Holdco Allotment Date or, as the case may be, the TOM Allotment Date
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GO Threshold"	30% or such other percentage as specified in the Code from time to time as the threshold for triggering a mandatory general offer obligation under Rule 26.1 of the Code
"HK GAAP"	the generally accepted accounting principles in Hong Kong

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong. For the purpose of the Sale and Purchase Agreement: (a) the conversion rate between HK$ and RMB is HK$1=RMB1.0638; and (b) the conversion rate between US$ and HK$ is US$1=HK$7.80
"Holdco"	TOM Online Inc., a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Holdco Allotment Date"	the date on which the Earn-Out Consideration Shares are allotted and issued to Cranwood (or its nominee(s), which will be wholly-owned subsidiary/subsidiaries of Cranwood) which shall be within 30 days of the 2004 Report Date (which is not expected to be earlier than March 2005) in accordance with paragraph 5.4 in the section headed "Payment terms" in Part B of the letter from the Board set out in this circular
"Holdco Cash Consideration"	has the meaning ascribed to it in paragraph 4.5(b)(i)(2) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Holdco Daily Limit"	has the meaning ascribed to it in paragraph 6.1(b) in the section headed "Moratorium and trading restrictions" in Part B of the letter from the Board set out in this circular
"Holdco Shares"	shares of HK$0.01 each in the capital of Holdco, which are proposed to be listed on a recognised stock exchange (and for the purpose of this circular, unless specified otherwise in Holdco's articles of association, each Holdco Share shall carry one vote)
"Holdco Trading Day"	any one day on which the Holdco Shares are traded on the relevant stock exchange on which the Holdco Shares are to be listed
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, which comprises Mrs. Angelina Lee, Mr. Henry Cheong and Ms. Anna Wu, being all of the independent non-executive Directors, established to advise the independent Shareholders in respect of the Acquisition and the Continuing Connected Transactions

"Initial Cash Consideration"	has the meaning ascribed to it in paragraph 4.2(a) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Initial Consideration"	has the meaning ascribed to it in paragraph 4.2 in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"Initial Consideration Shares"	has the meaning ascribed to it in paragraph 4.2(b) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"IPO Price"	the offer price per Holdco Share under any initial public offering of Holdco Shares and listing of Holdco Shares on GEM pursuant to the Proposed Spin-Off (excluding any brokerage, Securities and Futures Commission transaction levy, investor compensation levy and the Stock Exchange trading fee) or, if not listed on GEM, such other relevant recognised stock exchange
"IVR"	wireless interactive-voice response
"IVR Services"	wireless interactive-voice response services provided through mobile telephone networks in the PRC
"Latest Practicable Date"	29 October 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular
"LIBOR"	the London inter-bank offered rate
"Loan Agreement"	a loan agreement dated 25 July 2002 entered into between Devine Gem (as lender) and each of Mr. Wang and Ms. Wang (as borrowers), under which Devine Gem agreed to advance certain funds to each of Mr. Wang and Ms. Wang solely for the sole purpose of his/her investing in the working capital of LTWJi
"Loan Assignment Agreements"	(i) an assignment agreement to be entered into between Devine Gem, Puccini, and each of Mr. Wang and Ms. Wang prior to Completion, under which Devine Gem will assign to Puccini all of its rights and interests in and to the Loan Agreement; and (ii) covenants to be given by each of Mr. Wang and Ms. Wang in favour of Puccini prior to Completion in respect of such assignment

"Lockup Date"	has the meaning ascribed to it in paragraph 6.1(a) in the section headed "Moratorium and trading restrictions" in Part B of the letter from the Board set out in this circular
"LTWJi"	Beijing Leitingwuji Network Technology Company Limited (北京雷霆無極網絡科技有限公司), a domestic company established in Beijing, the PRC
"Market Price"	the closing price of HK$2.60 per Share as quoted on the Stock Exchange on 25 September 2003
"Modified Ratio"	means, pursuant to Rule 19.18 of the GEM Listing Rules, the adoption by the Company of "net asset" (i.e., add back the intangible assets to the "net tangible assets") as the parameter for the "asset ratio" and the "consideration ratio" in categorising notifiable transactions under Chapter 19 of the GEM Listing Rules (as confirmed by the Stock Exchange on 3 April 2003)
"Mr. Wang"	Mr. WANG Lei Lei (王雷雷), who is a non-executive Director
"Ms. Chau"	Ms. CHAU Hoi Shuen (周凱旋), who is the sole legal and beneficial owner of Cranwood, and therefore is a substantial Shareholder and a connected person of the Company under the GEM Listing Rules
"Ms. Wang"	Ms. WANG Xiu-ling, Anita (王秀玲), who 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 (as defined under the GEM Listing Rules)
"Nasdaq"	the Nasdaq National Market in the US
"Option Agreements"	the exclusive option agreements to be entered into between Puccini and each of Mr. Wang and Ms. Wang prior to Completion, under which Puccini will have an exclusive right to acquire from each of Mr. Wang (at exercise price of RMB800,000) and Ms. Wang (at exercise price of RMB200,000) all of his/her equity interest in LTWJi at any time within a period of 10 years (which may be extended for another 10 years at the option of Puccini) from the date of such new option agreements as and when permitted under PRC law
"Parties"	the parties to the Sale and Purchase Agreement, being Cranwood, Bright Horizon, the Company and Holdco
"PRC"	the People's Republic of China

"Pre-IPO Share Option Plan"	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)
"Proposed Spin-Off"	the proposed spin-off by the Company of Holdco by way of separate listing of its securities on GEM and/or Nasdaq
"Puccini"	Puccini International Limited, a company incorporated in the Cayman Islands (on 13 March 2000) and a wholly-owned subsidiary of Cranwood as at the Latest Practicable Date
"Puccini Group"	Puccini, LTWJi and, upon its establishment prior to Completion, WFOE
"RMB"	Renminbi, the lawful currency of the People's Republic of China
"Romefield"	Romefield Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited, which owns 476,341,182 Shares (representing approximately 12.35% of the issued share capital of the Company) as at the Latest Practicable Date
"Rothschild"	N M Rothschild & Sons (Hong Kong) Limited, an authorised financial institution deemed to have been registered under section 119(1) of the SFO for Types 1, 4, 6 and 9 regulated activities from 1 April 2003 (previously an investment adviser registered with the Securities and Futures Commission) and the independent financial adviser to the Independent Board Committee in respect of the Acquisition and the Continuing Connected Transactions
"Sale and Purchase Agreement"	the conditional agreement for the sale and purchase of the Sale Share dated 25 September 2003 (as amended by a supplemental agreement dated 29 October 2003) entered into amongst Cranwood (as vendor), Bright Horizon (as purchaser) and each of the Company and Holdco (as guarantors of Bright Horizon)
"Sale Share"	one share of US$1 each in the capital of Puccini, representing the entire issued share capital of Puccini as at the Latest Practicable Date and as at Completion
"Sell"	has the meaning ascribed to it in paragraph 6.1(a) in the section headed "Moratorium and trading restrictions" in Part B of the letter from the Board set out in this circular

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 11 February 2000 (as amended)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tax Indemnity"	the deed of indemnity to be executed by Cranwood and Devine Gem in favour of the Company, LTWJi and Bright Horizon at Completion
"Technical and Consultancy Services Agreement"	the exclusive technical and consultancy services agreement to be entered between WFOE and LTWJi prior to Completion, under which WFOE will provide certain technical and consultancy services to LTWJi on an exclusive basis
"TOM Allotment Date"	the date on which the TOM Consideration Shares are allotted and issued to Cranwood (or its nominee(s), which will be wholly-owned subsidiary/subsidiaries of Cranwood) which shall be within 30 days of the 2004 Report Date (which is not expected to be earlier than March 2005) in accordance with paragraph 5.4 in the section headed "Payment terms" in Part B of the letter from the Board set out in this circular
"TOM Cash Consideration"	has the meaning ascribed to it in paragraph 4.5(b)(ii)(2) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"TOM Consideration Shares"	has the meaning ascribed to it in paragraph 4.5(b)(ii) in the section headed "Consideration" in Part B of the letter from the Board set out in this circular
"TOM Daily Limit"	has the meaning ascribed to it in paragraph 6.2(b) in the section headed "Moratorium and trading restrictions" in Part B of the letter from the Board set out in this circular
"TOM Group"	the Company and its subsidiaries
"Trading Day"	any one day on which the Shares are traded on GEM

"Transaction Documents"	the Sale and Purchase Agreement, a disclosure letter dated 25 September 2003 from Cranwood to Bright Horizon disclosing certain information which qualifies some of the representations made and warranties given by Cranwood under the Sale and Purchase Agreement and the Tax Indemnity
"US"	the United States of America
"US GAAP"	the generally accepted accounting principles in the US
"US$"	US dollars, the lawful currency of the US
"WFOE"	Puccini Network Technology (Beijing) Limited (普其利網絡科技(北京)有限公司), a wholly-foreign owned enterprise established in Beijing, the PRC and a wholly-owned subsidiary of Puccini

TOM.COM LIMITED

(Incorporated in the Cayman Islands with limited liability)

Directors:
Frank Sixt* *(Chairman)*
Sing Wang *(Chief Executive Officer)*
Tommei Tong
Henry Cheong#
Angelina Lee#
Anna Wu#
Debbie Chang*
Susan Chow*
Edmond Ip*
Holger Kluge*
James Sha*
Wang Lei Lei*

* *Non-executive Directors*
\# *Independent non-executive Directors*

Registered office:
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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

3 November 2003

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION INVOLVING THE ISSUE OF SHARES AND CONNECTED TRANSACTIONS
Proposed acquisition of 100% of the issued share capital of Puccini International Limited

A. INTRODUCTION

On 25 September 2003, the Company announced that the Company, Bright Horizon, Holdco and Cranwood had entered into the Sale and Purchase Agreement, under which, among other things, Bright Horizon conditionally agreed to acquire the entire issued share capital of Puccini, a company which is involved in the provision of IVR Services through LTWJi.

The consideration for the proposed Acquisition comprises:

- an Initial Consideration which consists of

  (i) a nominal consideration of US$1.00 to be paid at the time of Completion; and

  (ii) if Holdco Shares are listed on GEM or any other recognised stock exchange at any time on or before 31 December 2004, a sum of US$18,500,000 in the form of Holdco Shares at the IPO Price, which will be placed with the Escrow Agent, subject to claw-back as discussed below; and

- an Earn-Out Consideration (to be satisfied in the form of cash and either TOM Consideration Shares or Earn-Out Consideration Shares (as the case may be), as described below) that is equal to the excess over the Initial Consideration of (i) an amount equal to 7.7 times Puccini's 2004 Net Profit; or (ii) if such 2004 Net Profit is less than an amount equal to 1.2 times Puccini's 2003 Net Profit, on the basis that the minimum amount of the 2003 Net Profit is RMB40,000,000 (US$4,820,648), an amount equal to 6 times Puccini's 2004 Net Profit.

  The total consideration is subject to a maximum of US$150,000,000.

The payment of the Earn-Out Consideration is structured such that half of the total consideration paid to Cranwood will be in cash and the balance of the total consideration (after also deducting the Initial Consideration) is to be satisfied by the issue to Cranwood of either TOM Consideration Shares or, if Holdco Shares are listed on GEM or any other recognised stock exchange at any time on or before 31 December 2004, Earn-Out Consideration Shares, calculated on the basis of an issue price equal to the average closing price of such shares as quoted on GEM (or other relevant exchange) for the 30 trading days immediately prior to the date that Bright Horizon agrees the amount of Puccini's 2004 Net Profit with Cranwood. Where Holdco Shares have been issued as part of the Initial Consideration and the Earn-Out Consideration is less than US$18,500,000, a claw-back adjustment will be made to the Initial Consideration paid by Bright Horizon involving the sale in the market of certain of the Holdco Shares already allotted to Cranwood as part of the Initial Consideration, with such sale proceeds being paid to Bright Horizon.

Based on the latest adjusted net assets of the Company and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement, the Acquisition constitutes a very substantial acquisition of the Company involving the issue of Shares under Chapter 19 of the GEM Listing Rules.

In addition, as Cranwood is a substantial Shareholder holding approximately 24.70% of the issued share capital of the Company as at the date of the Sale and Purchase Agreement and is therefore a connected person of the Company under the GEM Listing Rules, the Acquisition also constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. The Company is therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Rules 20.34, 20.35 and 20.36 of the GEM Listing Rules, respectively.

As mentioned in sections G (headed "Information on the Puccini Group") and M (headed "Contractual Arrangements") below, WFOE (which was established on 16 October 2003) will enter into the Contractual Arrangements (the terms of which are in agreed form) with LTWJi after the Continuing Connected Transactions are approved by the independent Shareholders and before Completion. The Technical and Consultancy Services Agreement (which is an integral part of the Contractual Arrangements) will enable Puccini (through WFOE) to enjoy the economic benefits of LTWJi. As Mr. Wang (who is a non-executive Director) is the registered owner of 80% of the equity interest in LTWJi, LTWJi is deemed to be an associate of Mr. Wang under the GEM Listing Rules. LTWJi is therefore a connected person of the Company and transactions between members of the Enlarged TOM Group, and Mr. Wang and/or LTWJi will constitute connected transactions of the Company under the GEM Listing Rules.

The proposed Acquisition is conditional on, among other things, the approval by the Shareholders (other than: (i) Easterhouse and Romefield (and their respective associates), who together are the controlling Shareholders; and (ii) Cranwood (and its associates), who is a substantial Shareholder, and any other Shareholder who is interested in the proposed Acquisition, all of whom will abstain from voting on the relevant resolutions) at the EGM. As required under Rule 20.42 of the GEM Listing Rules, the voting at the EGM will be taken by poll.

The Continuing Connected Transactions are conditional on the approval by the Shareholders (other than Mr. Wang, his associates and any other Shareholder who is interested in the Continuing Connected Transactions, all of whom will abstain from voting on the relevant resolution) at the EGM. As required under Rule 20.40 of the GEM Listing Rules, the vote at the EGM will be taken by poll.

The Independent Board Committee has been formed to advise the independent Shareholders in respect of the Acquisition and the Continuing Connected Transactions. In this regard, Rothschild has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee.

The purpose of this circular is (i) to provide the Shareholders with further information on the proposed Acquisition and the Continuing Connected Transactions; (ii) to provide the Shareholders with the recommendation of the Independent Board Committee in relation to the Acquisition and the Continuing Connected Transactions; (iii) to set out the letter from Rothschild containing its advice and recommendation to the Independent Board Committee in relation to the Acquisition and the Continuing Connected Transactions; and (iv) to give notice of the EGM at which ordinary resolutions will be proposed to approve the Acquisition, the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be) and the Continuing Connected Transactions. This circular also contains information in compliance with the GEM Listing Rules.

B. SALE AND PURCHASE AGREEMENT

Set out below is a summary of the principal terms of the Sale and Purchase Agreement.

1. Date

25 September 2003

2. Parties

Purchaser: Bright Horizon, a direct wholly-owned subsidiary of Holdco and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date.

Vendor: Cranwood, a substantial Shareholder holding (or otherwise deemed under the SFO to be interested in) approximately 24.70% of the Company's issued share capital as at the Latest Practicable Date and therefore is a connected person of the Company under Chapter 20 of the GEM Listing Rules.

Guarantors: (a) Holdco, a wholly-owned subsidiary of the Company as at the Latest Practicable Date; and

(b) the Company.

3. Assets to be acquired

The Sale Share, representing 100% of the issued share capital of Puccini as at the Latest Practicable Date and as at Completion.

WFOE is a wholly-owned subsidiary of Puccini.

Under the Contractual Arrangements, Puccini and WFOE will be able to enjoy the economic interest in LTWJi.

4. Consideration

4.1. The Consideration comprises the Initial Consideration and the Earn-Out Consideration.

4.2. The initial consideration for the Acquisition ("Initial Consideration") is:

(a) the sum of US$1, which will be paid in cash ("Initial Cash Consideration"); and

(b) in the event that the Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004, a sum of US$18.5 million, which will be satisfied by the issue and allotment of such number of Holdco Shares (credited as fully paid) at an issue price equal to the IPO Price ("Initial Consideration Shares").

4.3. The Earn-Out Consideration is the amount by which the Earn Out Amount exceeds the amount of the Initial Consideration, which will be paid by Bright Horizon as follows:

(a) if the Initial Consideration Shares are allotted and issued to Cranwood pursuant to paragraph 4.2(b) above, the Earn-Out Consideration will be an amount equal to the Earn-Out Amount less US$18,500,001; or

(b) if the Initial Consideration Shares are not allotted and issued to Cranwood pursuant to paragraph 4.2(b) above, the Earn-Out Consideration will be an amount equal to the Earn-Out Amount less US$1.

4.4. The Earn-Out Amount will be:

(a) an amount equal to 7.7 times the 2004 Net Profit; or

(b) in the event that the 2004 Net Profit is less than an amount equal to 1.2 times the 2003 Net Profit, an amount equal to 6 times the 2004 Net Profit (for the purpose of this paragraph, the minimum amount of the 2003 Net Profit will be RMB40 million),

provided that the maximum amount of the Earn-Out Amount will not be more than US$150 million.

4.5. The Earn-Out Consideration will be paid in the following manner:

(a) irrespective of whether or not the Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004 and whether or not the Initial Consideration Shares are allotted and issued to Cranwood pursuant to paragraph 4.2(b) above, an amount equal to 50% of the Earn-Out Amount will be paid in cash ("Earn-Out Cash Consideration") provided that the maximum amount of the Earn-Out Cash Consideration will not be more than US$75 million. Subject to the successful listing of the Holdco Shares on a recognised stock exchange, the Earn-Out Cash Consideration will be satisfied by Holdco's listing proceeds or, if at the time of payment of the Earn-Out Cash Consideration, Holdco has sufficient internal or other resources, all or part of the Earn-Out Cash Consideration may be satisfied by Holdco's internal or other resources. Otherwise, the Earn-Out Cash Consideration will be satisfied by the Company's internal resources (in which case, Holdco and the Company will make appropriate disclosures in accordance with the requirements under Chapter 17 of the GEM Listing Rules); and

(b) (i) in the event that the Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004 and the Initial Consideration Shares are allotted and issued to Cranwood pursuant to paragraph 4.2(b) above, an amount equal to 50% of the Earn-Out Amount less US$18,500,001 will be satisfied by the issue and allotment of Holdco Shares (credited as fully paid) at an issue price equal to the average closing price of the Holdco Shares as quoted on GEM or, if the Holdco Shares are not listed on GEM, the average closing price of the Holdco Shares as quoted on any other recognised stock exchange on which the Holdco Shares are to be listed for the 30 Holdco Trading Days immediately preceding the 2004 Report Date ("Earn-Out Consideration Shares") provided that if the aggregate number of the Holdco Shares to be so issued and allotted and the Holdco Shares already owned by

Cranwood (and parties acting in concert with it (if any)) as at the Holdco Allotment Date would be equal to or more than the GO Threshold of the then issued share capital of Holdco:

(1) the number of the Earn-Out Consideration Shares will be equal to the difference between: (i) such number of Holdco Shares representing 1% less than the GO Threshold of the then issued share capital of Holdco (as enlarged by the issue and allotment of such Holdco Shares); and (ii) the number of Holdco Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the Holdco Allotment Date; and

(2) the balance of such 50% of the Earn-Out Amount less US$18,500,001 will be paid in cash ("Holdco Cash Consideration"). The Holdco Cash Consideration will be satisfied in the manner set out in paragraph 4.5(a) above; or

(ii) in the event that the Holdco Shares are not listed on GEM or any other recognised stock exchange by 31 December 2004 and/or and the Initial Consideration Shares are not allotted and issued to Cranwood pursuant to paragraph 4.2(b) above, an amount equal to 50% of the Earn-Out Amount will be satisfied by the issue and allotment of Shares (credited as fully paid) at an issue price equal to the average closing price of the Shares as quoted on GEM for the 30 Trading Days immediately preceding the 2004 Report Date ("TOM Consideration Shares"), provided that if the aggregate number of the Shares to be so issued and allotted and the Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the TOM Allotment Date would be equal to or more than the GO Threshold of the then issued share capital of the Company:

(1) the number of the TOM Consideration Shares will be equal to the difference between: (i) such number of Shares representing 1% less than the GO Threshold of the then issued share capital of the Company (as enlarged by the issue and allotment of such Shares); and (ii) the number of Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the TOM Allotment Date; and

(2) the balance of such 50% of the Earn-Out Amount less US$1 will be paid in cash ("TOM Cash Consideration"). The TOM Cash Consideration will be satisfied by the Company's internal resources.

4.6. Where Holdco Shares have been issued as part of the Initial Consideration, in the event that 50% of the Earn-Out Amount is less than the amount of the Initial Consideration, the Initial Consideration will be reduced by an amount equal to such shortfall, and Cranwood and Bright Horizon will jointly instruct the Escrow Agent to, through a broker appointed by Bright Horizon or Holdco, sell such number of the Initial Consideration Shares at a price agreed by the Holdco or Bright Horizon in accordance with applicable laws, rules and regulations. The proceeds of sale thereof (net of expenses and commissions) will be paid to Holdco or Bright Horizon (or as either may direct).

4.7. For illustration purposes, assuming that: (i) the Earn-Out Amount is US$150 million; and (ii) an amount equal to 50% of the Earn-Out Amount will be satisfied by the issue and allotment of Shares (in the manner mentioned in paragraph 4.5(b)(ii) above) and based on the Market Price, the TOM Consideration Shares represent approximately 5.83% and approximately 5.51% of the Existing Capital and the Enlarged Capital, respectively. The allotment and issue of the TOM Consideration Shares will not result in a change of control of the Company.

4.8. The Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) are of the view that: (i) the Acquisition was negotiated and entered into on an arm's length basis based on normal commercial terms; and (ii) the Consideration (including the issue of Consideration Shares or, as the case may be, the TOM Consideration Shares in satisfaction of 50% of the Consideration) was determined as being a price acceptable to Cranwood and Bright Horizon with reference to the past performance, period of operation, prospective profit contribution, growth prospects, earnings potential and competitive advantages in the market of the Puccini Group and relevant valuation benchmarks.

The Board (other than the Independent Board Committee, whose views set out in "Letter from the Independent Board Committee" in this circular) takes the view that the Consideration and the other terms of the Acquisition are fair and reasonable. Such members of the Board are also of the view that the Acquisition is in the best interests of the Company and its Shareholders as a whole.

5. Payment terms

5.1. The Initial Cash Consideration will be paid to Cranwood (or as it may direct in writing) at Completion.

5.2. The Initial Consideration Shares will be allotted and issued to Cranwood (or its nominee(s), which will be wholly-owned subsidiary/subsidiaries of Cranwood) at any time prior to, or six months after, the commencement of trading of the Holdco Shares on GEM or such other recognised stock exchange. Immediately upon such issue of the Initial Consideration Shares, the share certificate(s), and instruments of transfer and contract notes executed in blank by Cranwood in respect of the Initial Consideration Shares will be deposited with an escrow agent to be jointly appointed by Cranwood and Bright Horizon ("Escrow Agent"). Subject to, among other things, paragraph 13.2(a)(iii) in the sub-section headed "Warranties and undertakings" in the section headed "Other major terms" below, the Escrow Agent will release the share certificate(s), instruments of transfer and contract notes to Cranwood (or the relevant registered owner(s) of the Initial Consideration Shares) on the first Business Day after the Final Payment Date ("Escrow Period"). Cranwood will be entitled to exercise voting rights attaching to, and receive any dividends or distributions in respect of, all of the Initial Consideration Shares during the Escrow Period.

5.3. The Earn-Out Cash Consideration (if any) will be paid to Cranwood (or as it may direct in writing) on the Final Payment Date.

5.4. The Earn-Out Consideration Shares (if any) or, as the case may be, the TOM Consideration Shares (if any) will be allotted and issued to Cranwood (or its nominee(s), which will be wholly-owned subsidiary/subsidiaries of Cranwood) and, if applicable, the Holdco Cash Consideration or, as the case may be, the TOM Cash Consideration shall be paid to Cranwood (or as it may direct in writing) on the Final Payment Date or within three Business Days after Shareholder approval of Holdco or, as the case may be, the Company, as is required for the issue and allotment of the Earn-Out Consideration Shares or, as the case may be, the TOM Consideration Shares, have been obtained.

6. Moratorium and trading restrictions

6.1. In the case of the Consideration Shares, except with the prior consent of Bright Horizon and other than in compliance with the requirements of the Stock Exchange, the GEM Listing Rules, and the rules and regulations of any other relevant stock exchange:

(a) at any time on or before the date falling 6 months after the Final Payment Date ("Lockup Date"), Cranwood (or the relevant registered owner(s) of the Consideration Shares) may not dispose, transfer or assign any interests, directly or indirectly, (collectively, "Sell") any of the Consideration Shares; and

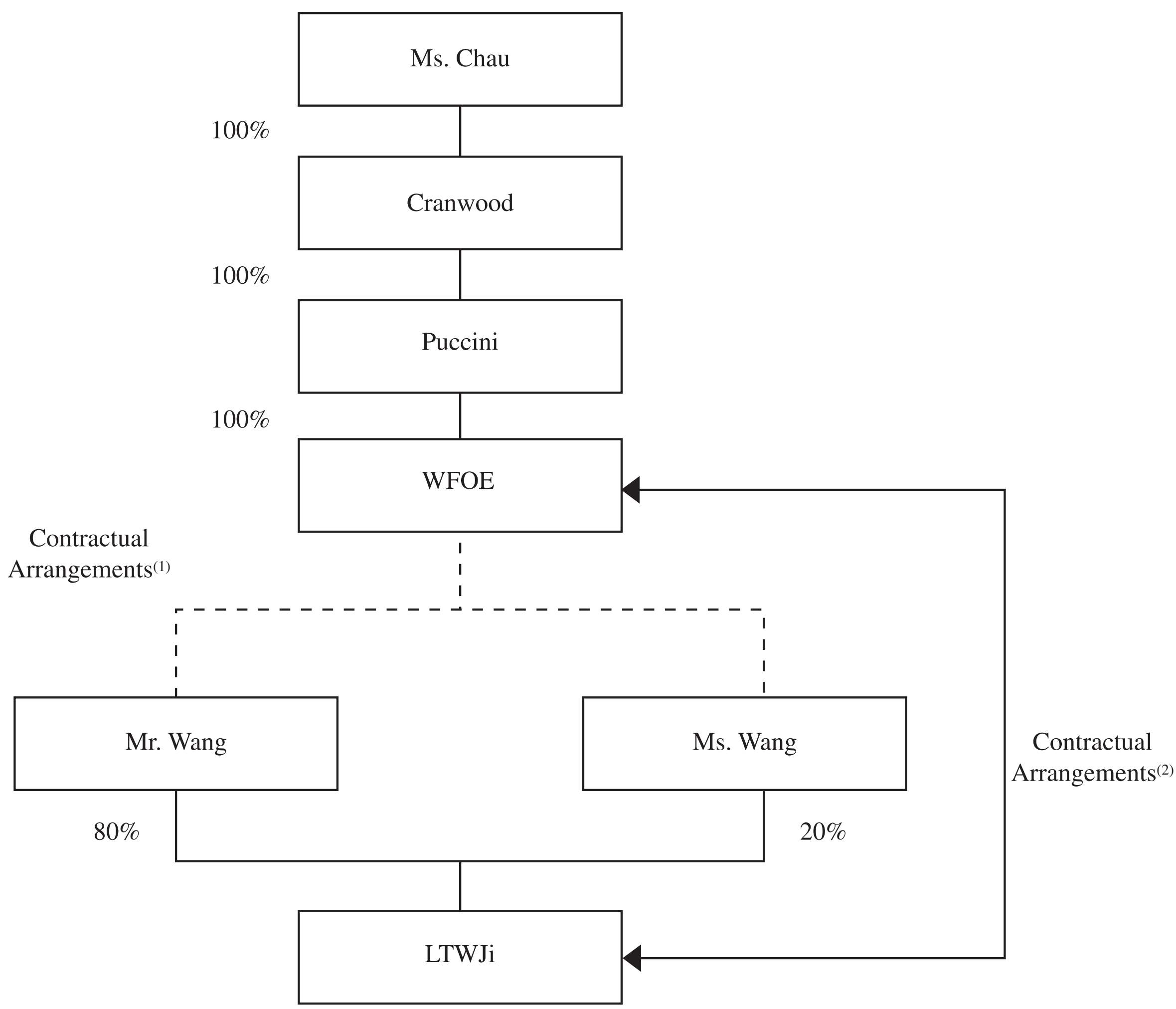
(b) after the Lockup Date, Cranwood (or the relevant registered owner(s) of the Consideration Shares) may not Sell more than 1% of the aggregate number of the Consideration Shares on any Holdco Trading Day ("Holdco Daily Limit"). For the avoidance of doubt, all or any part of any unused Holdco Daily Limit in respect of any one Holdco Trading Day shall not be carried forward to any other Holdco Trading Day and/or accumulated with the Holdco Daily Limit in respect of any other Holdco Trading Day.

6.2. In the case of the TOM Consideration Shares, except with the prior consent of the Purchaser:

(a) at any time on or before the Lockup Date, Cranwood (or the relevant registered owner(s) of the TOM Consideration Shares) may not Sell any of the TOM Consideration Shares; and

(b) after the Lockup Date, Cranwood (or the relevant registered owner(s) of the TOM Consideration Shares)) may not Sell more than 1% of the aggregate number of the TOM Consideration Shares on any Trading Day ("TOM Daily Limit"). For the avoidance of doubt, all or any part of any unused TOM Daily Limit in respect of any one Trading Day shall not be carried forward to any other Trading Day and/or accumulated with the TOM Daily Limit in respect of any other Trading Day.

7. Structure chart of the Puccini Group immediately before Completion

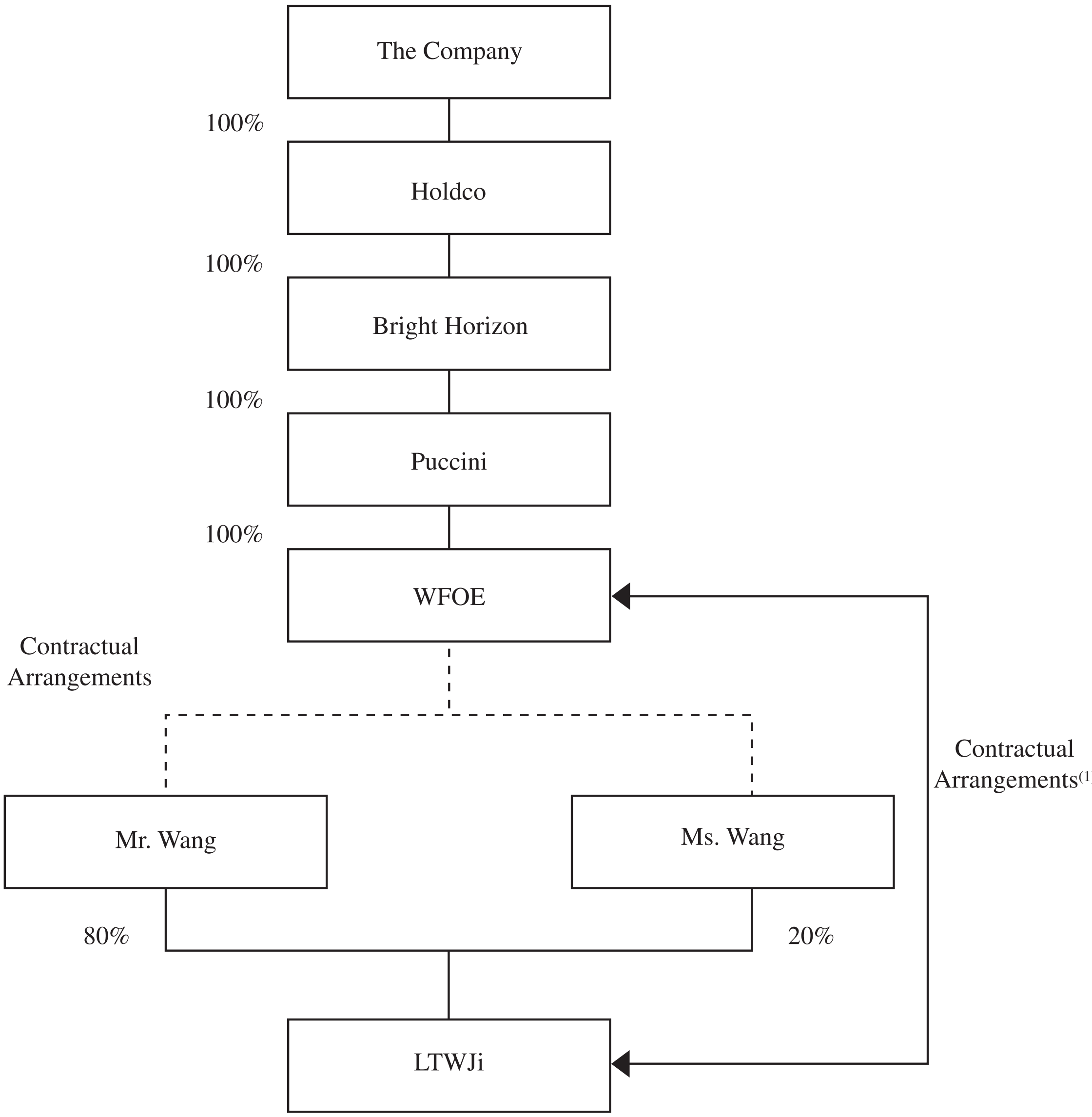


Note:

(1) As disclosed in the Company's half-year report for the six-months ended 30 June 2003, Mr. Wang is a director and shareholder of LTWJi, who had granted an option to Devine Gem, under which Devine Gem was entitled to acquire all of Mr. Wang's equity interests in LTWJi. Prior to Completion, such option will be cancelled and, as part of the Contractual Arrangements, a new exclusive option agreement will be entered into between Puccini and Mr. Wang, under which Puccini will have an exclusive right to acquire from Mr. Wang all of his equity interest in LTWJi as and when permitted under PRC law.

(2) Certain transactions under these Contractual Arrangements will constitute connected transactions of the Company under the GEM Listing Rules upon Completion. See the section headed "Contractual Arrangements" below.

8. Structure chart of the Puccini Group immediately after Completion



Note:

(1) Certain transactions under these Contractual Arrangements will constitute connected transactions of the Company under the GEM Listing Rules upon Completion. See the section headed "Contractual Arrangements" below.

9. Conditions precedent

Completion is conditional upon, among other things, the following conditions ("Conditions") having been fulfilled or waived in accordance with the Sale and Purchase Agreement on or before 25 November 2003 (or such other date as the Parties may agree) ("Long Stop Date"):

1. the passing by the respective board of directors of Bright Horizon, Holdco and the Company of resolutions approving, among other things, the Acquisition;

2. to the extent required under the GEM Listing Rules, the approval by the independent Shareholders of, among other things, the Acquisition (including, without limitation, the allotment and issue of the Consideration Shares or, as the case may be, the TOM Consideration Shares);

3. each of the Contractual Arrangements having been duly entered into by each of the parties thereto;

4. the delivery of the following legal opinions (in agreed form) to Bright Horizon:

   (a) a legal opinion issued by a Liberian counsel opining on the due incorporation of Cranwood, and the validity and enforceability of the terms of the Sale and Purchase Agreement against Cranwood; and

   (b) a legal opinion issued by a PRC counsel opining on the legality of the terms of the Contractual Arrangements under all applicable laws, rules, regulations or public policies in the PRC, and the validity and enforceability of the terms of the Contractual Arrangements against the relevant parties thereto;

5. new contracts of employment for a term of not less than 3 years from the date of Completion having been entered into on terms satisfactory to Bright Horizon between LTWJi and each of the senior management of LTWJi;

6. the results of the legal and financial due diligence carried out by Bright Horizon on each member of the Puccini Group being satisfactory to Bright Horizon;

7. there not having occurred, and there being no fact, matter or circumstance which could, in the reasonable opinion of Bright Horizon, give rise to any material breach of certain pre-Completion undertakings given by Cranwood (such as, the ensuring by Cranwood that each member of the Puccini Group will continue to carry on its business in the ordinary and usual course);

8. none of the representations made and warranties given by Cranwood under the Sale and Purchase Agreement being untrue, inaccurate or misleading in any material respect;

9. none of the current Business Agreements having terminated or expired and not having been immediately renewed or replaced by a further agreement between LTWJi and Beijing Mobile (or another subsidiary of China Mobile) which is/are (in Bright Horizon's reasonable opinion) on substantially the same terms (including in respect of duration) and in respect of substantially the same subject matter; and

10. there not having occurred any event(s) beyond Puccini's or Bright Horizon's control, after making all reasonable efforts to prevent its or their occurrence, as a result of which LTWJi ceases to hold all necessary licenses or LTWJi ceases to have the benefit of any of the Business Agreements that are required for LTWJi to carry on the Business in the ordinary course.

If any of the Conditions is not fulfilled (or waived by Bright Horizon) on or before the Long Stop Date, the Sale and Purchase Agreement will automatically terminate (subject to any antecedent breach of any of the terms of the Sale and Purchase Agreement by any party thereto).

10. Completion

Completion will take place immediately after the fulfilment (or waiver) of the last of the Conditions (or such other date as Cranwood and Bright Horizon may agree in writing prior to Completion).

11. Non-competition

For a period of 24 months after the date of Completion, Cranwood will not and will procure that none of its subsidiaries or holding companies or companies controlled by Cranwood or such holding companies will, without the prior written consent of Bright Horizon, either on its own account or in conjunction with or on behalf of any person, firm or company:

(a) carry on or be interested in the business of provision of IVR Services (other than the provision of content in relation to the IVR Services) in the PRC ("Competing Business");

(b) solicit or entice away or attempt to solicit or entice away from LTWJi any of their customers, whose custom is in connection with the Competing Business prior to or as at Completion; and/or

(c) employ, solicit or entice away or attempt to employ, solicit or entice away from LTWJi any of their officers, employees or consultants employed or engaged in connection with the Competing Business prior to or as at Completion.

Although the above non-compete restrictions do not restrict Ms. Chau personally, Ms. Chau has granted to Bright Horizon a right of first refusal in relation to any opportunity for her and/or any company controlled by her to invest in the business of provision of IVR Services that arises during a period of 24 months after the date of Completion.

Cranwood is not currently carrying on or interested in any Competing Business.

Pursuant to an agreement dated 24 September 2003 entered into between Cranwood's wholly-owned subsidiary, Beijing ChinaCare e-Med Limited（北京維康關懷醫療信息技術有限公司）("ChinaCare") and LTWJi, ChinaCare has agreed to provide content to LTWJi for the Business for a term of one year from 1 August 2003. This agreement has no fixed value and is merely a 50:50 revenue sharing arrangement. Based on the amount of revenue generated under such agreement in August and September 2003, it is estimated that the total annual consideration payable by LTWJi to ChinaCare under such agreement will not exceed HK$1,000,000 and, accordingly, this transaction will be an exempt continuing connected transaction under Rule 20.25(3) of the GEM Listing Rules.

The Directors (other than the Independent Board Committee whose views are set out in "Letter from the Independent Board Committee" in this circular) are of the view that the provision of IVR-related content by ChinaCare to LTWJi under the above agreement is complementary to, and not in competition with, the Business. The provision of IVR-related content by ChinaCare will only be in competition with the Business if ChinaCare provides such content to other IVR Services providers in the PRC. In this regard, ChinaCare has undertaken to Bright Horizon that, with effect from Completion, ChinaCare will not provide IVR-related content to persons other than Holdco or any of Holdco's subsidiaries.

12. Guarantees by the Company and Holdco

12.1 Holdco has agreed to guarantee the proper and punctual observance and performance by Bright Horizon of all of its obligations in relation to payment of the Consideration.

12.2 The Company has agreed to guarantee, for so long as none of Holdco's securities are listed on GEM or Nasdaq or any other recognised stock exchange, the proper and punctual observance and performance by Holdco of all of its obligations in relation to the issue and allotment of the Consideration Shares.

12.3 The obligations of the Company under paragraph 12.2 above shall automatically terminate upon the commencement of trading of any of Holdco's securities on GEM or Holdco's securities being included for quotation on Nasdaq or any other recognised stock exchange and, upon such termination, Cranwood will have no claim whatsoever against the Company under the Sale and Purchase Agreement.

13. Other major terms

13.1. *Economic benefits of LTWJi*

Prior to Completion, Bright Horizon will be entitled to enjoy all of the economic benefits of the Puccini Group through certain contractual arrangements under the Contractual Arrangements with effect from the date of the Sale and Purchase Agreement ("Economic Benefits") provided that Cranwood will be entitled to distribute the retained earnings of the Puccini Group accumulated prior to the date of the Sale and Purchase Agreement.

13.2. *Warranties and undertakings*

(a) Cranwood has warranted to and undertaken with Bright Horizon that, among other things:

(i) LTWJi has a minimum of RMB5 million in cash as at the date of the Sale and Purchase Agreement to satisfy its working capital and capital expenditure requirements;

(ii) as long as Cranwood (and/or any of its affiliated companies) provide(s) content in relation to the IVR Services, Cranwood will, and will procure that its affiliated companies will, exclusively provide such content to the Puccini Group; and

(iii) if at any time after Completion but before the Final Payment Date, there occurs any of the following events or matters:

(1) any event(s) beyond Puccini's or Bright Horizon's control, after making all reasonable efforts to prevent its or their occurrence, as a result of which LTWJi ceases to hold all of the licenses or LTWJi ceases to have the benefit of any of the Business Agreements that are required for LTWJi to carry on the Business in the ordinary course; and/or

(2) any breach or alleged breach of certain representations made and warranties given by Cranwood under the Sale and Purchase Agreement,

Bright Horizon may elect at its sole discretion to rescind the Sale and Purchase Agreement by giving notice in writing to Cranwood and the Acquisition will be reversed as at the date of such written notice, and each of Cranwood and Bright Horizon will do and/or procure to be done all such acts and things to put the other back to the position as if the Sale and Purchase Agreement had never been entered into, including (without limitation) the following actions:

(a) Bright Horizon will transfer the Sale Share and any other issued share in Puccini back to Cranwood free from any encumbrance (or its nominee(s)) at nominal consideration;

(b) Cranwood will refund to Bright Horizon (or as it may direct in writing) all of the Initial Cash Consideration (with interest at a rate of 0.5% over LIBOR accrued from the date of payment of the Initial Consideration to Cranwood to the date of refund of the Initial Consideration by Cranwood) that has already been paid (if any);

(c) Bright Horizon may (at its absolute discretion) instruct the Escrow Agent to, through a broker appointed by Bright Horizon or Holdco, sell all or any part of the Initial Consideration Shares at the then market price of the Holdco Shares. All of the proceeds of sale thereof (net of expenses and commissions) will be paid to Holdco or Bright Horizon (or as either may direct); and

(d) Bright Horizon will:

(i) subject to the obtaining of all necessary consents, waivers and approvals, do and/or procure to be done all such acts and things to put the shareholding structure of Puccini back to the position existing as at the date of the Sale and Purchase Agreement;

(ii) ensure that Puccini and LTWJi is free of any external indebtedness by the date on which the Sale Share and any other issued share in Puccini is/are transferred back to Cranwood and, to the extent that there is any such external indebtedness, it will be assumed by Bright Horizon (or its nominee(s)) prior to such re-transfer of the Sale Share and any other issued share in Puccini; and

(iii) repay to Cranwood any dividends actually declared and paid by Puccini to Bright Horizon (with interest at a rate of 0.5% over LIBOR accrued from the date of payment of such dividends to Bright Horizon to the date of repayment of the same by Bright Horizon),

within 90 days after the date of the written notice from Bright Horizon.

(b) Bright Horizon has undertaken with Cranwood that during the period from the date of Completion to the earlier of: (i) 31 December 2004; and (ii) the date of rescission pursuant to paragraph 13.2(a) above, among other things, it will procure that:

(i) LTWJi carries on and develops its business in the ordinary and usual course and will use its reasonable endeavours (subject always to external market conditions) to ensure that there is no diminution in value of the Business;

(ii) unless with the prior written consent of the Vendor (which consent shall not be unreasonably withheld or delayed), LTWJi will not:

(1) transfer or dispose of any part of the Business, its assets as at the Completion Date (including, without limitation, contracts, facilities, fixed assets and intangible rights in relation to or for the benefit of the Business) or current revenues or any other act which is not in the ordinary course of business of LTWJi and which would have a material adverse effect on the Business;

(2) acquire any material asset or business except in its ordinary course of business; and

(3) none of the members of the Puccini Group will acquire any interest in any shares, debentures or other securities issued by any undertaking (other than any other member of the Puccini Group).

13.3. *Unsecured loan from Cranwood*

Cranwood has agreed that subject to compliance with the GEM Listing Rules and any other regulatory requirements, if following a written request from either Holdco (if Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004) or the Company (if Holdco Shares are not so listed) ("Borrower"), made at any time within 10

Business Days immediately following the Final Payment Date, Cranwood will advance to the Borrower, by way of an unsecured term loan (for a period of 12 months from the date of drawdown), a principal amount which is equal to 50% of the Earn-Out Cash Consideration actually received by Cranwood at an interest rate of 0.5% over LIBOR.

Such loan may constitute a connected transaction between Cranwood and Holdco and will be subject to, and will be dealt with in accordance with, the connected transaction requirements of the GEM Listing Rules.

C. TAX INDEMNITY

At Completion, Cranwood will execute the Tax Indemnity in favour of the Company, LTWJi and Bright Horizon. Under the Tax Indemnity, Cranwood and Devine Gem will indemnify the relevant member(s) of the Puccini Group and Bright Horizon against certain tax liabilities (such as profits tax, stamp duty and estate duty) incurred by any member of the Puccini Group prior to the date of Completion and which are not disclosed in the audited balance sheet of LTWJi made up as at 30 June 2003 and the audited profit and loss account of LTWJi for the period from the date of establishment of LTWJi (being 31 July 2002) to 30 June 2003.

D. INFORMATION ON CRANWOOD

Cranwood is a company incorporated in the Republic of Liberia with limited liability. Ms. Chau is the sole legal and beneficial owner of the entire issued share capital of Cranwood.

By virtue of the SFO, Cranwood is deemed to be interested in 580,000,000 Shares (representing approximately 15.039% of the Existing Capital) and 348,000,000 Shares (representing approximately 9.023% of the Existing Capital) held by Schumann International Limited and Handel International Limited, respectively, in addition to 24,683,363 Shares held by itself. Schumann International Limited and Handel International Limited are companies controlled by Cranwood. Therefore, Cranwood owns or is otherwise deemed under the SFO to be interested in an aggregate of 952,683,363 Shares representing approximately 24.70% of the issued share capital of the Company as at the Latest Practicable Date.

Accordingly, Cranwood is a substantial Shareholder and a connected person of the Company under the GEM Listing Rules.

E. INFORMATION ON BRIGHT HORIZON

Bright Horizon is a direct wholly-owned subsidiary of Holdco and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date.

F. INFORMATION ON HOLDCO

Holdco is currently a wholly-owned subsidiary of the Company. It is currently proposed that Holdco's business will be the provision of wireless value-added products and services, online advertising and the provision of commercial enterprise solutions.

G. INFORMATION ON THE PUCCINI GROUP

1. Principal activities

Puccini is a company incorporated in the Cayman Islands (on 13 March 2000) with limited liability and has been dormant since its incorporation. Cranwood is the sole legal and beneficial owner of the Sale Share.

Puccini and WFOE will, prior to Completion, be able to enjoy the economic interest in LTWJi through the Contractual Arrangements with LTWJi, Mr. Wang (who is the owner of 80% of the registered capital of LTWJi and a director of LTWJi) and Ms. Wang (who is the owner of 20% of the registered capital of LTWJi). Mr. Wang and Ms. Wang are not related. Neither of Mr. Wang nor Ms. Wang is involved in the day-to-day management of the business operations of LTWJi.

LTWJi is a domestic company which was established in Beijing, the PRC on 31 July 2002. In October 2002, LTWJi was among the first service providers to enter an agreement with China Mobile to provide IVR Services in China. At that time, IVR Services were only available in nine provinces in China. IVR Services is a new category of wireless value-added services in the PRC that allow users to access pre-recorded information from their mobile telephone by dialing access telephone numbers, and to interact with each other in chat-rooms and through one-on-one dating communications services. In May 2003, however, China Mobile launched its IVR Services nationwide. Mobile telephone users access LTWJi's IVR Services through China Mobile's Monternet platform. LTWJi's IVR Services include weather forecasts, stock prices, news on celebrities, jokes, short stories and songs as well as chat-rooms and dating communications services.

The establishment of LTWJi was effected by the loans (for an aggregate amount of RMB1 million) advanced to Mr. Wang (as to RMB800,000) and Ms. Wang (as to RMB200,000) by Devine Gem (which is a company indirectly wholly-owned by Ms. Chau) under the Loan Agreement. Under the Loan Agreement, such loans could only be used by Mr. Wang and Ms. Wang for the contribution of the registered capital of LTWJi (which is RMB1 million and represents the approximate cost of investment of the Business to the vendor, Cranwood).

WFOE is a wholly-foreign owned enterprise which was established in Beijing, the PRC on 16 October 2003 and a wholly-owned subsidiary of Puccini. The scope of business of WFOE will include technology development in network, computer (software and hardware), IVR Services and communications and the provision of related consultancy services. Before Completion, WFOE will enter into such part of the Contractual Arrangements to which it is a party.

2. Business and financial review and prospect

Since LTWJi launched its IVR Services, it has experienced rapid growth in its user base. The number of LTWJi's users who accessed its services increased to approximately 364,200 in September 2003 from approximately 2,100 in November 2002. In addition, the total amount of time that users spent accessing LTWJi's IVR Services increased to approximately 5,509,200 minutes in September 2003 from approximately 12,400 minutes in November 2002. The cumulative number of users who have accessed LTWJi's services since it began charging for its services in November 2002 was approximately 2,184,600 as of 30 September 2003.

The following table sets forth certain operating data for LTWJi's IVR Services business for the periods indicated:

	Number of Users[(1)]	**Minutes of Use**
	(in thousands)	
November 2002	2.1	12.4
December 2002	8.2	54.4
January 2003	14.0	114.7
February 2003	60.0	518.7
March 2003	87.0	1,109.0
April 2003	98.3	1,170.6
May 2003	340.8	5,768.1
June 2003	326.1	4,507.3
July 2003	515.5	7,770.6
August 2003	368.3	5,237.3
September 2003	364.2	5,509.2

(1) Approximate number of users that accessed LTWJi's IVR Services during the month indicated.

In May 2003, LTWJi established a free IVR Services hotline to provide information in connection with the outbreak of SARS in China. The SARS hotline contributed to the significant increase in usage of LTWJi's IVR Services in May. By June 2003, the SARS epidemic was effectively controlled in China and usage of the SARS hotline decreased. The sharp increase in the number of users and minutes of use in July 2003 was due to a promotion launched by China Mobile from 17 July 2003 to 21 July 2003. The average minutes of use per user increased from 5.9 minutes per user in November 2002 to 15.1 minutes per user in September 2003.

LTWJi currently has a call-handling capacity to serve approximately 1,000 users simultaneously. In June 2003, LTWJi served an average of more than 300 users at a time. If required, LTWJi can double its call-handling capacity within two months by purchasing and installing additional IVR Services network equipment.

LTWJi enjoys a first mover advantage with respect to developing relationships with China Mobile and with content providers, as well as having established operational and technical expertise while this market is still relatively undeveloped.

IVR Services and products

LTWJi provides both information and community-oriented products through its IVR Services:

- Information products. Users can listen to regularly updated pre-recorded information, including with respect to the weather, stock prices, astrology, jokes, songs, short stories and other entertainment topics. Users can share IVR content with other users by sending SMS messages containing call-in details for the content. In June 2003, approximately 80% of LTWJi's IVR Services revenue was derived from its entertainment channel. In July 2003, LTWJi launched a game channel on which players compete for daily and monthly cash prizes. Beginning in the fourth quarter of 2003, LTWJi plans to offer products that will provide information regarding restaurants, travel and lottery results.

- Community-oriented products. Community-oriented products consist of chat and dating services. Users who register for these products are given an identification code, which allows them to communicate with others anonymously in chat rooms and through one-on-one dating. LTWJi launched its community-oriented products in July 2003.

LTWJi operates a recording studio in which it creates all of its IVR Services content. LTWJi develops its own content for certain channels and obtains content for other channels from content providers on a revenue-sharing basis or by paying a fixed fee. So far, LTWJi has launched 26 channels.

IVR Services Cooperation Arrangements, Fees and Revenue Sharing

LTWJi has established cooperation arrangements with China Mobile and with content providers in connection with its IVR Services business since October 2002. Under its cooperation arrangements, it creates and aggregates content, produces audio recordings of the content and provides the hardware and software necessary to interact with IVR Services users.

LTWJi sets its IVR Services content fees within the standards established by China Mobile. LTWJi charges a content fee to a user based on the amount of air-time for the user's call. LTWJi shares the content fee with China Mobile. China Mobile retained 30% of the content fees prior to May 2003 and retains 15% of the content fees thereafter. The following table sets forth the existing content fees for certain of LTWJi's IVR Services channels (and these fees are representative content fees for all of LTWJi existing information channels):

	Content Fees *(in HK$)*
General entertainment channel	1.88/minute
Music/entertainment channel	0.94/minute
Games channel	0.94/minute

In the case of community oriented services including chatting and dating, users are currently charged HK$1.88 per 5 minutes, 25% of which is retained by LTWJi and the balance is retained by China Mobile.

In addition, China Mobile also charges users an air-time fee, all of which China Mobile retains. China Mobile provides billing and collection services to LTWJi for its IVR Services business.

LTWJi also shares revenues with its content providers based on the amount of data sent using content from the third party provider. Pursuant to arrangements with such content providers, the content providers receive between 50% and 90% of the net revenues receivable by China Mobile with respect to IVR Services that use content from the third party provider. For the six months ended 30 June 2003, content fees paid by LTWJi to content providers represented approximately 0.12% of revenues. Since the launch of its IVR Services, LTWJi has produced the vast majority of its content in-house (though since 30 June 2003, LTWJi has entered into more agreements with content providers with the objective of increasing the quality and scope of its services).

The following table sets forth the summary of audited financial results of LTWJi prepared in accordance with HK GAAP for the periods indicated below. Details of the audited financial information of LTWJi, please refer to Accountants' Report on LTWJi in section A of Appendix III:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002 *HK$'000*	**Six months ended 30 June 2003** *HK$'000*
Turnover	79	12,476
Cost of services	(85)	(1,120)
Gross (loss)/profit	(6)	11,356
Interest income	1	5
Selling and marketing expenses	–	(1,583)
General and administrative expenses	(47)	(338)
(Loss)/profit before taxation	(52)	9,440
Taxation	–	(3,115)
(Loss)/profit after taxation	(52)	6,325

IVR Services supplemented by SMS services were provided to users on a monthly basis for a fixed fee or on a usage basis for a transaction fee through the platform of China Mobile. Revenue, net of business tax, is recognised based on net fees receivable from China Mobile as the services are rendered.

For the six months ended 30 June 2003, LTWJi's net revenues were HK$12.5 million. LTWJi's revenues are subject to a 3.3% business tax, and net revenues are presented after having deducted the amount of this business tax.

LTWJi's cost of services were HK$1.1 million in the six months ended 30 June 2003. Cost of services consist primarily of staff costs for employees that are directly involved in the provision of IVR Services, depreciation of computer equipment and software directly used in the provision of IVR Services, fees paid to third parties for content and technical service charges for the maintenance of the IVR Services platform. LTWJi's gross profit margin in the first half of 2003 was 91%.

LTWJi's operating expenses were HK$1.9 million in the first half of 2003. Operating expenses consist primarily of advertising and promotional expenses and office lease expenses. LTWJi's operating expenses amounted to 15.4% of its net revenues in the first half of 2003.

LTWJi generally finances its operating and capital expenses through its registered capital of RMB1 million (representing the approximate cost of investment of the Business to the vendor, Cranwood) contributed by Mr. Wang and Ms. Wang (who together borrowed an aggregate of RMB1 million from Devine Gem under the Loan Agreement) and funds generated internally. During the periods indicated above, LTWJi did not have any bank borrowings, committed borrowing facilities or charges on its assets. During the periods indicated, LTWJi did not have any significant investments. At present, there is no planned material investment in the coming year. As at 31 August 2003, LTWJi did not have any material contingent liabilities.

H. INFORMATION ON THE ENLARGED TOM GROUP

1. Principal activities

The Enlarged TOM Group has been a Chinese language media company principally engaged in one focused line of business being the provision of multimedia content and services across multiple distribution platforms in Greater China. Since its listing on GEM in March 2000, TOM has evolved and grown both organically and through acquisitions to become Greater China's leading Chinese-language media company with diversified interests. The Enlarged TOM Group has developed four separate and distinct platforms for its multimedia content:

(i) Internet;

(ii) outdoor media;

(iii) publishing (print media); and

(iv) sports and entertainment.

These distribution platforms are operated by the following groups of the Enlarged TOM Group:

1. Internet Group – provision of telecommunication value-added services including IVR and SMS services, online advertising, commercial enterprise solutions and Internet access.

2. Outdoor Media Group – advertising sales of outdoor media and provision of related media services.

3. Publishing Group – magazine and book circulation, sales of publication advertising and other related products.

4. Sports and Entertainment Group – event organisation, advertising and sponsorship sales, sports television programme production and syndication, home video products distribution and television channel operations.

2. Business and financial review

Pro forma combined results

The following table shows the pro forma combined results 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") extracted from the compilation report on the pro forma combined financial information of Enlarged TOM Group as set out in Appendix IV to this Circular. The pro forma combined results have been prepared on a combination basis to present the aggregate results of the Enlarged TOM Group as if CETV and LTWJi have been part of the TOM Group throughout the Relevant Periods, without taking into account, among others, the adjustment for amortization of goodwill arising on the acquisition of CETV and the Acquisition. Details of the bases and assumptions of the pro forma combined results are set out in Appendix IV to this circular:

		Year ended 31 December		**Six months ended 30 June**	
HK$'000	**2000**	**2001**	**2002**	**2002**	**2003**
Turnover	89,223	635,636	1,627,715	680,245	884,769
Loss before taxation	1,330,086	742,578	502,770	169,964	90,130
Net loss	1,322,687	768,455	560,582	196,157	99,725

The Enlarged TOM Group's revenue for the year ended 31 December 2002 amounted to HK$1,628 million, representing an approximately 156% increase from HK$636 million in the previous year (such net increase was the combined effect of (i) the increase in TOM Group's revenue resulting from the organic growth and acquisition of certain outdoor media, publishing and sports and entertainment businesses; (ii) the decrease in CETV's revenue from HK$9 million in 2001 to HK$4 million in 2002; and (iii) the revenue contribution from LTWJi of HK$79,000 in the year of 2002). 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 Group's, and the Sports and Entertainment Group'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 revenue 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$1,323 million (including a net loss of HK$57 million from CETV), HK$768 million (including a net loss of HK$133 million from CETV) and HK$561 million (including a net loss of HK$151 million from CETV and HK$52,000 from LTWJi), 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, the total revenue for the six months ended 30 June 2003 amounted to HK$885 million, representing an approximately 30% increase from HK$680 million in the corresponding period of 2002. Such net increase was resulted from (i) the increase in TOM Group's revenue through organic growth; (ii) the increase in CETV's revenue from HK$1 million for the six months ended 30 June 2002 to HK$5 million for the six months ended 30 June 2003; and (iii) the revenue contribution from LTWJi of HK$12 million for the six months ended 30 June 2003. Comparing the same period, the Internet Group's revenues for the six months ended 30 June 2003 doubled to approximately HK$231 million with a segment profit of approximately HK$54 million, a favourable variance of HK$115 million from HK$61 million loss for the six months ended 30 June 2002, primarily driven by the continued growth in wireless data revenues. The Outdoor Media Group revenues grew by approximately 86% to approximately HK$141 million with segment profit increasing 2.3 times to approximately HK$16 million. The Publishing Group'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 outbreak of the severe acute respiratory syndrome (SARS) which had an impact on advertising and circulation income. Revenues from the Sports and Entertainment Group 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 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 (including a HK$72 million loss from CETV) and HK$100 million (including a net loss of HK$73 million from CETV and a net profit of HK$6 million from LTWJi), respectively.

Owing to the nature of pro forma accounts, the Directors are of the view that the above financial may not give an indication of the financial results of the Enlarged TOM Group in the future as they do not take into account any integration efforts related to the Acquisition, such as revenue enhancement and cost synergies arising from integrating LTWJi into the TOM Group's existing operations, and any effect on goodwill adjustment and amortisation of goodwill arising on the acquisition of CETV and the Acquisition. Assuming that the consideration is US$150 million and the estimated useful life of goodwill arising on the Acquisition is 20 years, the goodwill arising on the Acquisition and the annual amortisation charge would be approximately HK$1,169 million and HK$58 million, respectively.

Pro forma adjusted combined net tangible assets and net assets

Set out in section 1 of Appendix V to this circular is an Unaudited Pro Forma Statement of Adjusted Combined Negative Net Tangible Assets and Net Assets of the Enlarged TOM Group. This Statement is based on the audited consolidated negative net tangible assets and net assets of the TOM Group as at 30 June 2003, as adjusted to reflect the significant events which have been taken place since 30 June 2003 and the effect of the acquisitions announced by the Company, including the Acquisition and assuming that the consideration is US$150 million (equivalent to approximately HK$1,170 million) (which is the maximum amount of the Consideration payable under the Sale and Purchase Agreement). On this basis, the Acquisition has the following pro forma effects on the unaudited adjusted combined net assets and net tangible assets of the Enlarged TOM Group:

	Net assets		**Net tangible assets**	
	Amount	**Value per Share**	**Amount**	**Value per Share**
	HK$'000	*HK cents*	*HK$'000*	*HK cents*
TOM Group immediately following the completion of the Other Acquisition but before the completion of the Acquisition	1,493,583	38.73	258,055	6.69
Enlarged TOM Group immediately after the completion of the Acquisition	2,078,583	50.92	(325,732)	(7.98)

The increase in the pro forma net assets from HK$1,494 million to HK$2,079 million is due to the fact that half of the consideration payable will be satisfied by the issuance of the Consideration Shares (assuming to be equivalent to 50% of the maximum consideration of US$150 million (equivalent to approximately HK$1,170 million)). The decrease in the pro forma net tangible assets from HK$258 million to pro forma negative net tangible assets of HK$326 million immediately after the Acquisition is due to the goodwill of HK$1,169 million arising from the Acquisition (being the maximum consideration of US$150 million (equivalent to approximately HK$1,170 million) and the estimated expenses of HK$6 million relating to the Acquisition over the audited net tangible assets of LTWJi of HK$7 million as at 30 June 2003), and the fact that 50% of the Consideration will be payable in cash.

For illustrative purpose, assuming that the Acquisition had been completed at the Latest Practicable Date and there is no further allotment of Shares (including the Acquisition) by the TOM Group after the Completion, the net asset value of the TOM Group used for the purpose of calculation of Modified Ratio under the waivers granted by the Stock Exchange on 3 April 2003 will be HK$1,494 million, being the unaudited adjusted net assets of the TOM Group as at the Latest Practicable Date as disclosed in section 1 of Appendix V to this circular.

Accounting treatment of goodwill arising on the Acquisition upon Completion

Provided that Completion takes place in the year ending 31 December 2003, the goodwill arising from the Acquisition will be recognised in the Company's consolidated audited accounts for the year ending 31 December 2003 as an asset in accordance with the Hong Kong Statements of Standard Accounting Practice. The goodwill will represent the excess amount of the estimated consideration payable under the Sale and Purchase Agreement, being determined with reference to the forecasted 2004 Net Profit (based on the consolidated financial budget of Puccini (including LTWJi) for the year ending 31 December 2004 which would only be provided to the Company after completion of the Acquisition) and the terms of the Sale and Purchase Agreement, and the expenses related to the Acquisition over the fair value of the consolidated assets and liabilities of Puccini as at the date of completion of the Acquisition. When the 2004 Net Profit is finalised upon the issuance of 2004 Audited Accounts in the subsequent year, the estimated consideration payable and the resultant goodwill will be adjusted accordingly. If the cost of the Acquisition turns out to be less than US$150 million, there would be a downward adjustment of goodwill as well as an upward adjustment of net tangible assets (due to less cash consideration payable) of the Enlarged TOM Group. The Company will make appropriate disclosure in an announcement once the final consideration has been determined.

I. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) believe that the TOM Group will benefit from the synergies between the TOM Group's wireless data services businesses and the Business, which will strengthen the TOM Group's position as a leader in providing value-added multimedia products and services and help distinguish the TOM Group's online business from that of the TOM Group's competitors. In addition, because both the TOM Group's current online business and the Business target a similar user base, the Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) believe that the TOM Group will be able to cross-sell the TOM Group's wireless data services and LTWJi's IVR Services in order to expand the user base for both of these services. Furthermore, the Acquisition will provide the TOM Group with an additional distribution channel for the TOM Group's existing content, which will increase the TOM Group's revenue and may improve the TOM Group's economy of scale. Moreover, following Completion, the TOM Group will be the only leading Internet portal company in the PRC that provides IVR services. As LTWJi is a leader in providing wireless services in the PRC, the Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) believe that the Acquisition will position the TOM Group well to capture growth in this market and to establish a foundation for providing voice related services.

The Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" set out in this circular) are of the view that: (i) the Acquisition was negotiated and entered into on an arm's length basis based on normal commercial terms, and (ii) the Consideration (including the issue of Consideration Shares or, as the case may be, the TOM Consideration Shares in satisfaction of 50% of the Consideration) was determined as being a price acceptable to Cranwood and Bright Horizon with reference to the past performance, period of operation, prospective profit contribution, growth prospects, earnings potential and competitive advantages in the market of the Puccini Group and relevant valuation benchmarks.

Any investment by the Company in a start-up or new business is made taking account of (and balancing) all relevant factors at the relevant time (such as risk, potential investment cost, market conditions, knowledge of the new business, strategy and financial position). In 2002, the opportunity to invest in the IVR business was generally known to persons or corporations within the PRC or have interests in the development of the wireless telecommunications industry in the PRC, including the Company and Ms. Chau. The Company, like others (including Ms. Chau), was aware of such opportunity to invest in IVR business but did not consider it appropriate to make such investment in IVR business at that time in view of the fact that IVR Services were new and unproven type of wireless telecommunications value added services in the PRC. **The Company has decided to invest in the IVR business now because, LTWJi is now no longer in the incubation phase, and in fact generates positive cash flow and has a proven record of profitability.** IVR Services have now been established as a viable business opportunity in the PRC. Moreover, LTWJi has the first mover advantage in the provision of IVR Services, which is evident by its leading position in terms of market share and the wide range of services that it offers. The management of the Company believes that, notwithstanding that the establishment of an IVR business would not be significantly capital intensive in general, the establishment of a new IVR business is a less attractive proposition than the Acquisition because the Acquisition will put the Company in a leading position in the IVR business immediately after Completion, in addition to the diversity of services offered by, and the financial performance of, LTWJi.

As mentioned above, LTWJi's registered capital of RMB1 million (representing the approximate cost of investment of the Business to the vendor, Cranwood) contributed by Mr. Wang (as to RMB800,000) and Ms. Wang (as to RMB200,000) was borrowed by Mr. Wang (who borrowed RMB800,000) and Ms. Wang (who borrowed RMB200,000) from Devine Gem (which is a company wholly-owned by Ms. Chau) under the Loan Agreement. The net asset value of LTWJi as at 30 June 2003 was approximately HK$7,213,000. The Directors (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) consider that the investment cost and the net asset value of LTWJi are not relevant factors in determining the valuation of LTWJi and the Consideration payable under the Sale and Purchase Agreement because the Business is not of a capital intensive nature and the use of price-earnings ratio would give a more meaningful valuation.

The Board (other than the Independent Board Committee, whose views are set out in "Letter from the Independent Board Committee" in this circular) takes the view that the Consideration and the other terms of the Acquisition are fair and reasonable. Such members of the Board are also of the view that the Acquisition is in the best interests of the Company and its Shareholders as a whole.

J. THE PROPOSED SPIN-OFF

Following the issue by the Company of a clarification announcement on 28 August 2003 regarding a possible spin-off, the Company confirmed on 25 September 2003 that it is considering a possible spin-off of Holdco and the listing of its securities on GEM and/or Nasdaq. The Company is currently in discussions with the Stock Exchange about the regulatory requirements of the proposed spin-off of Holdco. No final decision has yet been made as to whether and when this proposal will be launched.

The Acquisition is not conditional upon the success of the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq. The Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq is not conditional upon Completion.

As any listing of Holdco Shares pursuant to the Proposed Spin-Off are subject to, among other things, the state of the equity markets, the approvals of the Listing Committee of GEM, the relevant US regulatory process, Nasdaq and the final decision of the Board and the Shareholders, the Shareholders and other investors are reminded to exercise caution when dealing in the securities of the Company.

There can also be no assurance that the Proposed Spin-Off will proceed. A further announcement will be made in relation to the Proposed Spin-Off if and when appropriate.

K. GENERAL INFORMATION

Based on the latest adjusted net assets of the Company and the application of Rule 19.18 of the GEM Listing Rules set out in the Extension Announcement, the Acquisition constitutes a very substantial acquisition of the Company involving the issue of Shares under Chapter 19 of the GEM Listing Rules.

As Cranwood is a substantial Shareholder holding (or otherwise deemed under the SFO to be interested in) approximately 24.7% of the issued share capital of the Company as at the date of the Sale and Purchase Agreement and is therefore a connected person of the Company under the GEM Listing Rules. The Company is therefore subject to the reporting, announcement and independent Shareholders' approval requirements under Rules 20.34, 20.35 and 20.36 of the GEM Listing Rules, respectively.

As Mr. Wang (who is a non-executive Director) is the registered owner of 80% of the equity interest in LTWJi, LTWJi is deemed to be an associate of Mr. Wang under the GEM Listing Rules. LTWJi is therefore a connected person of the Company and transactions between members of the Enlarged TOM Group and LTWJi will constitute connected transactions of the Company under the GEM Listing Rules.

The Acquisition is conditional on, among other things, the approval by the Shareholders (other than: (i) Easterhouse and Romefield (and their respective associates), who together are the controlling Shareholders; and (ii) Cranwood (and its associates), who is a substantial Shareholder, and any other Shareholder who is interested in the proposed Acquisition, all of whom will abstain from voting on the relevant resolution) at the EGM. As required under Rule 20.42 of the GEM Listing Rules, the vote at the EGM will be taken by poll.

The Continuing Connected Transactions are conditional on the approval by the Shareholders (other than Mr. Wang, his associates and any other Shareholder who is interested in the Continuing Connected Transactions, all of whom will abstain from voting on the relevant resolution) at the EGM. As required under Rule 20.40 of the GEM Listing Rules, the vote at the EGM will be taken by poll.

The issue of the Consideration Shares or, as the case may be, the TOM Consideration Shares will be disclosed in the annual report of Holdco or, as the case may be, the Company to be published after the date of issue of the Consideration Shares or, as the case may be, the TOM Consideration Shares.

In the event that the TOM Consideration Shares are to be issued in satisfaction of 50% of the Consideration under the Sale and Purchase Agreement as mentioned above, the Company will make an application to the Listing Committee of GEM for the listing of, and permission to deal in, the TOM Consideration Shares to be issued pursuant to the Sale and Purchase Agreement. The TOM Consideration Shares will be allotted and issued pursuant to a specific mandate to be granted to the Directors by the independent Shareholders at the EGM. As the maximum number of TOM Consideration Shares that may be issued to Cranwood is calculated such that Cranwood's aggregate percentage holding of TOM Shares after such issue will be less than the GO Threshold, the Acquisition will not result in any change of control of TOM.

Holdco recognises that, in the event that Holdco Shares are listed on GEM and any issue and allotment of Consideration Shares to Cranwood will have to be made, it will be required to ensure that the number of Holdco Shares in the hands of the public do not fall below the minimum prescribed percentage prescribed by Rule 11.23 of the GEM Listing Rules. In addition, if Holdco is listed on GEM, any allotment and issue of Consideration Shares will be pursuant to a general mandate and such issuance of shares will be subject to the requirements of the GEM Listing Rules. Furthermore, if Holdco Shares are listed on GEM, Holdco will need to comply with the requirements under the GEM Listing Rules in relation to the timing of publication of its financial information.

L. COMPLETION

Completion of the proposed Acquisition is conditional upon the fulfillment (or waiver) of the Conditions described in Section B of this letter and is expected to take place immediately after the fulfilment (or waiver) of the last of the Conditions (or such other date as Cranwood or Bright Horizon may agree in writing prior to Completion). If any of the Conditions is not satisfied or waived by 25 November 2003, or such other date as Bright Horizon and the Vendor may agree, the Sale and Purchase Agreement will lapse.

M. CONTRACTUAL ARRANGEMENTS

As one of the conditions precedent to Completion, Devine Gem, Puccini, LTWJi, WFOE, Mr. Wang (being the owner of 80% of the registered capital of LTWJi) and Ms. Wang (being the owner of 20% of the registered capital of LTWJi) will enter into the following Contractual Arrangements, under which Puccini (through its wholly-owned subsidiary, WFOE) will enjoy the economic benefits of LTWJi:

(a) the Loan Assignment Agreements;

(b) the Business Operation Agreement;

(c) the Equity Pledge Agreements;

(d) the Technical and Consultancy Services Agreement; and

(e) the Option Agreements.

Of the Contractual Arrangements, only the Technical and Consultancy Services Agreement is of a recurrent nature.

Notwithstanding that the owners of the registered capital of LTWJi are Mr. Wang (as to 80%) and Ms. Wang (as to 20%), pursuant to the Contractual Arrangements, the TOM Group (through Puccini and WFOE) will enjoy the economic benefits of LTWJi and the financial statements of LTWJi will be consolidated with those of the Enlarged TOM Group after Completion.

As Mr. Wang (who is a non-executive Director) is the owner of 80% of the registered capital of LTWJi, LTWJi is deemed to be an associate of Mr. Wang under the GEM Listing Rules. Each of Mr. Wang and LTWJi is therefore a connected person of the Company and transactions between members of the Enlarged TOM Group, and Mr. Wang and/or LTWJi will constitute connected transactions of the Company under the GEM Listing Rules.

The Technical and Consultancy Services Agreement (which is an integral part of the Contractual Agreements) will enable Puccini (through WFOE) to enjoy the economic benefits of LTWJi. Under the Technical and Consultancy Services Agreement, LTWJi agrees to engage WFOE to provide, and WFOE agrees to provide, the following technical and consulting services to LTWJi on an exclusive basis:

- maintenance of equipment room and websites;
- provision and maintenance of office networking conditions;
- provision of overall security services for websites; and
- overall structure design implementation of network and websites including instalment and 24 hours maintenance services of server systems.

In consideration of the provision of the above services by WFOE to LTWJi, LTWJi will pay WFOE service fees on a monthly basis, which fees will be calculated based on the actual air-time used by the customers of LTWJi multiplied by a rate (“Rate”) which is equal to 50% of the air-time rate charged by LTWJi for the provision of the IVR Services. The Technical and Consultancy Services Agreement will be valid for a term of 10 years from the date of execution thereof, which may be extended after the expiry of such 10-year term at the option of WFOE for a period to be agreed between WFOE and LTWJi.

The relevant consideration payable under or, where appropriate, the value of, each of the Contractual Arrangements (other than the Technical and Consultancy Services Agreement) is as follows:

1. No consideration is payable under the assignment agreement to be entered into between Devine Gem, Puccini and Mr. Wang in respect of the assignment of the rights and interests of Devine Gem under the Loan Agreement. The total value of this assignment agreement is equal to the amount of the loan to be assigned thereunder, being RMB500,000 (of which RMB400,000 was advanced to Mr. Wang and RMB100,000 was advanced to Ms. Wang).

2. No consideration is payable under the Business Operation Agreement.

3. No consideration is payable under the equity pledge agreement to be entered into between WFOE and Mr. Wang. The total value of this agreement is equal to 80% of the registered capital of LTWJi (being RMB800,000) pledged thereunder.

4. The exercise price of the option (which can only be exercised once) under the exclusive option agreement to be entered into between Puccini and Mr. Wang is RMB800,000.

The Contractual Arrangements (other than the Continuing Connected Transactions) will, upon Completion, constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the Directors are of the view that these arrangements are on normal commercial terms, these arrangements therefore fall within the de minimis exemption under Rule 20.23(2) of the GEM Listing Rules. Accordingly, the Contractual Arrangements (other than the Continuing Connected Transactions) will be exempt from all of the reporting, announcement and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The transactions under the Technical and Consultancy Services Agreement will, upon Completion, constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules (the "Continuing Connected Transactions"). The Continuing Connected Transactions are subject to the following requirements:

(a) Disclosure

The Company shall disclose in its next published annual report and accounts information on the Continuing Connected Transactions as required by Rule 20.34(1) to (5) of the GEM Listing Rules.

(b) Independent non-executive Director's review

The independent non-executive Directors shall review annually the Continuing Connected Transactions and confirm, in the Company's annual report and accounts for the year in question, that the Continuing Connected Transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) on terms no less favourable to the Company than terms available to independent third parties; and

(iii) in accordance with the Technical and Consultancy Services Agreement, on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

(c) Auditor's review

The Company's auditors shall review the Continuing Connected Transactions annually and shall provide the Directors with a letter, confirming that the Continuing Connected Transactions:

(i) have received the approval of the Directors;

(ii) are in accordance with the pricing policies of the Company;

(iii) have been entered into in accordance with the terms of the Technical and Consultancy Services Agreement.

The letter of the auditors is to be addressed to the Directors and a copy of which is to be provided to the Stock Exchange. In the event that, for whatever reason, the auditors decline to accept the engagement or are unable to provide that letter, the Directors shall contact the Stock Exchange immediately.

(d) Shareholders' approval

The Shareholders (other than Mr. Wang (and his associates) and any other Shareholder who is interested in the Continuing Connected Transactions, all of whom will abstain from voting) will be asked to vote on an ordinary resolution for approving the Continuing Connected Transactions (including, without limitation, that the Continuing Connected Transactions not be subject to any maximum aggregate annual value and that the term of the Technical and Consultancy Services Agreement be 10 years) at the EGM. As required under Rule 20.40 of the GEM Listing Rules, the vote at the EGM will be taken by poll.

The Stock Exchange has confirmed that, subject to compliance with the requirements set out in paragraphs (a) to (d) above, the requirements: (i) under Rule 20.26(2) of the GEM Listing Rules that the Continuing Connected Transactions be subject to a maximum aggregate annual value ("cap"); and (ii) under Rule 20.30 of the GEM Listing Rules that the Continuing Connected Transactions be subject to annual independent Shareholders' approval where the cap in any year is to be greater than the higher of HK$10 million or 3% of the net tangible assets of the Company, will be waived.

The Directors are of the view that the Contractual Arrangements are fair and reasonable and in the interest of the Shareholders as a whole.

The Continuing Connected Transactions are subject to approval by the Shareholders (other than Mr. Wang, his associates and any other Shareholder who is interested in the Continuing Connected Transactions, all of whom will abstain from voting at the EGM on the relevant resolution for approval the Continuing Connected Transactions).

N. 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 Wednesday, 19 November 2003 at 11:00 a.m. is set out on pages 383 to 384 of this circular at which ordinary resolutions will be proposed and, if thought fit, passed to approve the proposed Acquisition, the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be) and the Continuing Connected Transactions. As required by the GEM Listing Rules, (i) Easterhouse and Romefield (and their respective associates), who together are the controlling Shareholders; and (ii) Cranwood (and its associates), who is a substantial Shareholder, and any other Shareholder who is interested in the proposed Acquisition will abstain from voting on the relevant resolutions in respect of the Acquisition and the issue of the TOM Consideration Shares or the Consideration Shares, (as the case may be) at the EGM. In addition, as also required by the GEM Listing Rules, Mr. Wang (and his associates) and any other Shareholder who is interested in the Continuing Connected Transactions will abstain from voting on the resolution in respect of the Continuing Connected Transactions. As required under Rules 20.40 and 20.42 of the GEM Listing Rules, in respect of the relevant resolutions for approving the Acquisition and the Continuing Connected Transactions, the vote at the EGM will be taken by poll.

A form of proxy for use at the EGM is enclosed. 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 TOM at 48th 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 EGM or any adjourned meeting (as the case may be) should you so wish.

O. RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on pages 45 to 46 of this circular which contains its recommendation to the independent Shareholders as to voting at the EGM; and (b) the letter from Rothschild, which contains its recommendation and opinion to the Independent Board Committee in relation to the Acquisition and the Continuing Connected Transactions and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from Rothschild is set out on pages 47 to 69 of this circular.

The Independent Board Committee states in its letter to the independent Shareholders set out on pages 45 to 46 of this circular that, having taken into account the advice of Rothschild, it considers that the respective terms of the Acquisition (including the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be)) and the Continuing Connected Transactions are fair and reasonable so far as the independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Acquisition, the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be) and the Continuing Connected Transactions.

P. 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

tom

TOM.COM LIMITED

(Incorporated in the Cayman Islands with limited liability)

3 November 2003

To the independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION
INVOLVING THE ISSUE OF SHARES AND
CONNECTED TRANSACTIONS
Proposed acquisition of 100% of the issued share capital of
Puccini International Limited

We refer to the circular dated 3 November 2003 (the "Circular") of the Company of which this letter forms a part. The terms used here shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the Independent Board Committee, we have been appointed to advise you on whether the respective terms of the Acquisition (including the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be)) and the Continuing Connected Transactions are fair and reasonable so far as the independent Shareholders are concerned. Details of, among other things, the Acquisition and the Continuing Connected Transactions are set out in "Letter from the Board" in the Circular.

Rothschild has been retained as independent financial adviser to advise the Independent Board Committee on the respective terms of the Acquisition and the Continuing Connected Transactions. We wish to draw your attention to the letter from Rothschild containing such advice to us in respect of the Acquisition and the Continuing Connected Transactions which is on pages 47 to 69 of the Circular. Having considered the advice given by Rothschild and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the respective terms of the

Acquisition (including the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be)) and the Continuing Connected Transactions are fair and reasonable as far as the independent Shareholders are concerned. Accordingly, we recommend that the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition, the issue of the TOM Consideration Shares or the Consideration Shares (as the case may be) and the Continuing Connected Transactions.

Yours faithfully
For and on behalf of
Independent Board Committee
Angelina Lee **Henry Cheong** **Anna Wu**
Independent non-executive Directors

The following is the text of a letter from Rothschild in connection with the terms of the Sale and Purchase Agreement which has been prepared for the purpose of inclusion in this circular:

ROTHSCHILD

3 November 2003

To the Independent Board Committee of
TOM.COM LIMITED

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION INVOLVING THE ISSUE OF SHARES AND CONNECTED TRANSACTIONS
Proposed acquisition of 100% of the issued share capital of Puccini International Limited

We refer to the Acquisition and the Continuing Connected Transactions, details of which are contained in the circular dated 3 November 2003 issued by the Company (the "Circular") of which this letter forms part. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Acquisition (including the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be)) and the Continuing Connected Transactions are fair and reasonable so far as the independent Shareholders are concerned.

The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Pursuant to the GEM Listing Rules, the Acquisition constitutes a very substantial acquisition of the Company involving the issue of Shares and a connected transaction of the Company and accordingly, in accordance with the GEM Listing Rules, it is subject to the approval of the independent Shareholders at the EGM. Easterhouse and Romefield (and their respective associates), who are together the controlling Shareholders holding an aggregate of approximately 37.05% of the Existing Capital as at the Latest Practicable Date and Cranwood (and its associates), who is a substantial Shareholder holding approximately 24.70% of the Existing Capital as at the Latest Practicable Date, will abstain from voting on the ordinary resolutions to approve the Acquisition and the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be) at the EGM.

Pursuant to the GEM Listing Rules, transactions under the Technical and Consultancy Services Agreement will, upon Completion, constitute continuing connected transactions of the Company and accordingly, in accordance with the GEM Listing Rules, the Continuing Connected Transactions are subject to the approval of the independent Shareholders at the EGM. Mr. Wang (and his associates) and any other Shareholder who is interested in the Continuing Connected Transactions will abstain from voting on the ordinary resolution to approve the Continuing Connected Transactions (including, without limitation, that the Continuing Connected Transactions not be subject to any maximum aggregate annual

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value and that the term of the Technical and Consultancy Services Agreement be 10 years) at the EGM. As required under Rule 20.40 of the GEM Listing Rules, the vote at the EGM will be taken by poll.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have collectively and individually accepted full responsibility for information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, (a) the information contained in the 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 the Circular misleading, and (c) all opinions expressed in the Circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or any of its subsidiaries or jointly controlled entity.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background and rationale

The TOM Group is a Chinese language media company principally engaged in the provision of multimedia contents and services across multiple distribution platforms in Greater China. Currently, the TOM Group has four main business segments, namely the Internet Group, the Outdoor Media Group, the Publishing Group and the Sports and Entertainment Group. The Internet Group is an integrated telecommunication value-added products and services provider and is engaged in the provision of wireless value-added services including SMS services, online advertising, commercial enterprise solutions and Internet access. We note from the Company's interim report that for the six months ended 30 June 2003, the Internet Group recorded a revenue of approximately HK$218.5 million and a segment profit of approximately HK$44.4 million. The Internet Group was the main contributor to the TOM Group's total segment profit for the six months ended 30 June 2003 of approximately HK$62.5 million. We understand that such growth in both revenue and segment profit of the Internet Group when compared with the same period last year was due to the strong performance of the wireless value-added services, being the key profitability and growth driver of the Internet Group.

As noted in the "Letter from the Board" in the Circular, the Directors (other than the Independent Board Committee, whose views are set out in the "Letter from the Independent Board Committee" in the Circular) believe that the TOM Group will benefit from the synergies between the TOM Group's wireless data services businesses and the Business, which will strengthen the TOM Group's position as a leader in providing value-added multimedia products and services and helps distinguish the TOM Group's online business from that of the TOM Group's competitors. In addition, because both the TOM Group's current online business and the Business target a similar user base, the Directors (other than the Independent Board Committee, whose views are set out in the "Letter from the Independent Board Committee" in the Circular) believe that the TOM Group will be able to cross-sell the TOM Group's wireless data services and LTWJi's IVR Services in order to expand the user base for both of these services. The Directors (other than the Independent Board Committee, whose views are set out in the "Letter from the Independent Board Committee" in the Circular) further believe that the Acquisition will provide the TOM Group with an additional distribution channel for the TOM Group's existing content, which will increase the TOM Group's revenue and may improve the TOM Group's economies of scale. Moreover, following Completion, it is expected that the TOM Group will be the only leading Internet portal company in the PRC that provides IVR Services and the Directors (other than the Independent Board Committee, whose views are set out in the "Letter from the Independent Board Committee" in the Circular) believe that the Acquisition will position the TOM Group well to capture the growth in this market and to establish a foundation for providing voice related services.

IVR Services are a new category of wireless value-added services (wireless value-added services is one of the main businesses of the Internet Group) in the PRC that allows users to access pre-recorded information from their mobile telephones by dialling access telephone numbers, and to interact with each other in chat-rooms and through one-on-one dating communications services. Based on the foregoing, we are of the view that the Acquisition will complement the Company's existing wireless value-added services by providing its users with a new channel (i.e. via mobile telephones) for accessing its content library and enabling the Company and Holdco to broaden its users base as well as revenue mix. We also noted from the "Letter from the Board" that in 2002, when IVR Services were still a new and unproven type of wireless telecommunications value added services in the PRC, the Company did not consider it appropriate to make an investment in the IVR Services although it was aware of such opportunity at that time. However, since (i) LTWJi is now no longer in the incubation phase; (ii) it generates positive cash flow and has a proven record of profitability; and (iii) LTWJi has the first mover advantage in the provision of IVR services, which is evident by its leading position in terms of market share and the wide range of services that it offers, we concur with the Company's view that, notwithstanding that the establishment of an IVR business would not be significantly capital intensive generally, the establishment of a new IVR business is a less attractive proposition than the Acquisition because the Acquisition will put the Company in a leading position in the IVR business immediately after the Completion in addition to the diversity of services offered by, and the financial performance of, LTWJi.

2. The Sale and Purchase Agreement

(a) *Assets to be acquired*

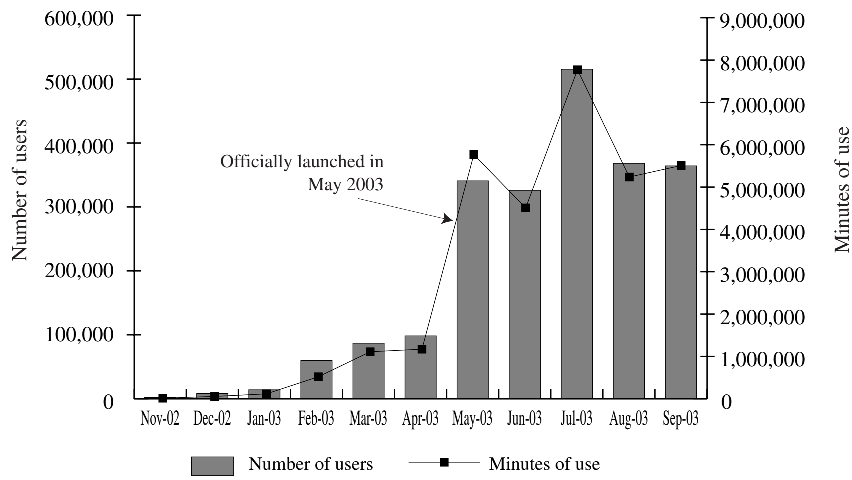
The Company (through Bright Horizon, its indirect wholly-owned subsidiary) has conditionally agreed to acquire from Cranwood its entire interest in Puccini. Puccini and WFOE will, prior to Completion, be able to enjoy the economic benefits in LTWJi through the Contractual Arrangements with LTWJi, Mr. Wang (who is the owner of 80% of the registered capital of LTWJi) and Ms. Wang (who is the owner of 20% of the registered capital of LTWJi). Mr. Wang and Ms. Wang are not related and do not involve in the day-to-day management of the business operations of LTWJi. The scope of WFOE will include technology development in network, computer (software and hardware), IVR Services and communications and the provision of related consultancy services. After the Continuing Connected Transactions are approved by the independent shareholders and before Completion, WFOE will enter into such part of the Contractual Arrangements to which it is a party.

PRC regulations currently restrict foreign ownership of companies that provide telecommunication value-added services, which includes wireless value-added services. As such, the operation of LTWJi will be conducted through the Contractual Arrangements. Of the Contractual Arrangements, the exclusive option agreements to be entered into between Puccini and each of Mr. Wang and Ms. Wang prior to Completion give Puccini an exclusive right to acquire the title of Mr. Wang's and Ms. Wang's respective equity interests in LTWJi as and when the PRC regulations permit whilst the Technical and Consultancy Services Agreement to be entered into between WFOE and LTWJi prior to Completion enables Puccini (through WFOE) to enjoy the economic benefits in LTWJi.

It should be noted that it is a condition precedent to Completion that Bright Horizon is delivered with a legal opinion (in agreed form) issued by a PRC counsel opining on the legality of the terms of the Contractual Arrangements under all applicable laws, rules, regulations or public policies in the PRC, and the validity and enforceability of the terms of the Contractual Arrangements against the relevant parties thereto. We have discussed with the PRC counsel and reviewed the draft legal opinion from the PRC counsel opining on the legality of the Contractual Arrangements and the validity and enforceability of the Contractual Arrangements against the relevant parties thereto. Based on the draft legal opinion, the PRC counsel is of the view that the Contractual Arrangements are valid and legally enforceable under the relevant PRC law, rules, regulations and public policies and the management of the Company have confirmed that a signed legal opinion with substantially the same wordings will be obtained prior to Completion in order to satisfy the conditions precedent of the Acquisition. We also understand from the PRC counsel and from information public available that similar contractual arrangements are also in place for other PRC Internet portal companies. **However, the Contractual Arrangements may not be as effective in providing control over the Business as direct ownership. Should the PRC government consider that the Contractual Arrangements are not in compliance with applicable laws, rules, regulations or public policies in the PRC, actions taken by the PRC government could have an adverse impact on the business of LTWJi and the Enlarged TOM Group. Accordingly, minority shareholders should carefully consider the risks associated with the Contractual Arrangements in assessing the terms of the Acquisition and in making their voting decision.**

LTWJi is a domestic company established in Beijing, the PRC on 31 July 2002. In October 2002, LTWJi was among the first service providers to enter an agreement with China Mobile to provide IVR Services in China. LTWJi's IVR Services include weather forecasts, stock prices, news on celebrities, jokes, short stories and songs as well as chat-rooms and one-on-one dating communication services.

The IVR Services were test-launched by China Mobile in nine Chinese provinces in October 2002 and were officially launched in May 2003 across China. The chart below shows the number of users and minutes of use for LTWJi for the periods indicated:



Note: The number of users represents the approximate number of users that accessed LTWJi's IVR Services during the month indicated.

We note from the chart above that LTWJi has experienced rapid growth in terms of both user base and usage since November 2002. We also note that the slight drop in the number of users and minutes of use in June 2003 when compared with the data in May 2003 was due to the expiry of the complimentary period for the IVR Services hotline to provide information on the Severe Acute Respiratory Syndrome ("SARS") in China. The sharp increase in the number of users and minutes of use in July 2003 was due to a promotion launched by China Mobile from 17 July 2003 to 21 July 2003. The average minutes of use per user increased from 5.9 minutes per user in November 2002 to 15.1 minutes per user in September 2003.

The Business is currently carried on pursuant to the Business Agreements. Mobile telephone users access LTWJi's IVR Services via China Mobile's Monternet platform. We are not aware of any other existing alternative platforms in the PRC that offer IVR Services as at the Latest Practicable Date. Based on our discussions with the respective management of LTWJi and the Company, we understand that they do not envisage any major obstacle in the renewal of the Business Agreements. **However, in the event that the Business Agreements are, for whatever reasons, terminated, not renewed or scaled back or if the fee sharing arrangements are altered, Shareholders should note that the Business and**

its revenue could be adversely affected. Currently, LTWJi has only one business partner for IVR Services and the Business is dependent entirely on the cooperation with China Mobile. Accordingly, minority shareholders, when making their voting decision should carefully consider the risks associated with the dependence of LTWJi on its only business partner for the IVR Services.

LTWJi sets its IVR Services content fees within the standards established by China Mobile. China Mobile charges users an air-time fee, all of which China Mobile retains (except for the community oriented services including chatting and dating which LTWJi is entitled to share 25% of the air-time fee) and LTWJi charges its users a content fee based on the duration (amount of air-time) of the user's call. Pursuant to the Business Agreements, LTWJi shares the content fees with China Mobile and China Mobile is responsible for the collection of fees in connection with IVR Services from the users and is entitled to retain 15% of the content fees charged by LTWJi for the IVR Services provided. Based on our discussion with the management of LTWJi, we understand that LTWJi has not experienced any bad debts so far. LTWJi has received all of its accounts receivable as at 30 June 2003 subsequent to 30 June 2003.

LTWJi currently develops majority of its content in-house and obtain the rest from external content providers on a revenue-sharing basis or by paying a fixed fee. Pursuant to arrangements with such external content providers, the content providers receive between 50% and 90% of the net revenues receivable from China Mobile with respect to the IVR Services that use content from the third party provider. For the six-month period ended 30 June 2003, content fees paid to external content providers represented approximately 0.12% of the revenues of LTWJi.

The table below sets out a summary of audited financial data of LTWJi prepared in accordance with HK GAAP for the period from 31 July 2002 (being the date of establishment of LTWJi) to 31 December 2002 and for the six months ended 30 June 2003 as extracted from the accountants report on LTWJi set out in Appendix III to the Circular:

	For the period from 31 July 2002 to 31 December 2002 (Audited) *HK$'000*	**For the six months ended 30 June 2003 (Audited)** *HK$'000*
Turnover	79	12,476
Gross (loss)/profit	(6)	11,356
(Loss)/Profit before taxation	(52)	9,440
(Loss)/Profit after taxation	(52)	6,325

Based on the table above, LTWJi achieved a gross profit margin and net profit margin of 91.0% and 50.7% for the six months ended 30 June 2003, respectively. The audited net assets of LTWJi was approximately HK$7,213,000 as at 30 June 2003.

LTWJi is a relatively new company (only established in July 2002) and the IVR Services offered by it are also new (only started to offer such services via China Mobile's Monternet platform in nine provinces since October 2002 and across the PRC in May 2003) to the market and potential users, even though they may be familiar with fixed-line IVR services. As such, the attractiveness of the IVR Services to the market and potential users as well as its sustainability is currently unknown and is yet to be established. From our discussion with the management of LTWJi, we understand that there are at present only a few providers (including LTWJi) of IVR Services in the PRC. Based on our discussion with the management of LTWJi, we understand that they are of the view that competition in the IVR Services market is expected to increase as new service providers enter the market and offer their services on China Mobile's Monternet platform and other platforms that may be developed. However, LTWJi's first mover advantage should provide it with a competitive edge over its competitors given its leading position in terms of market share and the wide range of services that it offers. Furthermore, by leveraging on the Company's extensive content library, existing market position and brand name, the Acquisition should enhance the competitive position of the Business. Notwithstanding the foregoing, we believe that the payment terms for the Consideration (i.e. the earn-out structure which involves the deferred payment based on an earnings multiple of the 2004 Net Profit) has sought to reflect the concerns in relation to the short track record period of both LTWJi and IVR Services in the PRC.

Puccini will become a wholly-owned subsidiary of Holdco upon Completion. The Board has announced, on 28 August 2003, its proposal to spin-off Holdco by way of a separate listing of its securities on GEM and/or Nasdaq. Shareholders should note that the Acquisition is not conditional upon the success of the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq and the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq is not conditional upon Completion.

Please refer to the paragraph headed "Information on the Puccini Group" in the "Letter from the Board" in the Circular for further details relating to the Puccini Group.

(b) Consideration

The Consideration (equivalent to the Earn-Out Amount) will be:

(i) an amount equal to 7.7 times the 2004 Net Profit; or

(ii) in the event that the 2004 Net Profit is less than an amount equal to 1.2 times the 2003 Net Profit, an amount equal to 6.0 times the 2004 Net Profit (for the purpose of this sub-paragraph (ii), the minimum amount of the 2003 Net Profit will be RMB40 million),

provided that the maximum amount of the Earn-Out Amount will not be more than US$150 million. The Consideration comprises the Initial Consideration and the Earn-Out Consideration.

The Initial Consideration comprises the Initial Cash Consideration and the Initial Consideration Shares. If Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004, the Initial Consideration will be US$18,500,001; otherwise, the Initial Consideration will be US$1. The Initial Cash Consideration of US$1 will be paid in cash to Cranwood at Completion. The Initial Consideration Shares (equivalent to US$18,500,000 worth of Holdco Shares) will be allotted and issued (credited as fully paid) to Cranwood (or its nominee(s)) at any time prior to, or six months after, the commencement of trading of the Holdco Shares on GEM or such other recognised stock exchange at the IPO Price. Immediately upon such issue of the Initial Consideration Shares, the share certificate(s), and instruments of transfer and contract notes executed in blank by Cranwood in respect of the Initial Consideration Shares will be deposited with the Escrow Agent until the first Business Day after the Final Payment Date ("Escrow Period"). Cranwood will be entitled to exercise voting rights attaching to, and receive any dividends or distributions in respect of, all of the Initial Consideration Shares during the Escrow Period.

The Earn-Out Consideration is the amount by which the Earn-Out Amount (equivalent to the Consideration) exceeds the amount of the Initial Consideration, which will be paid in the following manner:

(i) irrespective of whether or not the Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004 and whether or not the Initial Consideration Shares are allotted and issued to Cranwood, the Earn-Out Cash Consideration (being an amount equal to 50% of the Earn-Out Amount) will be paid in cash to Cranwood on the Final Payment Date provided that the maximum amount of the Earn-Out Cash Consideration will not be more than US$75 million. If the listing of the Holdco Shares on a recognised stock exchange is successful, it is expected that the Earn-out Cash Consideration will be satisfied by Holdco's listing proceeds or, if at the time of payment of the Earn-Out Cash Consideration, Holdco has sufficient internal or other resources, all or part of the Earn-Out Cash Consideration may be satisfied by Holdco's internal or other resources (in which case, Holdco and the Company will make appropriate disclosures in accordance with the requirements under the GEM Listing Rules). Otherwise, the Earn-Out Cash Consideration will be satisfied by the Company's internal resources;

(ii) in the event that the Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004 and the Initial Consideration Shares are allotted and issued to Cranwood, the Earn-Out Consideration Shares (equivalent to an amount equal to 50% of the Earn-Out Amount less US$18,500,001) will be allotted and issued (credited as fully paid) to Cranwood at an issue price equal to the average closing price of the Holdco Shares as quoted on GEM, or if the Holdco Shares are not listed on GEM, the average closing price of the Holdco Shares as quoted on any other recognised stock exchange on which the Holdco Shares are to be listed, as appropriate, for the 30 Holdco Trading Days immediately preceding the 2004 Report Date on the Final Payment Date.

However, if the aggregate number of the Holdco Shares to be so allotted and issued and the Holdco Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the Holdco Allotment Date would be equal to or more than the GO Threshold of the then issued share capital of Holdco:

(1) the number of the Earn-Out Consideration Shares will be equal to the difference between: (i) such number of Holdco Shares representing 1% less than the GO Threshold of the then issued share capital of Holdco (as enlarged by the allotment and issue of such Holdco Shares); and (ii) the number of Holdco Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the Holdco Allotment Date; and

(2) the balance of such Earn-Out Amount (i.e. Earn-Out Amount less Earn-Out Cash Consideration, Earn-Out Consideration Shares and US$18,500,001) will be paid in cash (being the Holdco Cash Consideration). The Holdco Cash Consideration will be satisfied by Holdco's listing proceeds or, if at the time of payment of the Holdco Cash Consideration, Holdco has sufficient internal or other resources, all or part of the Holdco Cash Consideration may be satisfied by Holdco's internal or other resources (in which case, Holdco and the Company will make appropriate disclosures in accordance with the requirements under the GEM Listing Rules); and

(iii) in the event that the Holdco Shares are not listed on GEM or any other recognised stock exchange by 31 December 2004 and/or the Initial Consideration Shares are not allotted and issued to Cranwood, the TOM Consideration Shares (equivalent to an amount equal to 50% of the Earn-Out Amount) will be allotted and issued (credited as fully paid) to Cranwood at an issue price equal to the average closing price of the Shares as quoted on GEM for the 30 Trading Days immediately preceding the 2004 Report Date on the Final Payment Date. However, if the aggregate number of the Shares to be so allotted and issued and the Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the TOM Allotment Date would be equal to or more than the GO Threshold of the then issued share capital of the Company:

(1) the number of the TOM Consideration Shares will be equal to the difference between: (i) such number of Shares representing 1% less than the GO Threshold of the then issued share capital of the Company (as enlarged by the allotment and issue of such Shares); and (ii) the number of Shares already owned by Cranwood (and parties acting in concert with it (if any)) as at the TOM Allotment Date; and

(2) the balance of such 50% of the Earn-Out Amount less US$1 will be paid in cash (being the TOM Cash Consideration). The TOM Cash Consideration will be satisfied by the Company's internal resources.

Where Holdco Shares have been issued as part of the Initial Consideration and the Earn-out Consideration is less than US$18,500,000, a claw-back adjustment will be made to the Initial Consideration paid by Bright Horizon involving the sale in the market of certain of the Holdco Shares already allotted to Cranwood as part of the Initial Consideration, with such sale proceeds being paid to Bright Horizon.

As noted in the "Letter from the Board" in the Circular, the Directors (other than the Independent Board Committee, whose views are set out in the "Letter from the Independent board Committee" in the Circular) are of the view that the Acquisition was negotiated and entered into on an arm's length basis based on normal commercial terms and the Consideration (including the issue of the Consideration Shares or, as the case may be, the TOM Consideration in satisfaction of 50% of the Consideration) was determined as being a price acceptable to Cranwood and Bright Horizon with reference to the past performance, period of operation, prospective profit contribution, growth prospects, earnings potential and competitive advantages in the market of the Puccini Group and relevant valuation benchmarks. We believe the earn-out structure (i.e. being deferred payment based on an earnings multiple of the 2004 Net Profit) currently in place would give Bright Horizon protection over the future prospects and performance of the Business on the basis that the Consideration is dependent on the performance of the Business in 2004 (being the first complete year of operation of LTWJi as the IVR Services are offered through China Mobile's Monternet platform nationwide since May 2003). Furthermore, the consideration price earnings ratio ("PER") will be reduced from 7.7 times to 6.0 times (a reduction of approximately 22.1%) in the event that the annual growth rate of LTWJi's profit in 2004 is less than 20%. Such a reduction in the consideration PER would reduce the overall Consideration payable by the Company and would give Bright Horizon further assurance over the return on investment of LTWJi.

The Initial Consideration Shares (which may be issued immediately prior to the listing of the Holdco Shares (when the IPO Price have been determined) or six months after the listing of the Holdco Shares) will be at the IPO Price. We consider the basis of determining the issue price of the Initial Consideration Shares to be fair and reasonable as it is the same price per Holdco Share to be offered to potential investors pursuant to the Proposed Spin-Off which reflects the then market price of Holdco Shares. The Earn-Out Consideration Shares or the TOM Consideration Shares (as the case may be) will be issued at a price equal to the average closing price of the relevant shares for the 30 trading days immediately prior to the 2004 Report Date. We consider the basis in determining the issue price of the Earn-Out Consideration Shares or the TOM Consideration Shares (as the case may be) to be fair and reasonable as it will take into account, among other things, the prevailing performance of the Holdco, which include the Business and the then market price of the Holdco Shares or the Shares (as appropriate). Furthermore, as the Earn-Out Amount is determined based on the 2004 Net Profit and the Earn-Out Consideration Shares will only be issued after the 2004 Report Date, we consider that the deferred payment of a portion of the Consideration is in the interest of the Company. We also consider that the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be) to satisfy part of the Consideration to be a prudent financing method as it will preserve some of the available resources of Holdco or the Company (as the case may be) whilst at the same time, the equity base of Holdco or the Company (as the case may be) will be strengthened notwithstanding the dilution effect as set out in the paragraph headed "Effects of the Acquisition on the TOM Group" below.

We believe that the use of PER in arriving at the Consideration is an acceptable method given that the Business is not of a capital-intensive nature. Further discussion on the basis in arriving at the Consideration is set out in the sub-paragraph headed "Valuation considerations" below.

(c) Valuation considerations

In analysing the valuation of the Sale Share, we have considered: (i) the historical performance of the Puccini Group; (ii) trading multiples of companies comparable to Puccini (the "Comparable Companies"); and (iii) valuation ascribed to recent acquisitions of PRC wireless telecommunications value-added services providers by companies listed in Hong Kong (the "Precedent Transactions").

(i) Historical performance of the Puccini Group

Prior to Completion, Puccini and WFOE will be able to enjoy the economic benefits in LTWJi through the Contractual Arrangements. LTWJi was established on 31 July 2002 and became operational in the forth quarter of 2002 when the services offered by LTWJi were test-launched by China Mobile in October 2002. We note from the "Letter from the Board" in the Circular that LTWJi was able to finance its operating and capital expenses through its registered capital (being the approximate cost of investment for the Vendor) of RMB1,000,000 and internal cashflows without any bank borrowings. However, as further explained below, we do not consider the initial cost of investment or an asset based comparator to be relevant in assessing the value of the Consideration as LTWJi's first mover advantage in the provision of IVR Services, which is evident by its leading position in terms of market share, cannot be reflected in its cost of establishment nor its net asset value. In addition, the Business is not of a capital-intensive nature, and we believe that an earnings based comparator such as PER is more appropriate in valuing the Business. As such, the registered capital (being the approximate cost of investment for the Vendor) is not directly comparable to the Consideration.

We also noted from the "Letter from the Board" that in 2002, when IVR Services were still a new and unproven type of wireless telecommunications value added services in the PRC, the Company did not consider it appropriate to make an investment in the IVR Services although it was aware of such opportunity at that time. However, since (i) LTWJi is now no longer in the incubation phase; (ii) it generates positive cash flow and has a proven record of profitability; and (iii) LTWJi has the first mover advantage in the provision of IVR Services, which is evident by its leading position in terms of market share and the wide range of services that it offers, we concur with the Company's view that, notwithstanding that the establishment of an IVR business would not be significantly capital intensive generally, the establishment of a new IVR business is a less attractive proposition than the Acquisition because the Acquisition will put the Company in a leading position in the IVR business immediately after the Completion in addition to the diversity of services offered by, and the financial performance of, LTWJi.

Although LTWJi generated a net profit of approximately HK$6,325,000 for the six months ended 30 June 2003 (notwithstanding that its cost of investment is RMB1,000,000 as the Business is not capital intensive), in view of the short operating history of LTWJi and the relatively early stage of development of the IVR Services market, we are of the view that the operational and financial data available on LTWJi and the IVR Services market would not be sufficient to produce a meaningful valuation of the Business using discounted cash flow method as such method would require detailed assumptions to be made based on sufficient period of historical performance of LTWJi as well as industry trends. As such, in assessing the valuation of the Consideration, we have relied on the trading multiples, in particular the PER of Comparable Companies and we have also made reference to the valuation ascribed to the Precedent Transactions.

(ii) Trading multiples of the Comparable Companies

In analysing the trading multiples, we considered that earnings based multiples are more appropriate as the Business is not of a capital-intensive nature. In addition to PER, we have considered other earnings based trading multiples such as EV/EBITDA[1] multiple. Since the Consideration will be determined using the PER method and based on a multiple of the 2004 Net Profit and it is not possible to deduce an implied 2004 EV/EBITDA multiple for the Acquisition, in assessing the reasonableness of the Consideration, we have reviewed the forecasted 2004 PER of the Comparable Companies using consensus estimates. From our review, we noted that there are no "pure" IVR Services companies listed in Hong Kong. As a result, we have reviewed listed online media, gaming and wireless value-added information services providers with a significant amount of operations in the PRC. We believe that the Comparable Companies we have identified below are the most relevant comparable in the circumstance since substantial portion of the revenues of the Comparable Companies are currently generated from the provision of mobile value-added services (including SMS) in the PRC. **None of the Comparable Companies are engaged in IVR Services at present.** The trading multiples of the Comparable Companies as at the Latest Practicable Date are summarised in the table below:

	Listing	**Closing share price on the Latest Practicable Date**	**2004 PER (Forecast)** *(Note)* **(Times)**
Hongkong.com Corporation	GEM	HK$0.78	19.5
Netease.com Inc.	Nasdaq	US$50.64	28.6
Sohu.com Inc.	Nasdaq	US$36.17	24.8
Sina Corporation	Nasdaq	US$41.50	42.3
Average			**28.8**
The Acquisition			**7.7**
The Company (for reference only)	GEM	HK$2.55	104.1

Source: Bloomberg, annual reports, IBES Earnings Estimates, Reuters Estimates and research reports.

Note: The 2004 PER forecast were calculated based on the closing share price of the respective companies as at the Latest Practicable Date and the 2004 earnings per share forecast extracted from IBES Earnings Estimates, Reuters Estimates and research reports.

[1] EV is defined as the equity value plus external borrowings less bank balances and cash and EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

Based on the above, the Consideration PER of 7.7 times is substantially lower than the lowest forecasted 2004 PER for the Comparable Companies of 19.5 times and the simple average of the forecasted 2004 PER of approximately 28.8 times. Given LTWJi's dependence on China Mobile, the relatively new business model of the IVR Services and the short track record period of LTWJi, we believe the heavy discount of the Consideration PER to the trading multiples of the Comparable Companies has already taken into account these concerns.

(iii) Valuation ascribed to the Precedent Transactions

In addition, we have also tried to identify precedent transactions that are similar to the Acquisition. From our review of transactions in the last 12 months that relate to the acquisition of companies engaging in the provision of mobile value-added services in the PRC by companies listed in Hong Kong, we have identified two transactions which took place in 2003 that can be considered as Precedent Transactions as these transactions relate to the acquisition of companies engaging in the provision of mobile value-added services such as SMS services and fixed-line IVR services in the PRC. We are not aware of any other transactions in the last 12 months that is related to the acquisition of companies engaging in the provision of mobile value-added services in the PRC by companies listed in Hong Kong. The key terms of these two available transactions have been summarised below:

Precedent Transaction 1

On 17 March 2003, Hongkong.com Corporation Limited (a company listed on GEM) announced the acquisition of 100.0% equity interest in Palmweb Inc., a company principally engaged in the provision of mobile value-added services such as mobile chatting, city dating and friendship posting services, jokes, fortune telling, mobile interactive games, ringtones and logo download in the PRC. Palmweb Inc. was originally established in 2000 with an initial focus on system integration business and it only began to focus on the business of the provision of mobile value-added services after a change in business strategy in early 2002. Since mid-2002, Palmweb Inc. has devoted significant resources to the business and gained momentum in terms of subscribers and revenue. The consideration (subject to a cap of US$55 million) was payable in cash as to: (1) 50.0% based on a PER of 8.45 times the annualised net profit for Palmweb Inc. for 2002 calculated based on net profit for the month of December 2002; (2) 38.0% based on a PER of 9.4 times the net profit for Palmweb Inc. for 2003; and (3) the remaining 12.0% based on a PER of 9.4 times net profit for Palmweb Inc. for 2004.

Precedent Transaction 2

On 1 August 2003, 21CN Cybernet Corporation Limited (a company listed on the main board of the Stock Exchange) announced the acquisition of 45.0% equity interest in 北京鴻聯九五信息產業有限公司 ("Beijing HL95"), a company principally engaged in the provision of SMS, fixed-line interactive voice response systems and enterprise value-added telecommunications services in the PRC. Beijing HL95 was established in 1996 and entered into the SMS market recently. The consideration was determined based on the audited net asset value of Beijing HL95, prepared in accordance with the PRC generally accepted accounting principles as at 31 December 2002 and translate to an implied PER equivalent to approximately 10.7 times the historical net profit of Beijing HL95 for the year ended 31 December 2002.

It should be highlighted that there are differences between the business operations of LTWJi and the businesses in the above Precedent Transactions. Although both Palmweb Inc. and Beijing HL95 are engaged in the provision of mobile value-added services and Beijing HL95 is also engaged in fixed-line interactive voice response systems, none of them is a "pure" IVR Services provider. In addition, the considerations paid in respect of the Precedent Transactions were largely determined with reference to historical financials whilst the Consideration will be determined based on future profits. **As such, Shareholders should place more reliance on the trading multiples analysis set out in the sub-paragraph headed "Trading Multiples of Comparable Companies" above and the Precedent Transactions were only used as a secondary tool for the purpose of analysing the valuation of the Sale Share.**

After taking into account: (i) the historical performance of the Puccini Group; (ii) trading multiples of Comparable Companies; (iii) valuation ascribed to Precedent Transactions; and (iv) the payment terms of the Consideration, we are of the view that the Consideration, which will be determined based on a PER of 7.7 times, the payment terms (i.e. 50% by cash and 50% by the issue of the Consideration Shares or TOM Consideration Shares (as the case may be)) and the issue price of the Consideration Shares or TOM Consideration Shares (as the case may be) which will be based on the IPO Price and the then market price of the Shares respectively, are fair and reasonable.

(d) Tax Indemnity

At Completion, Cranwood will execute the Tax Indemnity in favour of the Company, LTWJi and Bright Horizon. Under the Tax Indemnity, Cranwood and Devine Gem will indemnify the relevant member(s) of the Puccini Group and Bright Horizon against certain tax liabilities (such as profits tax, stamp duty and estate duty) incurred by any member of the Puccini Group prior to the date of Completion and which are not disclosed in the audited balance sheet of LTWJi made up as at 30 June 2003 and the audited profit and loss account of LTWJi for the period from the date of its establishment (being 31 July 2002) to 30 June 2003.

(e) Non-competition

For a period of 24 months after the date of Completion, Cranwood will not and will procure that none of its subsidiaries or holding companies or companies controlled by Cranwood or such holding companies will, without the prior written consent of Bright Horizon, either on its own account or in conjunction with or on behalf of any person, firm or company:

(i) carry on or be interested in the business of provision of IVR Services (other than the provision of content in relation to the IVR Services) in the PRC (the "Competing Business");

(ii) solicit or entice away or attempt to solicit or entice away from LTWJi any of their customers, whose custom is in connection with the Competing Business prior to or as at Completion; and/or

(iii) employ, solicit or entice away or attempt to employ, solicit or entice away from LTWJi any of their officers, employees or consultants employed or engaged in connection with the Competing Business prior to or as at Completion.

Although the above non-compete restrictions do not restrict Ms. Chau personally, Ms. Chau has granted to Bright Horizon a right of first refusal in relation to any opportunity for her and/or any company controlled by her to invest in the business of provision of IVR Services that arises during a period of 24 months after the date of Completion.

It is noted that Cranwood is not currently carrying on or interested in any Competiting Business but it has a wholly-owned subsidiary (namely, Beijing ChinaCare e-Med Limited (北京維康關懷醫療信息技術有限公司) ("ChinaCare")) that principally engages in the research, development and production of database management software in the healthcare sector in China. In addition, it is also one of the external content providers of LTWJi in relation to the IVR Services pursuant to an agreement dated 24 September 2003 between ChinaCare and LTWJi which has a term of one year from 1 August 2003. Based on the amount of revenue generated under such agreement in August and September 2003, it is estimated that the total annual consideration payable by LTWJi to ChinaCare under such agreement will not exceed HK$1,000,000 and, accordingly, this transaction will be an exempt continuing connected transaction under Rule 20.25(3) of the GEM Listing Rules. Cranwood has undertaken with Bright Horizon that, with effect from the date of Completion, ChinaCare shall not provide its content to persons other than Holdco or any of Holdco's subsidiaries (and the provision of such content shall be agreed on an arm's length basis upon normal commercial terms).

(f) *Guarantees by the Company and Holdco*

The Company and Holdco have provided several guarantees under the Sale and Purchase Agreement, namely:

(i) Holdco has agreed to guarantee the proper and punctual observance and performance by Bright Horizon of all of its obligations in relation to payment of the Consideration.

(ii) The Company has agreed to guarantee, for so long as none of Holdco's securities are listed on GEM or Nasdaq or any other recognised stock exchange, the proper and punctual observance and performance by Holdco of all its obligations in relation to the issue and allotment of the Consideration Shares.

(iii) The obligations of the Company under sub-paragraph (ii) above shall automatically terminate upon the commencement of trading of any Holdco's securities on GEM or Holdco's securities being included for quotation on Nasdaq or any other recognised stock exchange and, upon such termination, Cranwood will have no claim whatsoever against the Company under the Sale and Purchase Agreement.

(g) *Other major terms of the Sale and Purchase Agreement*

(i) Economic benefits of LTWJi

Bright Horizon will be entitled to enjoy all of the economic benefits of the Puccini Group through certain contractual arrangements under the Contractual Arrangements with effect from the date of the Sale and Purchase Agreement provided that Cranwood will be entitled to distribute the retained earnings of the Puccini Group accumulated prior to the date of the Sale and Purchase Agreement.

Cranwood has warranted to and undertaken with Bright Horizon that LTWJi has a minimum of RMB5 million in cash as at the date of the Sale and Purchase Agreement to satisfy its working capital and capital expenditure requirements.

(ii) Events of default and reversal of the Acquisition

Pursuant to the Sale and Purchase Agreement, if at any time after Completion but before the Final Payment Date, there occurs any of the following events or matters:

(1) any event(s) beyond Puccini's or Bright Horizon's control, after making all reasonable efforts to prevent its or their occurrence, as a result of which LTWJi ceases to hold all of the licences or LTWJi ceases to have the benefit of any of the Business Agreements that are required for LTWJi to carry on the Business in the ordinary course; and/or

(2) any breach or alleged breach of certain representations made and warranties given by Cranwood under the Sale and Purchase Agreement,

Bright Horizon may elect at its sole discretion to rescind the Sale and Purchase Agreement by giving notice in writing to Cranwood and the Acquisition will be reversed as at the date of such written notice, and each of Cranwood and Bright Horizon will do and/or procure to be done all such acts and things to put the other back to the position as if the Sale and Purchase Agreement had never been entered into within 90 days after the date of the written notice from Bright Horizon. The corresponding actions required from each of Cranwood and Bright Horizon have been set out in the paragraph headed "Sale and Purchase Agreement – Other major terms – Warranties and undertakings" in the "Letter from the Board" in the Circular.

(iii) Unsecured loan from Cranwood

Cranwood has agreed that, subject to compliance with the GEM Listing Rules and any other regulatory requirements, if following a written request from either Holdco (if Holdco Shares are listed on GEM or any other recognised stock exchange by 31 December 2004) or the Company (if Holdco Shares are not so listed) ("Borrower"), made at any time within 10 Business Days immediately following the Final Payment Date, Cranwood will advance to the Borrower, by way of an unsecured term loan (for a period of 12 months from the date of draw down), a principal amount which is equal to 50% of the Earn-Out Cash Consideration actually received by Cranwood at an interest rate of 0.5% over LIBOR. We understand that no decision has been made as to whether or not to request for such unsecured loan from Cranwood as this stage. Based on the current interest rate environment and the terms for existing borrowings of the TOM Group, we consider that the interest rate of 0.5% over LIBOR for the unsecured loan from Cranwood (which is the same as the interest rate margin under the existing shareholders loans and lower than the interest rate margin for its current borrowings from independent third parties), is in the interest of the Borrower.

(iv) Moratorium and trading restrictions

The Consideration Shares and the TOM Consideration Shares are subject to moratorium and trading restrictions. Please refer to the paragraph headed "Sale and Purchase Agreement – Moratorium and trading restrictions" in the "Letter from the Board" in the Circular for further details.

(h) Conditions

Completion is conditional upon the fulfilment or waiver of various conditions precedent including, among other things:

(i) the approval by the independent Shareholders of, among other things, the Acquisition (including, without limitation, the allotment and issue of the Consideration Shares or, as the case may be, the TOM Consideration Shares);

(ii) each of the Contractual Arrangements having been duly entered into by each of the parties thereto;

(iii) the delivery of a legal opinion (in agreed form) to Bright Horizon issued by a PRC counsel opining on the legality of the terms of the Contractual Arrangements under all applicable laws, rules, regulations or public policies in the PRC, and the validity and enforceability of the terms of the Contractual Arrangements against the relevant parties thereto; and

(iv) new contracts of employment for a term of not less than three years from the date of Completion having been entered into on terms satisfactory to Bright Horizon between LTWJi and each of the senior management of LTWJi.

Please refer to the paragraph headed "Sale and Purchase Agreement – Conditions precedent" in the "Letter from the Board" in the Circular for further details of the other conditions precedent. Completion will take place immediately after the fulfilment (or waiver) of the last of the Conditions (or such other date as Cranwood and Bright Horizon may agree in writing prior to Completion).

3. Effects of the Acquisition on the TOM Group

If the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq is successful, the Earn-Out Cash Consideration and the Holdco Cash Consideration will be satisfied by Holdco's listing proceeds. However, if at the time of payment of the Earn-Out Cash Consideration or the Holdco Cash Consideration, Holdco has sufficient internal or other resources, all or part of the Earn-Out Cash Consideration or the Holdco Cash Consideration may be satisfied by Holdco's internal or other resources. The issue of the Consideration Shares to settle the remaining 50% of the Consideration will have some dilution effect on the Company's shareholding in Holdco; the quantum of which cannot be ascertained at this stage as it will be dependent on the Consideration to be determined based on the 2004 Net Profit and the IPO Price to be determined under the Proposed Spin-Off.

If the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq is unsuccessful, the Earn-Out Cash Consideration and the TOM Cash Consideration will be satisfied by the Company's internal resources. We noted that the TOM Group had approximately HK$341.9 million of bank balances and cash as at 30 June 2003 and the Company had raised approximately HK$995 million of net proceeds from a placement of Shares in July 2003. For illustrative purposes and based on the aforesaid cash position and the maximum Consideration of US$150 million, the Earn-Out Cash Consideration (subject to a maximum of US$75 million) represents approximately 43.8% of the cash resources stated above.

The issue of TOM Consideration Shares to settle part of the Consideration will have some dilution effect on the shareholding of the Shareholders (other than Cranwood and its associates) in the Company. For illustrative purposes, assuming that (a) the Earn-Out Amount is US$150 million; (b) an amount equal to 50% of the Earn-Out Amount will be satisfied by the allotment and issue of Shares at the closing price of the Shares as quoted on GEM on the Latest Practicable Date of HK$2.55; and (c) taking into account that the current GO Threshold is 30%, the TOM Consideration Shares would represent approximately 5.95% and approximately 5.61% of the Existing Capital and the Enlarged Capital, respectively and would reduce the interest of the Shareholders (other than Cranwood and its associates) in the Company to approximately 71.07% of the Enlarged Capital from approximately 75.3% of the Existing Capital as at the Latest Practicable Date. Given the potential benefits of the Acquisition as described in the paragraph headed "Background and rationale" above, we consider such dilution of approximately 4.23% to be acceptable.

Earnings

Following Completion, Puccini will become an indirect wholly-owned subsidiary of the Company and its financials will be consolidated into the financial statements of the Enlarged TOM Group. Based on the Accountants' Reports on Puccini and LTWJi set out in Appendix III to the Circular and assuming that the Acquisition was completed on 1 January 2003, the Acquisition is expected to have a reduction of the net loss of the Enlarged TOM Group on a pro forma basis (without taking into account the amortisation charge of goodwill that may arise for the period as a result of the Acquisition) of approximately HK$6,325,000 for the six months ended 30 June 2003. It should also be noted that depending on the actual amount of the Consideration, goodwill may arise as a result of the Acquisition.

Net assets

Based on the unaudited pro forma statement of adjusted combined negative net tangible assets and net assets of the Enlarged TOM Group set out in paragraph 1 of Appendix V to the Circular, the Acquisition has the following pro forma effects on the net tangible assets and net assets of the TOM Group:

	As at the Latest Practicable Date and immediately following the completion of other acquisitions *(Note)*	**Immediately after Completion** *(Note)*	**Comments**
Unaudited adjusted net assets	HK$1,493,583,000	HK$2,078,583,000	Increased by approximately 39.2%
Unaudited adjusted net assets per Share	38.73 HK cents	50.92 HK cents	Increased by approximately 31.5%
Unaudited adjusted net tangible assets/(liabilities)	HK$258,055,000	HK$(325,732,000)	Negative variance of approximately HK$583,787,000
Unaudited adjusted net tangible assets/(liabilities) per Share	6.69 HK cents	(7.98) HK cents	Negative variance of approximately 14.67 HK cents

Note: For illustrative purposes, the above pro forma effects of the TOM Group and the Enlarged TOM Group were calculated based on certain assumptions, amongst others, the Consideration to be US$150 million. Details of the assumptions used are set out in the unaudited pro forma statement of adjusted combined negative net tangible assets and net assets of the Enlarged TOM Group in paragraph 1 of Appendix V to the Circular.

The above pro forma effects on the net tangible assets and net assets of the TOM Group as at the Latest Practicable Date have taken into account the effects of acquisitions announced by the Company since 30 June 2003 and up to the Latest Practicable Date (excluding the Acquisition) whilst the pro forma effects on the net tangible assets and net assets of the Enlarged TOM Group immediately after Completion have taken into account the additional effects of the Acquisition and assuming that the Consideration is US$150 million and 50% will be satisfied by the issue of the TOM Consideration Shares. In the event that the Consideration is zero, the pro forma financial effect to the Enlarged TOM Group would be minimal. For details of the pro forma effects of the Enlarged TOM Group based on a zero Consideration, please refer to note 10 to paragraph 1 of Appendix V to the Circular.

The increase in the pro forma net assets and pro forma net assets per Share was due to the acquisition of Puccini by the issue of the TOM Consideration Shares (assuming to be equivalent to 50% of the maximum Consideration of US$150 million). The negative variance of approximately HK$583,787,000 in the net tangible assets and 14.67 HK cents in the net tangible assets per Share was due to significant amount of goodwill of approximately HK$1,168,787,000 arising from the Acquisition as the Consideration (assumed to be US$150 million for analysis purpose) is higher than the audited net assets of LTWJi (being approximately HK$7,213,000 as at 30 June 2003) and the fact that 50% of the Consideration is payable in cash. In addition, the net tangible asset value per Share was impacted by the dilution of interest as a result of the issue of the TOM Consideration Shares. The above analysis has assumed that expenses relating to the Acquisition to be HK$6,000,000. As explained above, due to the recognition of goodwill, the quantum of which will depend on the actual amount of the Consideration, and the payment of cash consideration, upon Completion, the net tangible asset value of the Enlarged TOM Group may be decreased to a negative value. However, we do not consider net tangible asset backing as an important valuation parameter for the Enlarged TOM Group since the Enlarged TOM Group's operation is not of a capital-intensive nature and the TOM Group has been operating with significant amount of goodwill in the past. We are of the view that the valuation of the Enlarged TOM Group should be based on the future prospects or earnings of the businesses.

It is the Company's current accounting policy to amortise goodwill over a maximum period of 20 years. Assuming that the Consideration is US$150 million and the estimated useful life of the goodwill arising on the Acquisition is 20 years, the annual amortisation charge as a result of the Acquisition would be approximately HK$58,439,000. Such amortisation charge is expected to reduce the effect of the net profit contribution of the Puccini Group to the Enlarged TOM Group on consolidation. However, it should be noted that the amortisation charge is non-cash in nature and will not affect the underlying cashflow of the Enlarged TOM Group. If the Consideration payable at the Final Payment Date were less than US$150 million, there would be a downward adjustment to the goodwill as well as the annual amortisation charge in the consolidated accounts of the Enlarged TOM Group. Furthermore, if the Proposed Spin-Off of Holdco and listing of its securities on GEM and/or Nasdaq is successful, there would be a further decrease in the amount of goodwill which is proportional to the percentage of dilution of Company's shareholdings in Holdco; the quantum of which cannot be ascertained at this stage.

4. Contractual Arrangements

Under the Contractual Arrangements, Devine Gem, Puccini, LTWJi, WFOE, Mr. Wang and Ms. Wang will enter into: (a) the Loan Assignment Agreements; b) the Business Operation Agreement; c) the Equity Pledge Agreements; d) the Technical and Consultancy Services Agreement; and e) the Option Agreements. The sole purpose of entering into these agreements is to enable the Group to enjoy the economic benefits of LTWJi.

Further details of the Contractual Arrangements (other than Technical and Consultancy Services Agreement which is analysed further below) are set out in the section headed "Contractual Arrangements" in the "Letter from the Board".

Pursuant to the Technical and Consultancy Services Agreement, WFOE will provide certain technical and consultancy services to LTWJi on an exclusive basis for a term of 10 years. The fee receivable by WFOE will be equal to the actual amount of air-time used by the customers of LTWJi multiplied by a rate ("Rate") which is equal to 50% of the air-time rate that LTWJi charges its customers. The Technical and Consultancy Services Agreement will enable Puccini (through WFOE) to enjoy the economic benefits in LTWJi. Based on the net profit margin of LTWJi for the six months ended 30 June 2003 of approximately 50.7%, we believe the Rate under the Technical and Consultancy Services Agreement is reasonable.

We have discussed with the management of the Company the basis of the calculation of the fees payable by LTWJi to WFOE for the services under the Technical and Consultancy Services Agreement as well as the term of the Technical and Consultancy Services Agreement and the reasons for not imposing a maximum aggregate annual value on the Technical and Consultancy Services Agreement. We note that the major reason that a maximum aggregate annual value on the Technical and Consultancy Services Agreement is not imposed is that the fees receivable by WFOE are dependent upon the usage of LTWJi's IVR Services by the users, which is beyond the control of WFOE. Furthermore, any increase in air-time reflects an increase in demand for LTWJi's IVR Services, which will be beneficial to WFOE. On this basis, we are of the view that it is fair and reasonable not to impose a maximum aggregate annual value for the Continuing Connected Transactions so far as the independent Shareholders are concerned. The term of the Technical and Consultancy Services Agreement will be 10 years. We note that it is the Company's normal business practice for contracts of this type to be of a term of 10 year and concur that the longer the term of this agreement the greater the protection for the Enlarged TOM Group as the sole purpose of Technical and Consultancy Services Agreement is to enable Puccini (through WFOE) to receive the economic benefits in LTWJi. Furthermore, we note that a number of listed PRC Internet portal companies with activities in, among others the provision of telecommunication value-added services in the PRC have put in place contractual arrangements (including agreements to extract economic benefits of PRC companies that engage in the provision of telecommunication value-added services) similar to the Contractual Arrangements. We note further that some of these agreements have contract term of 10 years or more. As such, we consider that it is normal business practice for the contracts of this type to be of a long duration.

As the Contractual Arrangements are an integral part of the Acquisition and the sole purpose of the Contractual Arrangements is to enable the Enlarged TOM Group to enjoy the economic benefits of LTWJi, and on the basis that: (a) LTWJi sets its IVR Services content fees within the standards established by China Mobile; (b) the fees receivable by WFOE will be equal to the actual amount of air-time used by the customers of LTWJi multiplied by the Rate; (c) the Technical and Consultancy Services Agreement is an integral part of the Contractual Arrangements, which enables the Enlarged TOM Group to enjoy the economic benefits of LTWJi; and (d) the Continuing Connected Transactions are expected to be entered into in the ordinary and usual course of business of the Company, we are of the view that the terms of the Continuing Connected Transactions are fair and reasonable so far as the independent Shareholders are concerned.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors in arriving at our conclusions:

(a) IVR Services are a new category of wireless value-added services (wireless value-added services is one of the main businesses of the Internet Group) in China that allows users to access its services from their mobile telephones. The Acquisition will, therefore, complement the Company's existing wireless value-added services by providing its users with a new channel for accessing its content library and enabling the Company and Holdco to broaden its users base as well as revenue mix.

(b) Although LTWJi is a relatively new company and the IVR Services offered by it are also new to the market and potential users, we believe the earn-out structure (i.e. being deferred payment based on an earnings multiple of 2004 Net Profit) currently in place would give Bright Horizon protection over the future prospects and performance of the Business. The provision on events of default gives Bright Horizon the right at its sole discretion to rescind the Sale and Purchase Agreement if such events occur at any time after Completion but before the Final Payment Date.

(c) We consider that the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be) to satisfy part of the Consideration to be a prudent financing method as it will preserve some of the available resources of Holdco or the Company (as the case may be) whilst at the same time, the equity base of Holdco or the Company (as the case may be) will be strengthened.

(d) If the Proposed Spin-Off of Holdco is unsuccessful, the payment of Earn-Out Cash Consideration from the Company's resources would represents approximately 43.8% of the cash resources as stated above.

(e) The use of PER in arriving at the Consideration is an acceptable method and we do not consider the initial cost of investment or an asset based comparator to be relevant given that the Business is not of a capital-intensive nature.

(f) The Consideration PER of 7.7 times is substantially lower than the average of the forecasted 2004 PER for the Comparable Companies and has taken into account the major concerns regarding the acquisition of Puccini which include LTWJi's dependence on China Mobile, relatively new business model of the IVR Services and short track record period of LTWJi.

(g) The Acquisition may result in significant amount of goodwill being recognised in the consolidated accounts of the Enlarged TOM Group since: (i) the Consideration is expected to be higher than the audited net tangible assets of LTWJi; and (ii) 50% of the Consideration is payable in cash.

Such amount of goodwill will be amortised over a maximum period of 20 years in accordance with the Company's current accounting policy and is expected to reduce the effect of the net profit contribution of the Puccini Group to the Enlarged TOM Group on consolidation. However, it should be noted that the amortisation charge is non-cash in nature and will not affect the cashflow of the Enlarged TOM Group.

(h) The Contractual Arrangements are an integral part of the Acquisition, and the sole purpose of the Contractual Arrangements is to enable the Enlarged TOM Group to enjoy the economic benefits of LTWJi. In addition, the Continuing Connected Transactions, which forms part of the Contractual Arrangements are expected to be entered into in the ordinary and usual course of business of the Company and the fees receivable by WFOE will be equal to the actual amount of air-time used by the customers of LTWJi multiplied by the Rate.

(i) There are risks associated with the Acquisition as: (i) the Contractual Arrangements may not be as effective in providing control over the Business as direct ownership and could have an adverse impact on the business of LTWJi and the Enlarged TOM Group should the PRC Government consider that the Contractual Arrangements are not in compliance with applicable laws, rules, regulations or public policies in the PRC; and (ii) currently, LTWJi has only one business partner for IVR Services and the Business is dependent entirely on the cooperation with China Mobile. **Accordingly, minority shareholders should carefully consider the risks associated with the Contractual Arrangements and the dependence of LTWJi on its only business partner for the IVR Services in assessing the terms of the Acquisition and in making their voting decision.**

RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Acquisition (including the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be)) and the Continuing Connected Transactions to be fair and reasonable so far as the independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition, the issue of the Consideration Shares or the TOM Consideration Shares (as the case may be) and the Continuing Connected Transactions as detailed in the "Notice of the EGM" which is set out at the end of the Circular.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited

Liu Xiao-feng
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:

Authorised:		*HK$*
5,000,000,000	Shares	500,000,000.00
Issued and to be issued as fully paid:		
3,856,690,338	Shares as at the Latest Practicable Date	385,669,033.80
225,000,000	Maximum number of the TOM Consideration Shares to be issued assuming 50% of the Earn-Out Amount is satisfied by the issue and allotment of TOM Consideration Shares at the Market Price	22,500,000.00
4,081,690,338	Shares *(Notes (1) and (2))*	408,169,033.80

Notes:

(1) Assuming no further issue of Shares from the Latest Practicable Date up to the date of issue of the TOM Consideration Shares.

(2) Save for the Acquisition, 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.

Date of the agreement	Transaction	Number of new Shares may be issued (subject to adjustments)
28 January 2002 (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 (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 (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

Date of the agreement	Transaction	Number of new Shares may be issued (subject to adjustments)
21 June 2002 (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 (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 (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 (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 TOM Consideration Shares to be issued pursuant to the Sale and 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 203,843,000 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 which are outstanding, 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.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

3 November 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 3 November 2003 (the "Circular") in connection with the proposed acquisition by the Company of 100% of the beneficial interest in 北京雷霆無極網絡科技有限公司 (Beijing Leitingwuji Network Technology Company Limited) ("LTWJi") through the acquisition of the entire share capital of Puccini International Limited ("Puccini") pursuant to the sale and purchase agreement dated 25 September 2003 between Cranwood Company Limited ("Cranwood"), a 24.7% shareholder of the Company, and Bright Horizon Enterprises Limited, a wholly owned subsidiary of the Company.

The Company was incorporated in the Cayman Islands on 5 October 1999 as a limited liability company under the Companies Law 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 consolidated cash flows of the Group for the Relevant Periods.

I. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Section V *Note*	Year ended 31 December 2000 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	Six months ended 30 June 2002 *HK$'000*	2003 *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 Note	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
ASSETS					
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 controlled entities	18	27,540	125,632	35,510	16,407
Interests in associated companies	19	5,084	3,741	4,601	3,472
Investment securities	20	10,522	37,005	126,406	127,302
		574,869	824,051	1,470,065	1,480,692
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
		1,038,897	843,392	1,083,298	1,197,201
Current liabilities					
Consideration payables – 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 – current	26(a)	–	12,228	561	605
Short-term loans	25	1,410	48,405	14,338	82,279
		825,706	865,699	1,112,832	1,290,188
Net current assets/(liabilities)		213,191	(22,307)	(29,534)	(92,987)
Total assets less current liabilities		788,060	801,744	1,440,531	1,387,705
Non-current liabilities					
Consideration payables – 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
		–	138,583	1,014,476	894,681
Minority interests		1,003	84,158	153,784	160,614
Net assets		787,057	579,003	272,271	332,410
CAPITAL AND RESERVES					
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		787,057	579,003	272,271	332,410

II(B). BALANCE SHEETS OF THE COMPANY

	Section V Note	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
ASSETS					
Non-current assets					
Interests in subsidiaries	17	1,298,211	1,516,999	2,421,694	2,526,636
Investment securities	20	1	–	–	–
		1,298,212	1,516,999	2,421,694	2,526,636
Current assets					
Other receivables	22	1,325	23,552	20,961	22,447
Bank balances and cash		820,302	21,988	14,433	439
		821,627	45,540	35,394	22,886
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
		574,175	288,742	436,965	569,526
Net current assets/(liabilities)		247,452	(243,202)	(401,571)	(546,640)
Total assets less current liabilities		1,545,664	1,273,797	2,020,123	1,979,996
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
		–	121,120	980,670	861,560
Net assets		1,545,664	1,152,677	1,039,453	1,118,436
CAPITAL AND RESERVES					
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		1,545,664	1,152,677	1,039,453	1,118,436

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Year ended 31 December			Six months ended 30 June	
	2000	2001	2002	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total (deficit)/equity as at 1 January	(23,715)	787,057	579,003	579,003	272,271
Disposal of a subsidiary	–	150	–	–	–
Investment revaluation deficits	–	–	–	(1,796)	–
Exchange differences	(253)	(519)	(255)	5,491	683
Net (loss)/profit not recognised in the profit and loss account	(253)	(369)	(255)	3,695	683
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	(1,265,285)	(635,887)	(409,579)	(124,507)	(32,674)
Own shares held	–	(1,091)	(4,137)	(4,137)	(857)
Total equity as at 31 December/30 June	787,057	579,003	272,271	504,763	332,410

IV. CONSOLIDATED CASH FLOW STATEMENTS

	Section V Note	Year ended 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	Six months ended 30 June 2002 HK$'000	2003 HK$'000
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 Alexus 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 – $33^1/_3$%
Outdoor signboards	5 – 20%
Office equipment, furniture, fixtures and motor vehicles	10 – $33^1/_3$%

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 30 June	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
Provision of telecommunication value-added services including SMS services, online advertising, commercial enterprise solutions and Internet access	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
Magazine and book circulation, sales of publication advertising and other related products	–	168,286	741,258	366,609	360,237
Event organisation, advertising and sponsorship sales and home video products distribution	34,358	196,971	379,173	126,929	146,732
	89,223	626,624	1,624,126	679,218	866,942
Interest income	80,634	23,069	5,867	3,209	1,214
Total revenues	169,857	649,693	1,629,993	682,427	868,156

Primary reporting format – business segments

The Group is organised into four main business segments:

- Internet Group – provision of telecommunication value-added services including SMS services, online advertising, commercial enterprise solutions and Internet access.
- Outdoor Media Group – advertising sales of outdoor media assets and provision of outdoor media services
- Publishing Group – magazine and book circulation, sales of publication advertising and other related products.
- Sports & Entertainment Group – event organisation, advertising and sponsorship sales and home video products distribution.

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 group and sports & entertainment group
Mainland China	–	internet group, outdoor media group and sports & entertainment group
Taiwan	–	publishing group

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 group HK$'000	Outdoor media group HK$'000	Sports & entertainment division HK$'000	Group HK$'000
Turnover	54,865	–	34,358	89,223
Segment loss/(profit) before 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 entities	16,190	–	–	16,190
Share of losses of 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 group HK$'000	Outdoor media group HK$'000	Publishing group HK$'000	Sports & entertainment group HK$'000	Group HK$'000
Turnover	143,890	117,477	168,286	196,971	626,624
Segment loss/(profit) before 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 of goodwill	280,936	–	–	–	280,936
Provision for impairment of fixed assets	49,540	–	–	–	49,540
Restructuring costs	8,527	–	–	–	8,527
Share of losses of jointly controlled entities	35,856	–	–	–	35,856
Share of losses of 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 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 group *HK$'000*	Outdoor media group *HK$'000*	Publishing group *HK$'000*	Sports & entertainment group *HK$'000*	Group *HK$'000*
Turnover	255,800	247,895	741,258	379,173	1,624,126
Segment loss/(profit) before amortisation and depreciation	22,804	(77,285)	(70,484)	(64,012)	(188,977)
Amortisation and depreciation	68,438	33,236	40,779	3,609	146,062
Segment loss/(profit)	91,242	(44,049)	(29,705)	(60,403)	(42,915)
Unallocated costs					149,107
Operating loss					106,192
Finance costs					19,079
Provision for impairment of goodwill	100,100	67,008	30,000	–	197,108
Share of losses of jointly controlled entities	29,585	–	–	–	29,585
Share of profits less losses of associated companies	1,185	–	(1,205)	–	(20)
Loss before taxation					351,944
Taxation					29,080
Loss after taxation					381,024
Minority interests					28,555
Loss attributable to Shareholders					409,579
Segment assets	277,277	673,666	998,821	305,962	2,255,726
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					131,120
Total assets					2,553,363
Segment liabilities	75,019	99,861	292,895	90,464	558,239
Unallocated liabilities					1,569,069
Minority interests					153,784
Total liabilities					2,281,092
Capital expenditure	60,847	52,368	13,916	33,234	160,365
Unallocated capital expenditure					6,333
					166,698

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

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 group HK$'000	Outdoor media group HK$'000	Publishing group HK$'000	Sports & entertainment group HK$'000	Group HK$'000
Turnover	218,518	141,455	360,237	146,732	866,942
Segment profit before amortisation and 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 controlled entities	4,998	–	–	–	4,998
Share of profits less losses of associated 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 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					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 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
	89,223	626,624	1,624,126	679,218	866,942

	Segment loss/(profit)				
	Year ended 31 December			Six months ended 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)
	277,249	8,224	(188,977)	(49,635)	(145,890)
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
Operating loss	383,336	230,592	106,192	72,593	12,420

	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	1,613,766	1,667,443	2,553,363	2,677,893

	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	217,809	63,065	166,698	48,033

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 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	–

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	–	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	–	1,395	19,079	8,248	9,611

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 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)
	3,147	18,692	29,080	23,963	1,854

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 30 June	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss before taxation	(1,272,684)	(610,010)	(351,944)	(98,314)	(26,297)
Calculated at a taxation rate of 17.5% (2002: 16%, 2001: 16%, 2000: 16%)	(203,629)	(97,602)	(56,311)	(15,730)	(4,602)
Effect of different taxation rates in 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 taxation purposes	143,415	48,594	42,767	9,940	13,317
Withholding tax	–	854	9,147	4,704	3,141
Utilisation of previously unrecognised tax losses	–	–	(137)	–	(2,902)
Tax losses not recognised	73,351	66,361	48,850	17,830	20,745
Taxation charge	3,147	18,692	29,080	23,963	1,854

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 30 June	
	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
	119,992	191,741	285,748	129,486	196,593

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 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
	17,390	16,231	13,346	4,249	7,235

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 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
	17,390	16,231	13,346	4,249	7,235

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

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
	1,990	8,979	9,460	6,881	3,390

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

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
Emolument bands	**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	–

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

14. Fixed assets

	Properties HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Group Outdoor signboards HK$'000	Other assets HK$'000	Construction in progress HK$'000	Total 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 *(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 *(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 *(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 of a subsidiary *(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 *(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 *(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 HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Group Outdoor signboards HK$'000	Other assets HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation and impairment losses							
At 1 January 2000	–	1,616	10,807	–	335	–	12,758
Acquisition of subsidiaries *(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 *(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 *(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 a subsidiary *(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 *(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 *(Note33(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			
	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	–	11,927	12,527	12,299

15. Other non-current assets

	Group			
	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	–	27,024	98,781	98,100

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 rights	Copyrights	Publishing rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 31 December 2000 and 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 *(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 1 January 2001	–	–	–	–
Amortisation charge for the year	383	–	–	383
At 31 December 2001	383	–	–	383
Acquisition of subsidiaries *(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 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 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'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	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	–
At 31 December/30 June	25,914	327,265	562,447	588,624
Net book value				
At 31 December/30 June	293,823	440,019	953,899	983,566

17. Interests in subsidiaries

	Company 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'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)
	1,298,211	1,516,999	2,421,694	2,526,636

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			
	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	–	–
	16,269	59,228	35,510	16,407
Loans to jointly controlled entities	11,271	87,755	–	–
Less: provisions	–	(21,351)	–	–
	27,540	125,632	35,510	16,407

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			
	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share of net assets – unlisted shares	5,084	3,741	4,601	3,472

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			
	31 December			30 June	31 December			30 June
	2000	2001	2002	2003	2000	2001	2002	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	–	–	–	–
	10,522	37,005	126,406	127,302	1	–	–	–

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			
	31 December			30 June
	2000	2001	2002	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
	1,407	92,676	108,260	98,647

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			
	31 December			30 June	31 December			30 June
	2000	2001	2002	2003	2000	2001	2002	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
	102,978	516,831	645,145	756,692	1,325	23,552	20,961	22,447

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:

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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
	44,586	257,836	380,954	435,560

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

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HWL and CKH, substantial Shareholders of the Company	–	–	674	483
Minority Shareholders of subsidiaries of the Group	–	–	33,245	50,043
Shareholders of investee companies	–	7,833	7,833	–
An associated company	–	–	–	209
	–	7,833	41,752	50,735

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

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Jointly controlled entities	1,669	10,308	1,706	4,401
Associated companies	560	516	68	230
Related companies				
– HWL, CKH and Cranwood, substantial Shareholders of the Company	908	10,147	3,546	1,083
– Minority Shareholders of subsidiaries of the Group	–	8,461	39,628	42,152
	3,137	29,432	44,948	47,866

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 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'000
Acquisition of subsidiaries *(Note a)*	322,279	94,729	367,148	336,621
Acquisition of an investment security *(Note b)*	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 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 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'000	Company 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'000
Trade payables *(Note a)*	86,548	188,568	207,069	237,209	–	–	–	–
Other payables and accruals *(Note b)*	217,322	283,513	390,969	396,217	56,896	20,133	5,487	7,165
	303,870	472,081	598,038	633,426	56,896	20,133	5,487	7,165

Note:

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

	Group 31 December 2000 HK$'000	2001 HK$'000	2002 HK$'000	30 June 2003 HK$'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
	86,548	188,568	207,069	237,209

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			
	31 December			30 June
	2000	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	19,472	6,118	56,672	53,763

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

26. Other long-term liabilities

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

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

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

Note:

(a) Long-term bank loans

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

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

	Group				
				Six months ended	
	Year ended 31 December			**30 June**	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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)	–
Total, included in staff costs *(Note 12)*	–	3,165	5,162	2,581	4,437
Represented by:					
Pension assets *(Note c)*	–	–	913	–	1,752
Pension obligations *(Note d)*	–	3,165	4,249	2,581	2,685
	–	3,165	5,162	2,581	4,437
Actual return on plan assets:					
Recognised as an asset	–	16	–	–	–
Recognised as a liability	–	–	407	204	365

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			
	31 December			30 June
	2000	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	–	–	–	(1,349)
Total expenses *(Note b)*	–	–	913	1,752
Contributions paid	–	–	(2,262)	(1,752)
At 31 December/30 June	–	–	(1,349)	(1,349)

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

	Group			
	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 *(Note 33(b))*	–	8,080	4,795	–
Total expenses *(Note b)*	–	3,165	4,249	2,685
Contributions paid	–	(592)	(1,131)	(2,499)
At 31 December/30 June	–	10,653	18,566	18,856

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

	Group			
	31 December			30 June
	2000	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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%

28. Deferred taxation

(a) Deferred tax assets

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

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

28. Deferred taxation *(continued)*

(b) Deferred tax liabilities

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

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

	Group				
	Year ended 31 December			Six months ended 30 June	
	2000	2001	2002	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 consolidated profit and loss account *(Note 8)*	–	854	(6,239)	4,704	(8,189)

(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**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2000	–	–	–
Credited to consolidated profit and loss account	18,447	–	18,447
At 31 December 2000	18,447	–	18,447
Charged to consolidated profit and loss account	(9,495)	–	(9,495)
At 31 December 2001	8,952	–	8,952
(Charged)/credited to consolidated profit and loss account	(7,464)	12,650	5,186
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
At 30 June 2003	2,215	21,837	24,052

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 depreciation *HK$'000*	Others *HK$'000*	Total *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 enforcement 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:

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

Company – Issued and fully paid

	Ordinary shares of US$1 each		Ordinary shares of HK$0.1 each		Total
	No. of shares	*HK$'000*	*No. of shares*	*HK$'000*	*HK$'000*
At 1 January 2000	50,000	389	–	–	389
Issuance of shares *(Note (a), (b), (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 *(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 *(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 Alexus 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:

	31 December							
	2000		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	48,426,000	152,088,000	36,330,000	121,824,000	16,196,000	109,504,000	16,196,000	107,778,000

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	31 December 2000	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
		200,514,000	158,154,000	125,700,000	123,974,000

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

31. Reserves

(a) Group

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2000	52,335	10	–	225	(76,674)	(24,104)
Arising from the reorganisation for listing *(Note b(i))*	–	(387)	–	–	–	(387)
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	–	–	–	–	(1,265,285)	(1,265,285)
Goodwill eliminated against reserves *(Note b(iv))*	(536,484)	–	–	–	–	(536,484)
Exchange differences	–	–	–	(253)	–	(253)
At 31 December 2000	1,813,482	(377)	776	(28)	(1,342,735)	471,118
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)
At 31 December 2000	1,813,482	(377)	776	(28)	(1,342,735)	471,118

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

31. Reserves *(continued)*

(a) Group (continued)

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserves HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	1,813,482	(377)	776	–	(28)	(1,342,735)	471,118
Issuance of shares for acquisition of subsidiaries	405,280	–	–	–	–	–	405,280
Exercise of share options	12,187	–	–	–	–	–	12,187
Disposal of a subsidiary	150	–	–	–	–	–	150
Loss for the year	–	–	–	–	–	(635,887)	(635,887)
Transfer to general reserves	–	–	–	139	–	(139)	–
Exchange adjustments	–	–	–	–	(519)	–	(519)
At 31 December 2001	2,231,099	(377)	776	139	(547)	(1,978,761)	252,329
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)
At 31 December 2001	2,231,099	(377)	776	139	(547)	(1,978,761)	252,329

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserves HK$'000	Revaluation reserves HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	2,231,099	(377)	776	139	–	(547)	(1,978,761)	252,329
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	–	–	–	–	–	–	(409,579)	(409,579)
Transfer to general reserves	–	–	–	204	–	–	(204)	–
Exchange difference	–	–	–	–	–	(255)	–	(255)
At 31 December 2002	2,333,916	(377)	776	343	–	(802)	(2,388,544)	(54,688)
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)
At 31 December 2002	2,333,916	(377)	776	343	–	(802)	(2,388,544)	(54,688)

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

31. Reserves *(continued)*

(a) Group (continued)

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserves HK$'000	Revaluation reserves HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	2,231,099	(377)	776	139	–	(547)	(1,978,761)	252,329
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	29,853	–	–	–	–	–	–	29,853
Exercise of share options, net of issuing expenses	18,537	–	–	–	–	–	–	18,537
Investment revaluation deficits	–	–	–	–	(1,796)	–	–	(1,796)
Loss for the period	–	–	–	–	–	–	(124,507)	(124,507)
Exchange difference	–	–	–	–	–	5,491	–	5,491
At 30 June 2002	2,279,489	(377)	776	139	(1,796)	4,944	(2,103,268)	179,907
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)
At 30 June 2002	2,279,489	(377)	776	139	(1,796)	4,944	(2,103,268)	179,907

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserves HK$'000	Revaluation reserves HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2003	2,333,916	(377)	776	343	–	(802)	(2,388,544)	(54,688)
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	90,570	–	–	–	–	–	–	90,570
Loss for the period	–	–	–	–	–	–	(32,674)	(32,674)
Transfer to general reserves	–	–	–	15,285	–	–	(15,285)	–
Exchange difference	–	–	–	–	–	683	–	683
At 30 June 2003	2,424,486	(377)	776	15,628	–	(119)	(2,436,503)	3,891
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)
At 30 June 2003	2,424,486	(377)	776	15,628	–	(119)	(2,436,503)	3,891

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

31. Reserves *(continued)*

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2000	(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)
At 31 December 2000	2,288,126	23,565	776	(1,082,742)	1,229,725
At 1 January 2001	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)
At 31 December 2001	2,705,593	23,565	776	(1,903,931)	826,003
At 1 January 2002	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)
At 31 December 2002	2,808,410	23,565	776	(2,120,257)	712,494
At 1 January 2002	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)
At 30 June 2002	2,753,983	23,565	776	(1,911,105)	867,219
At 1 January 2003	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)
At 30 June 2003	2,898,980	23,565	776	(2,133,404)	789,917

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	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating loss	(383,336)	(230,592)	(106,192)	(72,593)	(12,420)
Restructuring costs	(37,717)	(8,527)	–	–	–
Provision for diminution in value of investment securities	7,190	6,334	–	132	–
Provision for loan to a related company	–	–	13,260	–	–
Amortisation and depreciation	61,710	109,065	160,197	70,655	93,720
Loss on disposal of fixed assets	18,912	1,102	1,390	170	176
Loss on disposal of other non-current assets	–	–	–	–	3,823
Gain on disposal of a subsidiary	–	(13)	–	–	(856)
Gain on disposal of other investments	–	–	(30)	–	–
Operating (loss)/profit before working capital changes	(333,241)	(122,631)	68,625	(1,636)	84,443
Increase in pension assets	–	–	(1,349)	–	–
(Increase)/decrease in inventories	(838)	2,486	7,027	(6,592)	10,154
(Increase)/decrease in trade and other receivables	22,936	(120,851)	(129,447)	(122,597)	(112,147)
Increase/(decrease) in trade and other payables	51,915	(104,676)	(14,920)	(37,171)	28,556
Increase in pension 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 from operations	(340,115)	(367,175)	(75,203)	(165,388)	10,530

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)	–
	1,771	87,287	103,022	86,742	31,317
Goodwill					
– included in intangible assets	10,173	446,240	749,049	490,082	6,110
– eliminated against reserve	1,039,077	–	–	–	–
	1,051,021	533,527	852,071	576,824	37,427
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	–
	1,051,021	533,527	852,071	576,824	37,427

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	(5,674)	92,482	152,887	99,624	31,318

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	–	–	–
	–	150	11,126	–	1,775
Profit on disposal	–	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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders	Other loans	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2000	52,734	–	362,877	–	–	–	415,611
Issuance of ordinary shares, net of issuing expenses	1,397,445	–	–	–	–	–	1,397,445
Repurchase of shares	(776)	–	–	–	–	–	(776)
New bank and other loans	–	–	138,832	–	–	–	138,832
Contribution from a minority Shareholder	–	–	–	–	–	172	172
Net cash from financial activities	1,396,669	–	138,832	–	–	172	1,535,673
Capitalisation of Shareholders' loans	501,709	–	(501,709)	–	–	–	–
Shares issued for acquisition of subsidiaries, jointly controlled entities and associated companies	714,416	–	–	–	–	–	714,416
Goodwill eliminated against reserves	(536,484)	–	–	–	–	–	(536,484)
Minority's share of losses of subsidiaries	–	–	–	–	–	(10,546)	(10,546)
Minority's share of net assets of subsidiaries	–	–	–	–	–	10,173	10,173
Acquisition of subsidiaries *(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 including premium and capital reserve *HK$'000*	Bank loans *HK$'000*	Loans from Shareholders *HK$'000*	Loans from minority Shareholders *HK$'000*	Other loans *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2001	2,129,044	1,410	–	–	–	1,003	2,131,457
Issuance of ordinary shares, net of issuing expenses	12,912	–	–	–	–	–	12,912
New bank and other loans	–	30,423	100,000	–	10,894	–	141,317
Loan repayments	–	(2,223)	–	–	(7,276)	–	(9,499)
Contribution from a minority Shareholder	–	–	–	–	–	7,064	7,064
Net cash from financing activities	12,912	28,200	100,000	–	3,618	7,064	151,794
Shares issued for acquisition of subsidiaries	416,381	–	–	–	–	–	416,381
Minority's share of profits of subsidiaries	–	–	–	–	–	7,185	7,185
Acquisition of subsidiaries *(Note 33(b))*	–	17,585	–	1,895	12,362	68,993	100,835
Disposal of a subsidiary *(Note 33(c))*	150	–	–	–	–	–	150
Elimination of own 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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders	Other loans	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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 shares, net of issuing expenses	19,292	–	–	–	–	–	19,292
New bank and other loans	–	14,966	750,000	1,500	898	–	767,364
Loan repayments	–	(46,692)	–	(1,866)	(15,179)	–	(63,737)
Contribution from minority Shareholders	–	–	–	–	–	1,410	1,410
Dividends paid to minority Shareholders	–	–	–	–	–	(3,176)	(3,176)
Net cash from/(used in) financing activities	19,292	(31,726)	750,000	(366)	(14,281)	(1,766)	721,153
Shares issued for acquisition of subsidiaries	87,947	–	–	–	–	–	87,947
Minority's share of profits of subsidiaries	–	–	–	–	–	28,555	28,555
Acquisition of subsidiaries *(Note 33(b))*	–	–	–	2,350	–	57,398	59,748
Deconsolidation of a subsidiary *(Note 33(c))*	–	–	–	–	–	(11,126)	(11,126)
Elimination of own shares held	(4,137)	–	–	–	–	–	(4,137)
Dividends declared to 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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders	Other loans	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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 shares, net of issuing expenses	19,478	–	–	–	–	–	19,478
New bank and 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) financing activities	19,478	(30,077)	550,000	(866)	(9,970)	–	528,565
Shares issued for acquisition of subsidiaries	31,231	–	–	–	–	–	31,231
Minority's share of profits of subsidiaries	–	–	–	–	–	2,230	2,230
Acquisition of subsidiaries *(Note 33(b))*	–	–	–	2,350	–	48,909	51,259
Elimination of own shares held	(4,137)	–	–	–	–	–	(4,137)
Dividends declared to 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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders	Other loans	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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 shares, net of issuing expenses	(78)	–	–	–	–	–	(78)
New bank and other loans	–	79,875	–	500	–	–	80,375
Loan repayments	–	(11,352)	–	–	(880)	–	(12,232)
Net cash (used in)/from financing activities	(78)	68,523	–	500	(880)	–	68,065
Shares issued for acquisition of subsidiaries	93,065	–	–	–	–	–	93,065
Minority's share of profits of subsidiaries	–	–	–	–	–	4,523	4,523
Minority interests in other reserve	–	–	–	–	–	(13)	(13)
Restructuring of Taiwan print media group	–	–	–	–	–	(1,243)	(1,243)
Disposal of a subsidiary *(Note 33(c))*	–	–	–	(4,350)	–	3,705	(645)
Elimination of own shares held	(857)	–	–	–	–	–	(857)
Dividends declared to 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:

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'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
	172,656	415,832	79,112	225,795

(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:

	31 December 2000 Land and buildings HK$'000	31 December 2000 Other assets HK$'000	31 December 2001 Land and buildings HK$'000	31 December 2001 Other assets HK$'000	31 December 2002 Land and buildings HK$'000	31 December 2002 Other assets HK$'000	30 June 2003 Land and buildings HK$'000	30 June 2003 Other assets HK$'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 and not later 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
	82,646	1,880	74,704	266,005	74,526	176,289	17,824	90,058

(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.

		Year ended 31 December			Six months ended 30 June	
		2000	**2001**	**2002**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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
Directly held:						
tom.com enterprises limited	8 November 1999	British Virgin Islands ("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 Online Inc.	28 August 2001	Cayman Islands	4,000,000,000 ordinary shares of HK$0.01 each	100%	Investment holding in China	note (b)
TOM Outdoor Media Group Limited	28 January 2000	BVI	1 ordinary share of US$1	100%	Investment holding in Mainland China	note (b)
Indirectly held:						
Internet group						
^ 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	華寶會計師事務所

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
Internet group (continued)						
@ 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有限責任公司
@ 北京唐碼國際廣告有限公司 (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
Outdoor media group						
@ Fujian Seeeout 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	河南中鵬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	廈門達新會計事務所有限公司
^ 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
Publishing group						
Business Weekly Publishing Inc., acquired on 1 January 2002	9 November 1987	Taiwan	2,069,120 ordinary shares of NT$10 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 NT$10 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 NT$100 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 NT$10 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 NT$10 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)
Sports and entertainment group						
China Entertainment Television Broadcast Limited, acquired on 15 September 2003	4 January 1994	Hong Kong	300,000 ordinary shares of HK$0.3 each	64.07%	Operations of satellite television channels and provision of content and television programmes to various platforms	Ernst & Young
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 ("CETV"). 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. On 15 September 2003, the TOM group completed the acquisition by issuance of 21,250,000 shares of TOM which was booked at HK$2.6 per share, being the fair value calculated based on the closing price of TOM share as quoted on GEM of the Stock Exchange at the date of acquisition.

(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%.

(f) On 25 September 2003, the TOM group entered into a sale and purchase agreement with Cranwood, a 24.7% Shareholder of TOM, for the acquisition of 100% of the beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini. The consideration of the acquisition of Puccini and LTWJi should equal the valuation of Puccini, which is determined based on 7.7 times the audited consolidated net profit of Puccini for the year ending 31 December 2004; or in the event that the consolidated net profit of Puccini for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of Puccini for the year ending 31 December 2003, subject to a minimum of HK$37.6 million, the consideration will then be determined based on 6 times the audited consolidated net profit of Puccini for the year ending 31 December 2004. The consideration is subject to a maximum of HK$1,170 million and will be 50% paid in cash and 50% paid by the issue and allotment of shares of TOM Online Inc., a subsidiary of the Company, or the Company if TOM Online Inc. has not been listed before 31 December 2004.

VI. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or 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

A. ACCOUNTANTS' REPORT ON LTWJi

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

3 November 2003

The Directors
TOM.COM LIMITED

Dear Sirs,

We set out below our report on the financial information of 北京雷霆無極網絡科技有限公司 (Beijing Leitingwuji Network Technology Company Limited) (the "Company") for the period from 31 July 2002 (date of incorporation) to 31 December 2002 and for the six months ended 30 June 2003 (the "Relevant Periods") for inclusion in the circular of TOM.COM LIMITED ("TOM") dated 3 November 2003 in connection with the proposed acquisition by TOM of 100% of the beneficial interest in the Company through the acquisition of the entire share capital of Puccini International Limited ("Puccini") pursuant to the sale and purchase agreement dated 25 September 2003 between Cranwood Company Limited, a 24.7% shareholder of TOM, and Bright Horizon Enterprises Limited, a wholly-owned subsidiary of TOM.

The Company was incorporated in the People's Republic of China (the "PRC" or "China") on 31 July 2002 as a domestic limited liability company. The Company is principally engaged in the provision of wireless interactive voice response ("IVR") services supplemented by short messaging services ("SMS") to mobile telephone users through the network of China Mobile Communication Corporation ("China Mobile").

The Company has adopted 31 December as its financial year end date. No audited statutory financial statements of the Company have been prepared since its date of incorporation. The financial statements of the Company are normally prepared in accordance with accounting principles and regulations applicable to PRC enterprises ("PRC GAAP"). For the purposes of the report, the director of the Company has prepared financial statements for the Company for the Relevant Periods ("HK GAAP Accounts") in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The director of the Company is responsible for preparing the HK GAAP Accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed an independent audit on the HK GAAP Accounts for the Relevant Periods in accordance with Statements of Auditing Standards issued by the HKSA.

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

The financial information set out in sections I to V below ("the Financial Information") has been prepared by the director of the Company based on the HK GAAP Accounts. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The director of the Company is 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 state of affairs of the Company as at 31 December 2002 and 30 June 2003 and of the results and cash flows of the Company for the Relevant Periods.

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

I. PROFIT AND LOSS ACCOUNTS

	Section V *Note*	**Period from 31 July 2002 (date of incorporation) to 31 December 2002** *HK$'000*	**Six months ended 30 June 2003** *HK$'000*
Turnover	3	79	12,476
Cost of services		(85)	(1,120)
Gross (loss)/profit		(6)	11,356
Interest income	3	1	5
Selling and marketing expenses		–	(1,583)
General and administrative expenses		(47)	(338)
(Loss)/profit before taxation	4	(52)	9,440
Taxation	5	–	(3,115)
(Loss)/profit after taxation		(52)	6,325

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

II. BALANCE SHEETS

	Section V *Note*	**31 December 2002** *HK$'000*	**30 June 2003** *HK$'000*
ASSETS			
Non-current assets			
Fixed assets	9	1,121	1,987
Current assets			
Bank balances and cash		445	3,529
Accounts receivable	10	68	6,591
Prepayment and other current assets		1	221
		514	10,341
Current liabilities			
Accrued liabilities	11	141	1,304
Amounts due to related companies	12	1,076	696
Taxation payable		–	3,115
		1,217	5,115
Net current (liabilities)/assets		(703)	5,226
Net assets		418	7,213
CAPITAL AND RESERVES			
Paid-in capital	13	470	940
(Accumulated deficit)/retained earnings		(52)	6,273
Shareholders' funds		418	7,213

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

III. STATEMENTS OF CHANGES IN EQUITY

	Section V *Note*	**Period from 31 July 2002 (date of incorporation) to 31 December 2002** *HK$'000*	**Six months ended 30 June 2003** *HK$'000*
Total equity at beginning of the period		–	418
Capital contribution from owners	13	470	470
Net (loss)/profit for the period		(52)	6,325
Total equity at end of the period		418	7,213

IV. CASH FLOW STATEMENTS

	Section V *Note*	**Period from 31 July 2002 (date of incorporation) to 31 December 2002** *HK$'000*	**Six months ended 30 June 2003** *HK$'000*
Net cash (outflow)/inflow from operations	14(a)	(26)	4,623
Investing activities			
Interest received		1	5
Purchase of fixed assets		–	(2,014)
Net cash inflow/(outflow) from investing activities		1	(2,009)
Net cash (outflow)/inflow before financing		(25)	2,614
Financing			
Capital contribution from owners		470	470
Increase in bank balances and cash		445	3,084
Bank balances and cash at the beginning of the period		–	445
Bank balances and cash at the end of the period		445	3,529

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

V. NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The Financial Information have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below:

(a) Revenue recognition

IVR services supplemented by SMS services were provided to users on a monthly basis for a fixed fee or on a usage basis for a transaction fee through the platform of China Mobile. Revenue, net of business tax, is recognised based on net fees receivable from China Mobile as the services are rendered.

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

(b) Fixed assets

Fixed assets, comprising computer equipment, furniture and office equipment and computer software, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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:

Computer equipment	20%
Furniture and office equipment	20%
Computer software	20%

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 profit and loss account.

(c) 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.

(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 are stated net of such provision.

(e) 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 Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an 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.

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

2. Principal accounting policies *(continued)*

(f) 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.

(g) Translation of foreign currencies

The functional currency of the Company is Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at the exchange rate quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

The accounts are translated into Hong Kong Dollars using exchange rates in effect at period end for assets, liabilities and equity and average exchange rates during each reporting period for profit and loss account. Exchange differences, if any, are dealt with as a movement in reserves.

(h) Segment reporting

Statement of Standard Accounting Practice 26 "Segment reporting" establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organisation structure as well as information about geographical areas, business segments and major customers in the accounts.

No separate segment information is presented as it is the management's view that the services rendered by the Company are of one business segment and the business is conducted in China only.

3. Turnover and revenue

The Company is principally engaged in the provision of wireless IVR services supplemented by SMS to mobile phone users through the network of China Mobile. The Company's wireless IVR services include information services and community-oriented services, such as one-on-one dating communications service, chat rooms and access to music files, which are provided to the end users when they dial certain designated phone numbers assigned by China Mobile.

Revenues recognised during the Relevant Periods are as follows:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002	**Six months ended 30 June 2003**
	HK$'000	*HK$'000*
Turnover		
Revenue from the provision of wireless IVR and SMS services	79	12,476
Other revenue		
Interest income	1	5
Total revenues	80	12,481

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

4. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging the following:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002	Six months ended 30 June 2003
	HK$'000	*HK$'000*
Staff costs (consisting of salaries and wages)	45	236
Auditors' remuneration	–	–
Depreciation of fixed assets	45	133
Operating lease rental in respect of:		
Hire of voice circuits	28	171
Land and buildings	1	211

5. Taxation and deferred taxation

No provision for Hong Kong profits tax has been made as the Company had no assessable profits in Hong Kong during the Relevant Periods.

The amount of taxation charged to the profit and loss accounts for the six months ended 30 June 2003 has been provided based on the statutory rate of 33% for enterprise income tax ("EIT") in China.

There were no material unprovided deferred tax assets or liabilities as at 31 December 2002 and 30 June 2003.

The taxation of the Company's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002	Six months ended 30 June 2003
	HK$'000	*HK$'000*
(Loss)/profit before taxation	(52)	9,440
Calculated at a taxation rate of 33%	17	(3,115)
Unrecognised tax loss	(17)	–
Taxation charge	–	(3,115)

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

6. (Loss)/earnings per share

No (loss)/earnings per share is presented for the Relevant Periods since the capital of the Company is not divided into shares.

7. Director's emoluments

No director's emoluments were paid during the Relevant Periods.

8. Five highest paid individuals

Details of the emoluments of the five individuals (all of which are employees) whose emoluments were the highest in the Company during the Relevant Periods are as follows:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002 *HK$'000*	**Six months ended 30 June 2003** *HK$'000*
Basic salaries and wages	38	113

The emoluments of the employees fell within the following band:

	Number of individuals	
Emolument band	**Period from 31 July 2002 (date of incorporation) to 31 December 2002**	**Six months ended 30 June 2003**
HK$nil – HK$1,000,000	5	5

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

9. Fixed assets

Movements of the fixed assets were as follows:

	Computer equipment *HK$'000*	Computer software *HK$'000*	Furniture and office equipment *HK$'000*	Total *HK$'000*
Cost				
At 31 July 2002 (date of incorporation)	–	–	–	–
Additions	715	451	–	1,166
At 31 December 2002	715	451	–	1,166
Additions	895	38	66	999
At 30 June 2003	1,610	489	66	2,165
Accumulated depreciation				
At 31 July 2002 (date of incorporation)	–	–	–	–
Charge for the period	22	23	–	45
At 31 December 2002	22	23	–	45
Charge for the period	87	45	1	133
At 30 June 2003	109	68	1	178
Net book value				
At 31 December 2002	693	428	–	1,121
At 30 June 2003	1,501	421	65	1,987

Fixed asset additions amounting to approximately HK$151,000 and HK$1,166,000 remained unpaid as at 30 June 2003 and 31 December 2002 respectively (see Note 14(b) for details).

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

10. Accounts receivable

The Company grants credit terms of 15 days to its customer. The aging analysis of the accounts receivable balances as at 31 December 2002 and 30 June 2003 is as follows:

	31 December 2002 *HK$'000*	30 June 2003 *HK$'000*
Current	68	5,238
15 – 30 days	–	1,353
	68	6,591

11. Accrued liabilities

Accrued liabilities consisted of the following:

	31 December 2002 *HK$'000*	30 June 2003 *HK$'000*
Accrued leased voice circuits	–	75
Accrued employee costs	45	281
Accrued advertising expenses	–	528
Accrued business tax and local levies	2	312
Accrued service fees to content partners	4	18
Accrual for purchase of software	90	90
	141	1,304

12. Amounts due to related companies

The amounts due to related companies were derived from transactions undertaken in the normal course of business of the Company. The amounts were unsecured, interest free and without fixed repayment terms.

Particulars of the amounts due to related companies as at 31 December 2002 and 30 June 2003 are as follows:

	31 December 2002 *HK$'000*	30 June 2003 *HK$'000*
Beijing Lei Ting Wan Jun Network Technology Limited *(Notes (a) and (b))*	173	625
Beijing Redsail Netlegend Data Network Technology Company Limited *(Note 17(a))*	–	10
Beijing Victoria Century Investment Consulting Company Limited *(Note 17(b))*	–	61
Beijing Super Channel Network Limited *(Note (a))*	903	–
	1,076	696

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

12. Amounts due to related companies *(continued)*

Notes:

(a) During the period from 31 July 2002 (date of incorporation) to 31 December 2002, Beijing Super Channel Network Limited and Beijing Lei Ting Wan Jun Network Technology Limited ("Wan Jun"), companies which are under common significant influence as the Company, purchased certain fixed assets which amounted to approximately HK$1,076,000 on the Company's behalf from third parties. Such fixed assets were purchased from the third parties at their market value. These payables were subsequently settled in cash during the six months ended 30 June 2003 (Note 14(b)).

(b) During the six months ended 30 June 2003, Wan Jun entered into two agreements with a third-party advertising company for promoting IVR and SMS services from 1 January 2003 to 30 June 2003. During the same period, an agreement was entered into among Wan Jun, the Company and the advertising company such that the Company has agreed to bear all the risks and rewards of ownership associated with those contracts, as the Company was one of the primary beneficiaries of the advertising campaign. Based on the contracts, the advertising expenses for the campaign were approximately HK$850,000, which have been included in the profit and loss account of the Company for the six months ended 30 June 2003, out of which approximately HK$625,000 has previously been paid by Wan Jun on behalf of the Company and was therefore reflected as a related party payable as at 30 June 2003.

13. Paid-in capital

	HK$'000
Capital contribution and at 31 December 2002	470
Capital contribution	470
At 30 June 2003	940

The registered capital of the Company was approximately HK$470,000 (equivalent to RMB500,000) at the date of incorporation, which was fully paid upon incorporation. According to a written resolution by the owners of the Company dated 24 April 2003, the registered capital of the Company was increased from approximately HK$470,000 to HK$940,000 (equivalent to RMB1,000,000). An additional contribution of approximately HK$470,000 was then contributed ratably from the then existing owners of the paid-in capital on 28 April 2003.

The owners of the Company are entitled to vote according to their percentage of the total contributed capital.

On 25 July 2002, the Company's registered owners jointly entered into an option and pledge agreement with Devine Gem Management Limited ("Devine Gem"), a foreign owned company, under which the Company's registered owners agreed to invest in the Company on behalf of Devine Gem.

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

14. Cash flow statements

(a) Reconciliation of (loss)/profit before taxation to net cash (outflow)/inflow from operations

	Period from 31 July 2002 (date of incorporation) to 31 December 2002	Six months ended 30 June 2003
	HK$'000	*HK$'000*
(Loss)/profit before taxation	(52)	9,440
Depreciation	45	133
Interest income	(1)	(5)
Operating (loss)/profit before working capital changes	(8)	9,568
Increase in accounts receivable	(68)	(6,523)
Increase in prepayment and other current assets	(1)	(220)
Increase in accrued liabilities	51	1,163
Increase in amounts due to related companies	–	635
Net cash (outflow)/inflow from operations	(26)	4,623

(b) Major non-cash transactions

During the period from 31 July 2002 (date of incorporation) to 31 December 2002, fixed assets of approximately HK$1,076,000 were paid by certain related companies on the Company's behalf. Together with fixed assets of approximately HK$90,000 purchased from a third party during the same period, the purchases of fixed assets remained unpaid as at 31 December 2002 amounted to HK$1,166,000 (Note 9).

During the six months ended 30 June 2003, fixed assets of approximately HK$61,000 (Note 17(b)) were purchased from a related company. Together with the HK$90,000 purchases from a third party as mentioned above, the purchases of fixed assets remained unpaid as at 30 June 2003 amounted to HK$151,000 (Note 9).

15. Other commitment

The Company entered into various service agreements with vendors and other business partners, principally for advertising, consulting and customer services. The commitments in relation to such service agreements, which are cancelable by giving either a two-week or one-month notice, as at 30 June 2003, were approximately HK$275,000 and are payable within one year subsequent to 30 June 2003.

16. Contingencies

The Company provides access to songs to users of its IVR services. The Company obtained such songs from an original publisher in China but has not so far paid any separate copyright fees to the original publisher or artists. Should the original song publisher or any artist pursue legal action to obtain fees and damages, there is uncertainty as to whether the Company could ultimately be held liable. In China, the assessment of copyright fees and damages is up to the greater of the actual damages incurred plus three times the revenues earned from the use of the songs or four times the revenues earned from the use of the songs. Management believes that the ultimate liability, if any, with respect to this contingency will not materially affect the Company's financial position, results of operations or cash flows.

A. ACCOUNTANTS' REPORT ON LTWJi *(continued)*

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

17. Related party transactions

Apart from those disclosed above, the Company had undertaken the following significant transactions with its related companies in the normal course of business during the Relevant periods:

	Period from 31 July 2002 (date of incorporation) to 31 December 2002	**Six months ended 30 June 2003**
	HK$'000	*HK$'000*
Service fee to Beijing Redsail Netlegend Data Network Technology Company Limited *(Note (a))*	–	10
Fixed assets purchased from Beijing Victoria Century Investment Consulting Company Limited *(Note (b))*	–	61

Notes:

(a) The Company entered into a service agreement with Beijing Redsail Netlegend Data Network Technology Company Limited ("Redsail"), a company which is under common significant influence as the Company, effective from 3 June 2003 to 3 June 2004. Under the service agreement, Redsail provides customer representative services to the Company at a monthly fee of approximately HK$11,000. During the six months ended 30 June 2003, the Company accrued for such service fees amounting to approximately HK$10,000 payable to Redsail (Note 12).

(b) During the six months ended 30 June 2003, the Company acquired certain fixed assets at fair value from Beijing Victoria Century Investment Consulting Company Limited, a company which is under common ownership with the Company, amounting to approximately HK$61,000. These purchases remained unpaid as at 30 June 2003 (Notes 12 and 14(b)).

18. Subsequent event

On 25 September 2003, an option and pledge agreement signed between Devine Gem and the registered owners of the Company was assigned to Puccini, a company incorporated in the Cayman Islands and wholly-owned by Cranwood Company Limited, a 24.7% Shareholder of TOM. In addition, on the same date, a sale and purchase agreement was entered into between Bright Horizon Enterprises Limited, a wholly-owned subsidiary of TOM and Cranwood Company Limited for the proposed acquisition by TOM of 100% of the beneficial interest in the Company through the acquisition of the entire share capital of Puccini. The consideration should equal the valuation of Puccini, which is determined based on 7.7 times the audited consolidated net profit of Puccini for the year ending 31 December 2004; or in the event that the consolidated net profit of Puccini for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of Puccini for the year ending 31 December 2003, subject to a minimum of HK$37.6 million, the consideration will then be determined based on 6 times the audited consolidated net profit of Puccini for the year ending 31 December 2004. The consideration is subject to a maximum of HK$1,170 million and will be 50% paid in cash and 50% paid by the issue and allotment of shares of TOM Online Inc., a subsidiary of TOM, or TOM if TOM Online Inc. has not been listed before 31 December 2004.

VI. SUBSEQUENT ACCOUNTS

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

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

B. ACCOUNTANTS' REPORT ON PUCCINI

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

3 November 2003

The Directors
TOM.COM LIMITED

Dear Sirs,

We set out below our report on the financial information of Puccini International Limited (the "Company") for the period from 13 March 2000 (date of incorporation) to 31 December 2000, each of the years ended 31 December 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 3 November 2003 in connection with the proposed acquisition by TOM of 100% of the beneficial interest in 北京雷霆無極網絡科技有限公司 (Beijing Leitingwuji Network Technology Company Limited) ("LTWJi") through the acquisition of the entire share capital of the Company pursuant to the sale and purchase agreement dated 25 September 2003 between Cranwood Company Limited, a 24.7% shareholder of TOM, and Bright Horizon Enterprises Limited, a wholly-owned subsidiary of TOM.

The Company was incorporated in the Cayman Islands on 13 March 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company has been dormant since its incorporation.

The Company has adopted 31 December as its financial year end date. No audited statutory financial statements of the Company have been prepared since its date of incorporation. For the purposes of the report, the directors of the Company have prepared financial statements for the Company for the Relevant Periods ("HK GAAP Accounts") in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The directors of the Company are responsible for preparing the HK GAAP Accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. We have performed an independent audit on the HK GAAP Accounts for the Relevant Periods in accordance with Statements of Auditing Standards issued by the HKSA.

B. ACCOUNTANTS' REPORT ON PUCCINI *(continued)*

The financial information set out in sections I to III below ("the Financial Information") have been prepared by the directors of the Company based on the HK GAAP Accounts. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

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 III note 1 below, gives a true and fair view of the state of affairs of the Company as at 31 December 2000, 2001 and 2002 and 30 June 2003.

B. ACCOUNTANTS' REPORT ON PUCCINI *(continued)*

I. BALANCE SHEETS

	Section III		31 December		30 June
		2000	**2001**	**2002**	**2003**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Current assets					
Amount due from a shareholder	2	8	8	8	8
Net assets		8	8	8	8
Financed by:					
Share capital	3	8	8	8	8
Retained earnings		–	–	–	–
Shareholder's funds		8	8	8	8

II. STATEMENTS OF CHANGES IN EQUITY

	Section III	**Period from 13 March 2000 (date of incorporation) to 31 December**	**Year ended 31 December**		**Six months ended 30 June**
		2000	**2001**	**2002**	**2003**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Total equity at the beginning of the period/year		–	8	8	8
Capital contribution	3	8	–	–	–
Net profit for the period/year		–	–	–	–
Total equity at the end of the period/year		8	8	8	8

B. ACCOUNTANTS' REPORT ON PUCCINI *(continued)*

III. NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The Financial Information have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

No profit and loss accounts or earnings per share information have been presented since the Company has engaged in no operations during the Relevant Periods.

2. Amount due from a Shareholder

The amount due from a Shareholder represents the capital contribution receivable for issuance of a share to the Shareholder upon incorporation of the Company. The amount is unsecured, interest-free and without fixed repayment terms.

3. Share capital

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$	*HK$*	*HK$*	*HK$*
Authorised:				
50,000 ordinary shares of US$1 each	390,000	390,000	390,000	390,000
Issued and fully paid:				
Beginning of period/year	–	8	8	8
Issue of ordinary shares	8	–	–	–
End of period/year	8	8	8	8

On the date of incorporation, 1 ordinary share of US$1 (equivalent to HK$8) was issued by the Company at par.

4. Subsequent event

On 25 September 2003, an option and pledge agreement signed between Devine Gem Management Limited ("Devine Gem"), a company under common control, and the registered owners of LTWJi was assigned to the Company by Devine Gem. Under the terms of that agreement, the registered owners of LTWJi agreed to invest in LTWJi on behalf of the Company. In addition, on the same date, a sale and purchase agreement was entered into between Bright Horizon Enterprises Limited, a wholly-owned subsidiary of TOM and Cranwood Company Limited, a 24.7% Shareholder of TOM and the sole Shareholder of the Company, for the proposed acquisition of the entire share capital of the Company by TOM. The consideration should equal the valuation of the Company, which is determined based on 7.7 times the audited consolidated net profit of the Company for the year ending 31 December 2004; or in the event that the consolidated net profit of the Company for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of the Company for the year ending 31 December 2003, subject to a minimum of HK$37.6 million, the consideration will then be determined based on 6 times the audited consolidated net profit of the Company for the year ending 31 December 2004. The consideration is subject to a maximum of HK$1,170 million and will be 50% paid in cash and 50% paid by the issue and allotment of shares of TOM Online Inc., a subsidiary of TOM, or TOM if TOM Online Inc. has not been listed before 31 December 2004.

B. ACCOUNTANTS' REPORT ON PUCCINI *(continued)*

IV. SUBSEQUENT ACCOUNTS

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

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. ADDITIONAL PRO FORMA FINANCIAL INFORMATION ON PUCCINI GROUP (UNAUDITED)

On 25 September 2003, a sale and purchase agreement was entered into between Bright Horizon Enterprises Limited, a wholly-owned subsidiary of TOM, and Cranwood for the proposed acquisition by TOM of 100% of the beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini. Puccini and a wholly-owned subsidiary to be set up by Puccini will, upon the execution of the Contractual Arrangements prior to completion, have control over LTWJi and be able to enjoy the economic benefits of LTWJi.

The following additional pro forma financial information is prepared to illustrate, for information purposes only, the pro forma combined profit and loss accounts of Puccini and LTWJi (together the "Puccini Group") for the year ended 31 December 2002 and for the six months ended 30 June 2003 as well as the pro forma combined net assets of the Puccini Group as at 30 June 2003 for reference of the readers of this Circular. The additional pro forma financial information is not an indication of the actual or future results of the Puccini Group had Puccini had the right to control LTWJi since beginning of periods presented.

1. Basis of preparation

The following are summaries of the unaudited statements of pro forma combined profit and loss accounts and pro forma combined net assets of the Puccini Group, prepared based on the financial information of Puccini and LTWJi for the year ended 31 December 2002 and as of and for the six months ended 30 June 2003, as extracted from the accountants' reports set out in Appendices IIIA and IIIB of this Circular.

2. Unaudited pro forma combined profit and loss accounts of the Puccini Group

	Year ended 31 December 2002		
	Puccini	**LTWJi**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	79	79
Cost of services	–	(85)	(85)
Gross loss	–	(6)	(6)
Interest income	–	1	1
General and administrative expenses	–	(47)	(47)
Loss before taxation	–	(52)	(52)
Taxation	–	–	–
Loss after taxation	–	(52)	(52)

C. ADDITIONAL PRO FORMA FINANCIAL INFORMATION ON PUCCINI GROUP (UNAUDITED) *(continued)*

2. Unaudited pro forma combined profit and loss accounts of the Puccini Group *(continued)*

	Six months ended 30 June 2003		
	Puccini	**LTWJi**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	12,476	12,476
Cost of services	–	(1,120)	(1,120)
Gross profit	–	11,356	11,356
Interest income	–	5	5
Selling and marketing expenses	–	(1,583)	(1,583)
General and administrative expenses	–	(338)	(338)
Profit before taxation	–	9,440	9,440
Taxation	–	(3,115)	(3,115)
Profit after taxation	–	6,325	6,325

3. Unaudited pro forma combined net assets of the Puccini Group as at 30 June 2003

	Puccini	**LTWJi**	**Combined**
	HK$'000	*HK$'000*	*HK$'000*
Fixed assets	–	1,987	1,987
Current assets	–	10,341	10,341
Current liabilities	–	(5,115)	(5,115)
Net current assets	–	5,226	5,226
Net assets	–	7,213	7,213

Note: There were no inter-company balances between Puccini and LTWJi as at 30 June 2003.

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

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

3 November 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 3 November 2003 (the "Circular"), in connection with the proposed acquisition by TOM of 100% of the beneficial interest in 北京雷霆無極網絡科技有限公司(Beijing Leitingwuji Network Technology Company Limited) ("LTWJi") through the acquisition of the entire share capital of Puccini International Limited ("Puccini") pursuant to the sale and purchase agreement dated 25 September 2003 between Cranwood Company Limited, a 24.7% shareholder of TOM, and Bright Horizon Enterprises Limited, a wholly owned subsidiary of 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 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.

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 3 November 2003 set out in Appendix II of the Circular, the Accountants' Report on LTWJi dated 3 November 2003 set out in section A of Appendix III of the Circular, the Accountants' Report on Puccini dated 3 November 2003 set out in section B of Appendix III of the Circular, and the financial information of China Entertainment Television Broadcast Limited and its subsidiary (collectively "CETV") set out in section F of Appendix VI of the Circular, for illustrative purposes only and, because of its nature, it may not give indicative financial position or results of:

(a) TOM group had LTWJi, Puccini and 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

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

(A). Pro forma combined profit and loss accounts of enlarged TOM group

		Year ended 31 December			Six months ended 30 June	
		2000	2001	2002	2002	2003
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	3	89,223	635,636	1,627,715	680,245	884,769
Cost of sales		56,134	526,092	1,052,628	458,673	533,748
Other revenues	3	(80,675)	(23,183)	(5,910)	(3,251)	(1,219)
Selling and marketing expenses		124,041	100,491	185,513	92,795	98,653
Administrative expenses		166,524	180,457	287,907	124,851	128,145
Other operating income		(18,273)	(9,828)	–	–	–
Other operating expenses		268,896	215,710	351,244	144,993	194,347
Operating loss	4	427,424	354,103	243,667	137,816	68,905
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		6,230	3,164	(20)	312	(732)
Loss before taxation		1,330,086	742,578	502,770	169,964	90,130
Taxation	8	3,147	18,692	29,257	23,963	5,072
Loss after taxation		1,333,233	761,270	532,027	193,927	95,202
Minority interests		(10,546)	7,185	28,555	2,230	4,523
Loss for the year/period		1,322,687	768,455	560,582	196,157	99,725

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

(B). Pro forma combined balance sheets of enlarged TOM group

		31 December			30 June
		2000	**2001**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Fixed assets	13	254,301	196,182	256,893	258,619
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 controlled entities	16	27,540	125,632	35,510	16,407
Interests in associated companies	17	5,084	3,741	4,601	3,472
Investment securities	18	10,522	37,005	126,406	127,302
		593,940	836,244	1,491,294	1,498,224
Current assets					
Inventories	19	1,407	92,676	108,260	98,647
Trade and other receivables	20	104,035	523,845	653,053	769,619
Bank balances and cash	28(a)	934,754	240,682	330,740	346,004
		1,040,196	857,203	1,092,053	1,214,270
Current liabilities					
Consideration payables – current	21	517,279	268,609	431,478	520,061
Trade and other payables	22	334,788	501,147	632,058	674,135
Obligation under finance leases		49	–	–	–
Taxation payable		3,147	64,376	68,548	56,997
Long-term liabilities – current	24	–	12,228	561	3,045
Short-term loans	23	1,410	48,405	14,338	82,279
		856,673	894,765	1,146,983	1,336,517
Net current assets/(liabilities)		183,523	(37,562)	(54,930)	(122,247)
Total assets less current liabilities		777,463	798,682	1,436,364	1,375,977
Non-current liabilities					
Consideration payables – 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
		95,157	373,843	1,399,164	1,338,389
Minority interests		1,003	84,158	153,784	160,614
Net assets/(liabilities) and Shareholders' funds/(deficits)		681,303	340,681	(116,584)	(123,026)

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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total (deficit)/equity as at 1 January	(397,134)	681,303	340,681	340,681	(116,584)
Disposal of a subsidiary	–	150	–	–	–
Investment revaluation deficits	–	–	–	(1,796)	–
Exchange differences	(253)	(519)	(255)	5,491	683
Net (loss)/profit not recognised in the pro forma combined profit and loss accounts	(253)	(369)	(255)	3,695	683
Issuance of shares by capitalisation of Shareholders' loans	501,709	–	–	–	–
Issuance of shares to/capital contribution from the then Shareholders and investors for cash	141,405	–	470	–	470
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)	(560,582)	(196,157)	(99,725)
Contribution from owners	325,067	–	–	–	–
Own shares held	–	(1,091)	(4,137)	(4,137)	(857)
Total equity/(deficit) as at 31 December/30 June	681,303	340,681	(116,584)	194,791	(123,026)

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 2000 HK$'000	Year ended 31 December 2001 HK$'000	Year ended 31 December 2002 HK$'000	Six months ended 30 June 2002 HK$'000	Six months ended 30 June 2003 HK$'000
Net cash outflow from operations	27(a)	(393,780)	(461,007)	(178,080)	(220,682)	(25,682)
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		(394,704)	(465,674)	(225,947)	(243,797)	(56,010)
Investing activities						
Interest received		80,634	22,528	22,632	21,757	2,236
Capital expenditure		(231,244)	(93,682)	(206,301)	(88,916)	(60,449)
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		(296,355)	(511,191)	(541,695)	(335,756)	(47,473)
Net cash used before financing		(691,059)	(976,865)	(767,642)	(579,553)	(103,483)
Financing						
Issuance of ordinary shares/ capital contribution, net of issuing expenses	27(d)	1,397,445	12,912	19,762	19,478	392
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		1,609,824	282,793	857,700	598,426	118,747
Increase/(decrease) in bank balances and cash		918,765	(694,072)	90,058	18,873	15,264
Bank balances and cash at 1 January		15,989	934,754	240,682	240,682	330,740
Bank balances and cash at 31 December/30 June		934,754	240,682	330,740	259,555	346,004

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"), China Entertainment Television Broadcast Limited and its subsidiary ("CETV"), Puccini International Limited ("Puccini") and 北京雷霆無極網絡科技有限公司 (Beijing Leitingwuji Network Technology Company Limited) ("LTWJi") (collectively the "enlarged TOM group").

On 2 July 2003, the TOM group entered into a share purchase agreement with Turner Broadcasting System Asia Pacific Inc. ("TBSAP"), a third party, in respect of the proposed acquisition by TOM of 64.07% of the issued share capital of CETV by the issuance of 21,250,000 shares of TOM. The acquisition was completed on 15 September 2003 and CETV became a subsidiary of TOM on the same date and has been consolidated into TOM group's accounts thereafter (see further details in Note 32(a)).

On 25 September 2003, the TOM group entered into a sale and purchase agreement with Cranwood Company Limited ("Cranwood"), a 24.7% shareholder of TOM, in respect of the proposed acquisition by TOM of 100% of the beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini (see further details in Note 32(f)).

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 set out on pages 158 to 216 (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 CETV, Puccini and LTWJi have been part of the TOM group 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 set out in Appendix II of the Circular, the Accountants' Report on LTWJi set out in section A of Appendix III of the Circular, the Accountants' Report on Puccini set out in section B of Appendix III of the Circular and the financial information of CETV set out in Section F of Appendix VI of the Circular.

Because of its nature, the Pro Forma Combined Financial Information of the enlarged TOM group may not give an indicative financial position or results of TOM group had LTWJi, Puccini and 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 acquisitions will be accounted for under acquisition accounting in the consolidated accounts of the enlarged TOM group subsequent to the acquisitions. Under acquisition accounting, the consolidated accounts of the enlarged TOM group will be adjusted as follows:

(a) The results of LTWJi, Puccini and CETV will only be reflected in the consolidated profit and loss account of the enlarged TOM group from the respective dates of acquisition;

(b) The results of LTWJi, Puccini and CETV up to the respective dates of acquisition will be recognised as pre-acquisition reserves;

(c) All assets and liabilities of LTWJi, Puccini and CETV will be recorded at their respective fair values as at the respective dates of acquisition; and

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

(E). Notes to the pro forma combined financial information *(Continued)*

1. Basis of preparation *(Continued)*

(d) Estimated goodwill of approximately HK$1,168,787,000 and HK$86,751,000 resulting from the completion of the acquisition of Puccini and CETV, respectively, will be recorded in the consolidated balance sheet of the enlarged TOM group at the respective dates of acquisition and 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 estimated goodwill arising from the acquisition of Puccini is calculated based on the maximum consideration of HK$1,170 million and the related expenses of HK$6 million. The directors of TOM will determine the amortisation periods of the estimated goodwill upon the completion of the acquisitions. For illustrative purposes and assuming a 20-year amortisation period, the resulting annual amortisation charge of goodwill arising from the acquisition of Puccini and CETV would be approximately HK$58,439,000 and HK$4,338,000, respectively.

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.

(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.

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)*

(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$^1/_3$%
Computer software	20%
Studio and broadcasting equipment	20%
Outdoor signboards	5 – 20%
Office equipment, furniture, fixtures and motor vehicles	10 – 33$^1/_3$%

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.

(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. 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.

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)*

(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.

(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 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 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.

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

(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.

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 of 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.

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)*

(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.

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, including interactive voice response ("IVR") services and short messaging services ("SMS") 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.

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)*

(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.

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 telecommunication value-added services, advertising sales of outdoor media assets, 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-video products and broadcasting of television programmes.

Turnover and 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					
Provision of telecommunication value-added services including IVR and SMS services, online advertising, commercial enterprise solutions and Internet access	54,865	143,890	255,879	109,565	230,994
Advertising sales of outdoor media assets and provision of outdoor media services	–	117,477	247,895	76,115	141,455
Magazine and book circulation, sales of publication and other related products	–	168,286	741,258	366,609	360,237
Event organisation, advertising and sponsorship sales, sports television programme production and syndication, home video products distribution and television channel operations	34,358	205,983	382,683	127,956	152,083
	89,223	635,636	1,627,715	680,245	884,769
Other revenues					
Interest income	80,634	23,076	5,868	3,209	1,219
Others	41	107	42	42	–
	80,675	23,183	5,910	3,251	1,219
Total revenues	169,898	658,819	1,633,625	683,496	885,988

Primary reporting format – business segments

The enlarged TOM group is organised into four main business segments:

- Internet Group – provision of telecommunication value-added services including IVR and SMS services, online advertising, commercial enterprise solutions and Internet access.
- Outdoor Media Group – advertising sales of outdoor media assets and provision of outdoor media services
- Publishing Group – magazine and book circulation, sales of publication advertising and other related products.
- Sports & Entertainment Group – event organisation, advertising and sponsorship sales, sports television programme production and syndication, home video products distribution and television channel operations.

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)*

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 group and sports & entertainment group
Mainland China	–	internet group, outdoor media group and sports & entertainment group
Taiwan	–	publishing group
Asia Pacific region	–	sports & entertainment group

There are no significant sales between the geographical segments.

Primary reporting format – business segments

Year ended 31 December 2000

	Internet group *HK$'000*	Outdoor media group *HK$'000*	Sports & entertainment group *HK$'000*	Total *HK$'000*
Turnover	54,865	–	34,358	89,223
Segment loss before amortisation and depreciation	279,496	–	37,892	317,388
Amortisation and depreciation	61,648	–	4,011	65,659
Segment loss	341,144	–	41,903	383,047
Unallocated costs				44,377
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	–	–	6,230
Loss before taxation				1,330,086
Taxation				3,147
Loss after taxation				1,333,233
Minority interests				(10,546)
Loss for the year				1,322,687
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				821,627
Total assets				1,634,136
Segment liabilities	138,595	18,721	215,782	373,098
Unallocated liabilities				578,732
Minority interests				1,003
Total liabilities				952,833
Capital expenditure	217,809	–	13,435	231,244

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 group HK$'000	Outdoor media group HK$'000	Publishing group HK$'000	Sports & entertainment group HK$'000	Total HK$'000
Turnover	143,890	117,477	168,286	205,983	635,636
Segment loss/(profit) before 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 of fixed assets	49,540	–	–	–	49,540
Restructuring costs	8,527	–	–	–	8,527
Share of losses of jointly 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 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

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

	Internet group	Outdoor media group	Publishing group	Sports & entertainment group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	255,879	247,895	741,258	382,683	1,627,715
Segment loss/(profit) before amortisation and depreciation	22,811	(77,285)	(70,484)	41,779	(83,179)
Amortisation and depreciation	68,483	33,236	40,779	35,241	177,739
Segment loss/(profit)	91,294	(44,049)	(29,705)	77,020	94,560
Unallocated costs					149,107
Operating loss					243,667
Finance costs					32,430
Provision for impairment of goodwill	100,100	67,008	30,000	–	197,108
Share of losses of jointly controlled entities	29,585	–	–	–	29,585
Share of profits less losses of associated companies	1,185	–	(1,205)	–	(20)
Loss before taxation					502,770
Taxation					29,257
Loss after taxation					532,027
Minority interests					28,555
Loss attributable to Shareholders					560,582
Segment assets	278,912	673,666	998,821	334,311	2,285,710
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					131,120
Total assets					2,583,347
Segment liabilities	76,236	99,861	292,895	508,086	977,078
Unallocated liabilities					1,569,069
Minority interests					153,784
Total liabilities					2,699,931
Capital expenditure	62,013	52,368	13,916	72,837	201,134
Unallocated capital expenditure					6,333
					207,467

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

	Internet group	Outdoor media group	Publishing group	Sports & entertainment group	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	109,565	76,115	366,609	127,956	680,245
Segment loss/(profit) before amortisation and depreciation	28,994	(18,580)	(47,455)	37,191	150
Amortisation and depreciation	32,262	11,789	19,673	15,661	79,385
Segment loss/(profit)	61,256	(6,791)	(27,782)	52,852	79,535
Unallocated costs					58,281
Operating loss					137,816
Finance costs					14,675
Share of losses of jointly controlled entities	17,161	–	–	–	17,161
Share of profits less losses of associated companies	1,010	–	(698)	–	312
Loss before taxation					169,964
Taxation					23,963
Loss after taxation					193,927
Minority interests					2,230
Loss for the period					196,157
Capital expenditure	44,223	15,383	6,743	20,678	87,027
Unallocated capital expenditure					1,889
					88,916

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 group *HK$'000*	**Outdoor media group** *HK$'000*	**Publishing group** *HK$'000*	**Sports & entertainment group** *HK$'000*	**Total** *HK$'000*
Turnover	230,994	141,455	360,237	152,083	884,769
Segment (profit)/loss before amortisation and depreciation	(83,897)	(36,855)	(25,533)	39,422	(106,863)
Amortisation and depreciation	30,018	21,206	19,599	30,067	100,890
Segment (profit)/loss	(53,879)	(15,649)	(5,934)	69,489	(5,973)
Unallocated costs					74,878
Operating loss					68,905
Finance costs					16,959
Share of losses of jointly controlled entities	4,998	–	–	–	4,998
Share of profits less losses of associated companies	69	–	(801)	–	(732)
Loss before taxation					90,130
Taxation					5,072
Loss after taxation					95,202
Minority interests					4,523
Loss for the period					99,725
Segment assets	352,236	740,364	1,003,988	338,376	2,434,964
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					130,349
Total assets					2,712,494
Segment liabilities	93,623	101,239	288,852	603,247	1,086,961
Unallocated liabilities					1,587,945
Minority interests					160,614
Total liabilities					2,835,520
Capital expenditure	23,712	20,070	3,228	13,559	60,569
Unallocated capital expenditure					1,360
					61,929

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	796,764	298,559	506,957	59,729	(22,399)	(99,737)	(9,780)	(134,576)
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
	89,223	635,636	1,627,715	680,245	884,769	317,388	101,392	(83,179)	150	(106,863)
Amortisation and depreciation						65,659	129,174	177,739	79,385	100,890
Unallocated costs						44,377	123,537	149,107	58,281	74,878
Operating loss						427,424	354,103	243,667	137,816	68,905

	Total assets				Capital expenditure			
	31 December			30 June	31 December			30 June
	2000	2001	2002	2003	2000	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	1,037,600	322,664	253,390	218,026	201,883	15,832	3,949	1,451
Mainland China	576,166	717,825	1,314,131	1,473,566	15,926	43,732	150,731	44,393
Taiwan	–	626,954	987,477	998,629	–	3,501	13,184	3,188
Asia Pacific region	20,370	26,004	28,349	22,273	13,435	30,617	39,603	12,897
Total	1,634,136	1,693,447	2,583,347	2,712,494	231,244	93,682	207,467	61,929

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*
Crediting:					
Forfeiture of amounts due to creditors	9,712	–	–	–	–
Forfeiture of amounts due to directors	8,561	–	–	–	–
Write-back of unrealized airtime deposit	–	8,313	–	–	–
Charging:					
Depreciation					
– Owned fixed assets	38,890	93,355	106,637	48,915	55,801
– 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) *(Note 11)*	133,228	222,532	321,920	148,510	217,419
Cost of inventories	–	92,175	423,173	97,005	252,872
Operating leases					
– Land and buildings	22,858	26,506	48,577	17,360	21,497
– Transmitting equipment	25,832	27,364	27,013	13,521	13,437
– Other assets	–	1,448	35,654	1,258	22,557
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	–

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	–	–	–
Total borrowing costs incurred	13,314	10,452	32,430	14,675	16,959

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

(E). Notes to the pro forma combined financial information *(Continued)*

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.

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 ended 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	40,479	18,466	14,898
Over-provision in prior years	–	–	(11,081)	–	(1,637)
Deferred taxation *(Note 26(c))*	–	854	(6,239)	4,704	(8,189)
	3,147	18,692	29,257	23,963	5,072

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.

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

(E). Notes to the pro forma combined financial information *(Continued)*

8. Taxation *(Continued)*

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 ended 30 June	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss before taxation	(1,330,086)	(742,578)	(502,770)	(169,964)	(90,130)
Calculated at a taxation rate of 17.5% (2002: 16%, 2001: 16%, 2000: 16%)	(212,813)	(118,813)	(80,443)	(27,194)	(15,773)
Effect of different taxation rates in other countries	2,750	4,292	(11,863)	8,151	(24,463)
Income not subject to taxation	(12,740)	(3,808)	(3,274)	(932)	(1,871)
Expenses not deductible for taxation purposes	145,742	49,436	43,658	10,461	13,899
Withholding tax	–	854	9,147	4,704	3,141
Utilisation of previously unrecognised tax losses	–	–	(137)	–	(2,902)
Tax losses not recognised	80,208	86,731	72,169	28,773	33,041
Taxation charge	3,147	18,692	29,257	23,963	5,072

9. Dividends

No dividend had been paid or declared by TOM, LTWJi, Puccini 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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Wages and salaries	129,634	212,100	309,912	141,994	207,873
Pension costs – defined contribution plans	3,594	7,267	6,846	3,935	3,807
Pension costs – defined benefit plans *(Note 25(b))*	–	3,165	5,162	2,581	4,437
Other long-term employee benefits	–	–	–	–	1,302
	133,228	222,532	321,920	148,510	217,419

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

(E). Notes to the pro forma combined financial information *(Continued)*

11. Staff costs, including directors' emoluments *(Continued)*

The TOM group's Hong Kong employees are members of a defined contribution retirement benefit 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 bureax 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.

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**
	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 TOM	436	468	581	289	274
	17,390	16,231	13,346	4,249	7,235

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)*

(a) Directors' emoluments (Continued)

Details of the emoluments of individual directors 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*
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
	17,390	16,231	13,346	4,249	7,235

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 Puccini and CETV was a director of the TOM group.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the enlarged TOM group are as follows:

	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

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)*

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	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
	6,006	8,979	9,460	7,137	3,563

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

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
Emolument bands	**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	–

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	Leasehold improvements	Computer equipment and software	Studio and broadcasting equipment	Outdoor signboards	Other assets	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 *(Note 27(b))*	–	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 *(Note 27(b))*	–	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	77,316	364	14,760	7,268	17,410	124,299
Acquisition of subsidiaries *(Note 27(b))*	–	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 *(Note 27(c))*	–	–	(504)	–	(16,035)	(309)	(8,448)	(25,296)
At 31 December 2002	12,919	44,513	349,753	6,087	128,101	57,761	1,673	600,807
Exchange adjustment	5	225	124	–	–	167	–	521
Additions	–	1,598	27,811	977	10,314	2,121	2,622	45,443
Acquisition of subsidiaries *(Note 27(b))*	–	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 *(Note 27(c))*	–	(509)	(16,658)	–	–	(116)	–	(17,283)
At 30 June 2003	12,924	46,616	384,763	7,064	140,115	60,554	2,342	654,378

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 *HK$'000*	Leasehold improvements *HK$'000*	Computer equipment and software *HK$'000*	Studio and broadcasting equipment *HK$'000*	Outdoor signboards *HK$'000*	Other assets *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Accumulated depreciation and impairment losses								
At 1 January 2000	–	1,994	10,807	8,578	–	2,459	–	23,838
Acquisition of subsidiaries *(Note 27(b))*	–	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 subsidiaries *(Note 27(b))*	–	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 subsidiaries *(Note 27(b))*	–	769	12,911	–	8,480	5,966	–	28,126
Charge for the year	260	6,750	77,246	1,176	13,941	7,264	–	106,637
Disposals/write-off	–	(3,494)	(7,013)	–	(564)	(3,972)	–	(15,043)
Deconsolidation of a subsidiary *(Note 27(c))*	–	–	(341)	–	(4,381)	(55)	–	(4,777)
At 31 December 2002	392	26,126	243,335	2,396	40,237	31,428	–	343,914
Exchange adjustment	–	109	77	–	–	–	–	186
Acquisition of subsidiaries *(Note 27(b))*	–	104	12,530	–	–	480	–	13,114
Charge for the period	233	3,764	39,620	651	7,206	4,327	–	55,801
Disposals/write-off	–	–	(215)	–	(110)	(686)	–	(1,011)
Disposal of a subsidiary *(Note 27(c))*	–	(506)	(15,677)	–	–	(62)	–	(16,245)
At 30 June 2003	625	29,597	279,670	3,047	47,333	35,487	–	395,759
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	106,418	3,691	87,864	26,333	1,673	256,893
At 30 June 2003	12,299	17,019	105,093	4,017	92,782	25,067	2,342	258,619

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:

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	–	11,927	12,527	12,299

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

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Concession rights *(Note a)*	–	13,764	43,348	44,012
Copyrights *(Note a)*	–	–	39,523	27,173
Purchased program and film rights *(Note a)*	2,670	6,641	15,204	10,758
Publishing rights *(Note a)*	–	–	1,911	1,514
Loan to a related company *(Note b)*	–	13,260	–	–
Pension assets *(Note 25(a))*	–	–	1,349	1,349
Deferred tax assets *(Note 26(a))*	–	–	12,650	24,052
	2,670	33,665	113,985	108,858

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 rights *HK$'000*	Copyrights *HK$'000*	Purchased program and film rights *HK$'000*	Publishing rights *HK$'000*	Total *HK$'000*
Cost					
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 *(Note 27(b))*	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
Accumulated amortisation					
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 *(Note 27(b))*	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
Net book value:					
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

(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 interests in the subsidiary and a corporate guarantee provided by the minority's Shareholder. The loan was subsequently fully provided for in 2002.

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

(E). Notes to the pro forma combined financial information *(Continued)*

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	–	–
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	–
At 31 December/30 June	25,914	327,265	562,447	588,624
Net book value				
At 31 December/30 June	293,823	440,019	953,899	983,566

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	–	–
	16,269	59,228	35,510	16,407
Loans to jointly controlled entities	11,271	87,755	–	–
Less: provisions	–	(21,351)	–	–
	27,540	125,632	35,510	16,407

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).

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

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
Share of net assets – unlisted shares	5,084	3,741	4,601	3,472

18. Investment securities

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

The loans and advances to investee companies as at 30 June 2003 were unsecured, of which amounts totaling 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

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'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
	1,407	92,676	108,260	98,647

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).

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

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables *(Note a)*	44,586	259,148	383,382	447,375
Prepayments, deposits and other receivables *(Note b)*	59,449	264,697	269,671	322,244
	104,035	523,845	653,053	769,619

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 receivable is as follows:

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	14,330	103,390	202,517	152,168
31 – 60 days	14,049	39,209	76,475	122,057
61 – 90 days	15,592	27,592	37,606	53,452
Over 90 days	615	88,957	66,784	119,698
	44,586	259,148	383,382	447,375

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

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hutchison Whampoa Limited ("HWL") and Cheung Kong Holdings Limited ("CKH"), substantial Shareholders of TOM	–	–	674	483
Minority Shareholders of subsidiaries of the TOM	–	–	33,245	50,043
Shareholders of investee companies	–	7,833	7,833	–
An associated company	–	–	–	209
	–	7,833	41,752	50,735

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)*

Notes: (Continued)

(b) Included in prepayments, deposits and other receivables are balances with related companies as follows:

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Jointly controlled entities	1,669	10,308	1,706	4,401
Associated companies	560	516	68	230
Related companies				
– HWL, CKH and Cranwood, substantial Shareholders 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 System Asia Pacific, Inc. ("TBSAP") at CETV	–	4,517	4,636	–
	3,137	33,949	49,584	47,866

The balances due from jointly controlled entities and associated companies represent expenses paid by the enlarged TOM group on behalf of the jointly controlled entities and associated 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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Acquisition of subsidiaries *(Note a)*	322,279	94,729	367,148	336,621
Acquisition of an investment security *(Note b)*	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.

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

(E). Notes to the pro forma combined financial information *(Continued)*

21. Consideration payables *(Continued)*

Note: (Continued)

(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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables *(Note a)*	87,000	188,754	207,069	237,209
Other payables and accruals *(Note b)*	247,788	312,393	424,989	436,926
	334,788	501,147	632,058	674,135

Note:

(a) The ageing analysis of the enlarged TOM group's trade payables is as follows:

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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
	87,000	188,754	207,069	237,209

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

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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
	22,249	6,232	56,672	54,407

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

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

(E). Notes to the pro forma combined financial information *(Continued)*

23. Short-term loans

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
Bank loans				
Secured	–	29,979	3,164	53,922
Unsecured	1,410	2,522	9,400	27,454
	1,410	32,501	12,564	81,376
Other loans				
Secured	–	13,486	876	–
Unsecured	–	2,418	898	903
	–	15,904	1,774	903
	1,410	48,405	14,338	82,279

24. Other long-term liabilities

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
Long-term bank loans *(Note a)*	–	14,451	2,804	2,532
Loans from Shareholders *(Note b)*	–	100,000	850,000	850,000
Loans from third parties *(Note c)*	6,837	7,090	7,351	7,478
Loans from minority Shareholders *(Note d)*	88,320	230,036	381,187	438,670
Pension obligations *(Note 25(a))*	–	10,653	18,566	18,856
	95,157	362,230	1,259,908	1,317,536
Less: current portion of long-term liabilities *(Note a, Note c)*	–	(12,228)	(561)	(3,045)
	95,157	350,002	1,259,347	1,314,491

Note:

(a) Long-term bank loans

	31 December 2000 HK$'000	31 December 2001 HK$'000	31 December 2002 HK$'000	30 June 2003 HK$'000
Secured	–	14,451	559	559
Unsecured	–	–	2,245	1,973
	–	14,451	2,804	2,532

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)*

(a) Long-term bank loans *(Continued)*

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	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 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.

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:

	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 year	6,837	7,090	3,359	1,679
	6,837	7,090	7,351	7,478

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 was repaid by TBSAP on behalf of CETV on the completion date of the acquisition on 15 September 2003.

(d) Loans from minority Shareholders

Except for an unsecured loan from a minority Shareholder, TBSAP in the amounts of HK$438,670,000 (31 December 2002, 2001, 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 unsecured and interest free. All loans from minority Shareholders are 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 was released by TBSAP upon the completion of the acquisition on 15 September 2003.

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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Present value of funded obligations	–	12,569	29,805	29,805
Fair value of plan assets	–	(1,472)	(9,536)	(9,536)
Deficits	–	11,097	20,269	20,269
Unrecognised actuarial losses	–	(444)	(3,052)	(3,052)
Exchange adjustment	–	–	–	290
Recognised in the pro forma combined balance sheets	–	10,653	17,217	17,507
Represented by:				
Pension assets *(Note 14 and Note c)*	–	–	(1,349)	(1,349)
Pension obligations *(Note 24 and Note d)*	–	10,653	18,566	18,856
	–	10,653	17,217	17,507

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)*

(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**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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)	–
Total, included in staff cost *(Note 11)*	–	3,165	5,162	2,581	4,437
Represented by:					
Pension assets *(Note c)*	–	–	913	–	1,752
Pension obligations *(Note d)*	–	3,165	4,249	2,581	2,685
	–	3,165	5,162	2,581	4,437
Actual return on plan assets:					
Recognised as an asset	–	(16)	–	–	–
Recognised as a liability	–	–	407	204	365

(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 *(Note b)*	–	–	913	1,752
Contributions paid	–	–	(2,262)	(1,752)
At 31 December/30 June	–	–	(1,349)	(1,349)

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)*

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

	31 December 2000 *HK$'000*	31 December 2001 *HK$'000*	31 December 2002 *HK$'000*	30 June 2003 *HK$'000*
At 1 January	–	–	10,653	18,566
Exchange adjustment	–	–	–	104
Acquisition of subsidiaries *(Note 27(b))*	–	8,080	4,795	–
Total expenses *(Note b)*	–	3,165	4,249	2,685
Contributions paid	–	(592)	(1,131)	(2,499)
At 31 December/30 June	–	10,653	18,566	18,856

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

	31 December 2000	31 December 2001	31 December 2002	30 June 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%

26. Deferred taxation

(a) Deferred tax assets

	31 December 2000 *HK$'000*	31 December 2001 *HK$'000*	31 December 2002 *HK$'000*	30 June 2003 *HK$'000*
At 1 January	–	–	–	12,650
Credited to pro forma combined profit and loss accounts *(Note c)*	–	–	12,650	11,330
Exchange adjustment	–	–	–	72
At 31 December/30 June *(Note 14)*	–	–	12,650	24,052
Amount to be recovered after more than one year	–	–	–	2,476

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)*

(b) Deferred tax liabilities

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	–	–	2,721	9,147
Acquisition of subsidiaries *(Note 27(b))*	–	1,887	–	–
Charged to pro forma combined profit and loss accounts *(Note c)*	–	854	6,411	3,141
Exchange adjustment	–	(20)	15	50
At 31 December/30 June	–	2,721	9,147	12,338
Amount to be recovered after more than one year	–	2,721	9,147	12,338

(c) Deferred taxation charged/(credited) to pro forma combined profit and loss accounts

	Year ended 31 December			Six months ended 30 June	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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 pro forma combined profit and loss account *(Note 8)*	–	854	(6,239)	4,704	(8,189)

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

Deferred tax assets

	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2000	1,458	–	1,458
Credited to pro forma combined profit and loss account	19,008	–	19,008
At 31 December 2000	20,466	–	20,466
Charged to pro forma combined profit and loss account	(10,503)	–	(10,503)
At 31 December 2001	9,963	–	9,963
(Charged)/credited to pro forma combined profit and loss account	(6,093)	12,650	6,557
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	–	72	72
At 30 June 2003	4,084	21,837	25,921

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 in respect of companies established in the PRC and Taiwan will expire according to the relevant tax laws and regulations. The tax losses in respect of companies established in Hong Kong have no expiry date.

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 depreciation *HK$'000*	Others *HK$'000*	Total *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 *(Note 27(b))*	–	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$38,220,000 (31 December 2002, 2001 and 2000: HK$24,121,000, HK$4,827,000, HK$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$191,098,000 (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 *HK$'000*	2001 *HK$'000*	2002 *HK$'000*	2003 *HK$'000*
Deferred tax assets	–	–	12,650	24,052
Deferred tax liabilities	–	(2,721)	(9,147)	(12,338)
	–	(2,721)	3,503	11,714

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 ended 30 June	
	2000	**2001**	**2002**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating loss	(427,424)	(354,103)	(243,667)	(137,816)	(68,905)
Restructuring costs	(37,717)	(8,527)	–	–	–
Provision for diminution in value of investment securities	7,190	6,334	–	132	–
Provision for loan to a related company	–	–	13,260	–	–
Amortisation and depreciation	65,659	139,408	191,874	86,093	111,178
Loss on disposals/write-off of fixed assets	20,684	8,254	1,418	225	311
Loss on disposal of other non-current assets	–	–	–	–	3,823
Gain on disposal of a subsidiary	–	(13)	–	–	(856)
Gain on disposal of other investment	–	–	(30)	–	–
Forfeiture of amounts due to creditors	(9,712)	–	–	–	–
Forfeiture of amounts due to directors	(8,561)	–	–	–	–
Operating (loss)/profit before working capital changes	(389,881)	(208,647)	(37,145)	(51,366)	45,551
Increase in pension assets	–	–	(1,349)	–	–
(Increase)/decrease in inventories	(838)	2,486	7,027	(6,592)	10,154
Decrease/(increase) in trade and other receivables	22,648	(126,808)	(130,341)	(128,014)	(117,166)
Increase/(decrease) in trade and other payables	55,178	(106,528)	(11,132)	(37,318)	36,260
Increase in pension obligations	–	2,697	3,218	1,013	185
Interest income	(80,634)	(23,076)	(5,868)	(3,209)	(1,219)
Exchange adjustment	(253)	(1,131)	(2,490)	4,804	553
Net cash outflow from operations	(393,780)	(461,007)	(178,080)	(220,682)	(25,682)

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 asset	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)	–
	1,771	87,287	103,022	86,742	31,317
Goodwill					
– included in intangible assets	10,173	446,240	749,049	490,082	6,110
– eliminated against reserve	1,039,077	–	–	–	–
	1,051,021	533,527	852,071	576,824	37,427
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	–
	1,051,021	533,527	852,071	576,824	37,427

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	(5,674)	92,482	152,887	99,624	31,318

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

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	–	–	–
	–	150	11,126	–	1,775
Profit on disposal	–	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	–	–	(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 enlarged TOM group's ability to exercise control over its operations. The subsidiary was reclassified as an investment security of the 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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders and other loans	Obligations under finance leases	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2000	52,743	–	362,877	17,666	645	–	433,931
Issuance of ordinary shares, 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 Shareholder	–	–	–	–	–	172	172
Net cash from/(used in) 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' loans	501,709	–	(501,709)	–	–	–	–
Shares issued for acquisition of subsidiaries, jointly controlled entities and associated companies	714,416	–	–	–	–	–	714,416
Goodwill eliminated against reserves	(536,484)	–	–	–	–	–	(536,484)
Minority's share of losses of subsidiaries	–	–	–	–	–	(10,546)	(10,546)
Minority's share of net assets of subsidiaries	–	–	–	–	–	10,173	10,173
Acquisition of subsidiaries *(Note 27(b))*	–	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

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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders and other loans	Obligations under finance leases	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	2,129,053	1,410	–	95,157	49	1,003	2,226,672
Issuance of ordinary shares, 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 a minority Shareholder	–	–	–	–	–	7,064	7,064
Net cash from 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 of subsidiaries	416,381	–	–	–	–	–	416,381
Minority's share of profits of subsidiaries	–	–	–	–	–	7,185	7,185
Acquisition of subsidiaries *(Note 27(b))*	–	17,585	–	14,257	–	68,993	100,835
Disposal of a subsidiary *(Note 27(c))*	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

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)

	Capital including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders and other loans	Obligations under finance leases	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	2,557,405	46,952	100,000	253,030	–	84,158	3,041,545
Issuance of ordinary shares/ capital contribution, net of issuing expenses	19,762	–	–	–	–	–	19,762
New bank and other loans	–	14,966	750,000	138,475	–	–	903,441
Loan repayments	–	(46,692)	–	(17,045)	–	–	(63,737)
Contribution from minority Shareholders	–	–	–	–	–	1,410	1,410
Dividends paid to minority Shareholders	–	–	–	–	–	(3,176)	(3,176)
Net cash from/(used in) financing activities	19,762	(31,726)	750,000	121,430	–	(1,766)	857,700
Accrued interest	–	–	–	13,351	–	–	13,351
Shares issued for acquisition of subsidiaries	87,947	–	–	–	–	–	87,947
Minority's share of profits of subsidiaries	–	–	–	–	–	28,555	28,555
Acquisition of subsidiaries *(Note 27(b))*	–	–	–	2,350	–	57,398	59,748
Deconsolidation of a subsidiary *(Note 27(c))*	–	–	–	–	–	(11,126)	(11,126)
Elimination of own shares held	(4,137)	–	–	–	–	–	(4,137)
Dividends declared 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	2,660,977	15,368	850,000	390,312	–	153,784	4,070,441

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 including premium and capital reserve	Bank loans	Loans from Shareholders	Loans from minority Shareholders and other loans	Obligations under finance leases	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2002	2,557,405	46,952	100,000	253,030	–	84,158	3,041,545
Issuance of ordinary shares/ capital contribution, 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) financing activities	19,478	(30,077)	550,000	59,025	(9,970)	–	588,456
Accrued interest	–	–	–	6,427	–	–	6,427
Shares issued for acquisition of subsidiaries	31,231	–	–	–	–	–	31,231
Minority's share of profits of subsidiaries	–	–	–	–	–	2,230	2,230
Acquisition of subsidiaries *(Note 27(b))*	–	–	–	2,350	–	48,909	51,259
Elimination of own shares held	(4,137)	–	–	–	–	–	(4,137)
Dividends declared 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	(9,970)	133,192	3,726,425

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)

	Capital including premium and capital reserve *HK$'000*	Bank loans *HK$'000*	Loans from Shareholders *HK$'000*	Loans from minority Shareholders and other loans *HK$'000*	Obligations under finance leases *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2003	2,660,977	15,368	850,000	390,312	–	153,784	4,070,441
Issuance of ordinary shares/ capital contribution, net of issuing expenses	392	–	–	–	–	–	392
New bank and other loans	–	79,875	–	54,612	–	–	134,487
Loan repayments	–	(11,352)	–	(880)	–	–	(12,232)
Net cash (used in)/from financing activities	392	68,523	–	53,732	–	–	122,647
Accrued interest	–	–	–	7,348	–	–	7,348
Shares issued for acquisition of subsidiaries	93,065	–	–	–	–	–	93,065
Minority's share of profits of subsidiaries	–	–	–	–	–	4,523	4,523
Minority interest in other reserve	–	–	–	–	–	(13)	(13)
Restructuring of Taiwan print media group	–	–	–	–	–	(1,243)	(1,243)
Disposal/deconsolidation of a subsidiary *(note 27(c))*	–	–	–	(4,350)	–	3,705	(645)
Elimination of own shares held	(857)	–	–	–	–	–	(857)
Dividends declared to minority Shareholders	–	–	–	–	–	(385)	(385)
Exchange adjustment	–	17	–	9	–	243	269
	92,208	17	–	3,007	–	6,830	102,062
At 30 June 2003	2,753,577	83,908	850,000	447,051	–	160,614	4,295,150

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) were pledged to banks for securing banking facilities granted to the enlarged TOM group's subsidiaries, respectively.

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.

LTWJi provides access to songs to users of its IVR services. LTWJi obtained such songs from an original publisher in China but has not so far paid any separate copyright fees to the original publisher or artists. Should the original song publisher or any artist pursue legal action to obtain fees and damages, there is uncertainty as to whether LTWJi could ultimately be held liable. In China, the assessment of copyright fees and damages is up to the greater of the actual damages incurred plus three times the revenues earned from the use of the songs or four times the revenues earned from use of the songs. The directors of TOM believes that the ultimate liability, if any, with respect to this contingency will not materially affect the enlarged TOM group's financial position, results of operations or cash flows.

30. Commitments

(a) Capital commitments

The capital commitments of the enlarged TOM group at the end of the Relevant Periods comprise:

		31 December		30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	172,656	415,832	79,112	225,795

(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).

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

(E). Notes to the pro forma combined financial information *(Continued)*

30. Commitments *(Continued)*

(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:

	31 December						30 June	
	2000		2001		2002		2003	
	Land and buildings *HK$'000*	Other assets *HK$'000*	Land and buildings *HK$'000*	Other assets *HK$'000*	Land and buildings *HK$'000*	Other assets *HK$'000*	Land and buildings *HK$'000*	Other assets *HK$'000*
Not later than one year	28,083	25,738	31,103	48,876	35,234	55,887	16,704	47,734
Later than one year and not later five years	57,650	103,911	44,924	191,565	39,809	191,834	2,124	167,078
Later than five years	–	125,035	–	254,510	747	132,533	–	66,154
	85,733	254,684	76,027	494,951	75,790	380,254	18,828	280,966

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 TOM, the following is a summary of significant related party transactions of the TOM group during the Relevant Periods, in addition to those disclosed above.

		Year ended 31 December			Six months ended 30 June	
		2000	2001	2002	2002	2003
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	–	–	–	–

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.

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 above.

		31 December			30 June	
		2000	**2001**	**2002**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
License fees receivable from						
– Turner Broadcasting Sales Southeast Asia, Inc. ("TBSSEA"), a subsidiary of 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	*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.

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)*

(c) In the opinion of the directors of TOM, the following is a summary of significant related party transactions of LTWJi during the Relevant Periods, in addition to those disclosed above.

		31 December			30 June	
		2000	**2001**	**2002**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Service fee to						
– Beijing Redsail Netlegend Data Network Technology Company Limited	*(i)*	–	–	–	–	10
Fixed assets purchased from						
– Beijing Victoria Century Investment Consulting Company Limited	*(ii)*	–	–	–	–	61

Note:

(i) LTWJi entered into a service agreement with Beijing Redsail Netlegend Data Network Technology Company Limited ("Resail"), a company which is under common significant influence as the Company, effective from 3 June 2003 to 3 June 2004. Under the service agreement, Redsail provides customer representative services to LTWJi at a monthly fee of approximately HK$11,000. During the six-month period ended 30 June 2003, LTWJi accrued for such service fees amount to approximately HK$10,000 payable to Redsail.

(ii) During the six months ended 30 June 2003, LTWJi acquired certain fixed assets at fair value from Beijing Victoria Century Investment Consulting Company Limited, a company which is under common ownership with LTWJi, amounting to approximately HK$61,000.

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

(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. 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$243 million) over a period of 30 months, subject to the terms and conditions stipulated in the agreement. On 15 September 2003, the TOM group completed the acquisition by issuance of 21,250,000 shares of TOM which was booked at HK$2.6 per share, being the fair value calculated based on the closing price of TOM Share as quoted on GEM of the Stock Exchange at the date of acquisition.

On 15 September 2003, the loans from TBSAP (Note 24(d)) and third parties (Note 24(c)) in the accounts of CETV were released and repaid by TBSAP, respectively. In addition, CETV entered into a Transponder Sub-lease Agreement with TBS, whereby TBS gave permit to CETV to sub-utilise the transponder capacity during the period from 15 September 2003 to 15 January 2010.

(b) On 3 July 2003, the TOM group entered into placing and subscription agreements for placing and allotment of 450,000,000 shares of TOM for a net proceed totaling of approximately HK$995 million. The completion of the placing and subscription took place on 7 and 8 July 2003, respectively.

(c) On 10 July 2003, four subsidiaries in Taiwan of the TOM group have 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 publishing group through the acquisition of approximately 6.13% of the issued share capital of Cite Publishing Holding Limited ("Cite Publishing Holding"), the holding company of Taiwan publishing companies, by issuance of 20,632,106 shares of TOM, 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 Cite 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 Cite Publishing Holding from a previously non-selling party (who subsequently agreed to sell his holding of 1.55% of the issued share capital of Home Media Group Limited and to subscribe for 0.78% of the issued capital of Cite Publishing Holding), by issuance of 1,319,998 shares of TOM, 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 Cite Publishing Holding changed to approximately 83.19%.

(f) On 25 September 2003, the TOM group entered into a sale and purchase agreement with Cranwood, a 24.7% Shareholder of TOM, for the acquisition of 100% of the beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini. The consideration of the acquisition of Puccini and LTWJi should equal the valuation of Puccini, which is determined based on 7.7 times the audited consolidated net profit of Puccini for the year ending 31 December 2004; or in the event that the consolidated net profit of Puccini for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of Puccini for the year ending 31 December 2003, subject to a minimum of HK$37.6 million, the consideration will then be determined based on 6 times the audited consolidated net profit of Puccini for the year ending 31 December 2004. The consideration is subject to a maximum of HK$1,170 million and will be 50% paid in cash and 50% paid by the issue and allotment of shares of TOM Online Inc., a subsidiary of TOM, or the issue and allotment of TOM if TOM Online Inc. has not been listed before 31 December 2004.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NEGATIVE NET TANGIBLE ASSETS AND NET ASSETS OF THE ENLARGED TOM GROUP

The following is the unaudited pro forma statement of adjusted combined negative 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 been taken place since 30 June 2003 and the effect of the acquisitions announced by TOM, including the Puccini Acquisition.

	Net assets/ net tangible assets *HK$'000*	**Value per Share** *HK cents*
Audited net assets of the TOM Group as at 30 June 2003 *(Note 1)*	332,410	
Allotment of shares pursuant to the share placing and subscription agreements *(Note 2)*	996,500	
Allotment of shares relating to acquisition of subsidiaries *(Note 3)*	57,650	
The acquisitions completed prior to Latest Practicable Date (Note 4)		
Unaudited negative net tangible assets of the Completed Acquisitions as at 30 June 2003, attributable to the TOM Group	(14,439)	
Consideration payable for the Completed Acquisitions *(Note 5)*	(128,023)	
Allotment of TOM Shares relating to the Completed Acquisitions *(Note 5)*	107,023	
	(35,439)	
Add: Goodwill arising from the Completed Acquisitions *(Note 6)*	142,462	
Unaudited adjusted net assets of the TOM Group as at the Latest Practicable Date, and immediately following the completion of the Other Acquisition but before the completion of the Puccini Acquisition *(Note 12 and 13)*	1,493,583	38.73
Less: Goodwill and other intangible assets of the TOM Group as at 30 June 2003 *(Note 7)*	(1,081,666)	
Goodwill arising from the Completed Acquisitions	(142,462)	
	(1,224,128)	
Unaudited adjusted net tangible assets of the TOM Group as at the Latest Practicable Date *(Note 12)*	269,455	6.99
The Other Acquisition announced prior to the Latest Practicable Date (Note 8)		
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 immediately following the completion of the Other Acquisition but before the completion of the Puccini Acquisition *(Note 13)*	258,055	6.69

	Net assets/ net tangible assets *HK$'000*	Value per Share *HK cents*
The Puccini Acquisition		
Audited net tangible assets of LTWJi as at 30 June 2003, attributable to the TOM Group *(Note 9)*	7,213	
Consideration payable for the Puccini Acquisition *(Note 10)*	(1,176,000)	
Allotment of shares relating to the Puccini Acquisition *(Note 10)*	585,000	
	(583,787)	
Unaudited pro forma adjusted combined negative net tangible assets of the Enlarged TOM Group immediately following the completion of the Other Acquisition and the Puccini Acquisition *(Note 14)*	(325,732)	(7.98)
Add:		
Goodwill and other intangible assets of the TOM Group as at 30 June 2003	1,081,666	
Goodwill arising from the Completed Acquisitions	142,462	
Goodwill arising from the Other Acquisition *(Note 11)*	11,400	
Goodwill arising from the Puccini Acquisition *(Note 11)*	1,168,787	
	2,404,315	
Unaudited pro forma adjusted combined net assets of the Enlarged TOM Group immediately following the completion of the Other Acquisition and the Puccini Acquisition *(Note 14)*	2,078,583	50.92

Notes:

1. The audited consolidated net assets of the TOM Group as at 30 June 2003 is extracted from the accountants' report of TOM Group 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 17,451,590 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 interest in Cite Publishing Holding Limited ("Cite Acquisition") and the acquisition of approximately 64.07% equity interest in China Entertainment Television Broadcast Limited ("CETV Acquisition"). The Cite Acquisition was completed in phases on 12 July and 31 July 2003 and the CETV Acquisition was completed on 15 September 2003 (collectively as the "Completed Acquisitions").

5. The consideration payable for the Completed Acquisitions represents the allotment of 20,632,106, 1,319,998 and 21,250,000 TOM Shares at HK$2.375 each, HK$2.1 each and HK$2.6 each, respectively, which were the fair value calculated based on the closing price of TOM Shares quoted on the Stock Exchange at the respective dates of acquisition, together with the estimated expenses relating to the Completed Acquisitions.

6. This represents the estimated goodwill arising from the Completed Acquisitions, representing the difference between the consideration payable together with the estimated expenses relating to the Completed Acquisitons of HK$128,023,000 and the unaudited negative net tangible assets of the Completed Acquisitions attributable to the TOM Group of HK$14,439,000.

7. Intangible assets include the carrying value of goodwill and other non-current assets of the TOM Group as set out in Appendix II of this Circular.

8. The Other Acquisition announced prior to the Latest Practicable Date represents the acquisition of a 49% equity interest in Sanlian Joint Venture, which was announced on 9 September 2002.

9. This represents the acquisition of 100% of the beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini, representing the net tangible asset of LTWJi as at 30 June 2003 set out in section A of Appendix III of this circular of HK$7,213,000.

10. The consideration payable for Puccini Acquisition represents the cash consideration of US$75 million (equivalent to HK$585,000,000) and the allotment of 225,000,000 TOM Shares at HK$2.6 each (at the Market Price) for the amount of US$75 million (equivalent to HK$585,000,000), together with the estimated expenses relating to the Puccini Acquisition of HK$6,000,000. According to the Sale and Purchase Agreement, the consideration of the acquisition of Puccini and LTWJi should equal the valuation of Puccini, which is determined based on 7.7 times the audited consolidated net profit of Puccini for the year ending 31 December 2004; or in the event that the consolidated net profit of Puccini for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of Puccini for the year ending 31 December 2003, subject to a minimum of HK$37.6 million, the consideration will then be determined based on 6 times the audited consolidated net profit of Puccini for the year ending 31 December 2004. The consideration is subject to a maximum of HK$1,170 million and will be 50% paid in cash and 50% paid by the issue and allotment of shares of TOM Online Inc, a subsidiary of TOM, or TOM if TOM Online Inc. has not been listed before 31 December 2004. For the purpose of this Circular, the maximum amount of consideration payable of HK$1,170 million, assuming TOM Shares will be issued to satisfy 50% of the consideration, is used in the computation of the proforma adjusted combined net assets and negative net tangible assets of the Enlarged TOM Group.

If the minimum amount of consideration payable of HK$Nil, according to the Sale and Purchase Agreement, is used for illustrative purpose, the unaudited pro forma adjusted combined net tangible assets and net assets of the Enlarged TOM Group would be as follows:

	Net assets/ net tangible assets	**Value per Share**
	HK$'000	*HK cents*
Unaudited prof forma adjusted combined net tangible assets of the TOM Group before the completion of the Puccini Acquisition	258,055	6.69
The Puccini Acquisition		
Audited net tangible assets of LTWJi as at 30 June 2003, attributable to the TOM Group	7,213	
Estimated expenses payable relating to the Puccini Acquisition	(6,000)	
	1,213	
Unaudited pro forma adjusted combined net tangible assets of the Enlarged TOM Group immediately following the completion of the Other Acquisition and the Puccini Acquisition	259,268	6.72
Add: Goodwill and other intangible assets of the TOM Group as at 30 June 2003	1,081,666	
Goodwill arising from the Completed Acquisitions	142,462	
Goodwill arising from the Other Acquisition	11,400	
Negative goodwill arising from the Puccini Acquisition	(1,213)	
	1,234,315	
Unaudited pro forma adjusted combined net assets of the Enlarged TOM Group immediately following the completion of the Other Acquisition and the Puccini Acquisition	1,493,583	38.73

11. These represent the estimated goodwill 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 Puccini acquisition, representing the difference between the consideration payable (maximum amount payable) and other expenses of acquisition totalling HK$1,176,000,000 and the audited net tangible assets of LTWJi as at 30 June 2003 attributable to the TOM Group of HK$7,213,000.

12. The unaudited adjusted net tangible asset value and net asset value per Share as at the Latest Practicable Date are calculated on the basis of 3,856,690,338 Shares in issue as at the Latest Practicable Date.

13. The unaudited pro forma adjusted combined net tangible asset value per Share and net asset value per Share immediately following the completion of the Other Acquisition but before the completion of the Puccini Acquisition are calculated on the basis of 3,856,690,338 Shares in issue as at the Latest Practicable Date.

14. The unaudited pro forma adjusted combined negative net tangible asset value and net asset value per Share immediately following the Completion of the Other Acquisition and the Puccini Acquisition are calculated on the basis of 3,856,690,338 Shares in issue as at the Latest Practicable Date and as at the completion of the Other Acquisition and after taking into consideration the 225,000,000 TOM Shares to be alloted for the Puccini 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 net assets of LTWJi as at 30 June 2003, as extracted from the accountants' report on LTWJi set out in section A of Appendix III of 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 Puccini Acquisition.

	TOM Group	Other Acquisition	CETV Acquisition	Puccini Acquisition	Adjustments		Enlarged TOM Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Note 1)		*(Note 1)*				
Fixed assets and other non-current assets	349,945	9,400	15,545	1,987			376,877
Goodwill	983,566	–	–	–	1,302,491	2	2,286,057
Long term investments	147,181	–	–	–			147,181
Current assets	1,197,201	37,600	6,728	10,341	359,470	3	1,611,340
Current liabilities	(1,290,188)	–	(41,214)	(5,115)	60,090	4	(1,276,427)
Net current (liabilities)/assets	(92,987)	37,600	(34,486)	5,226			334,913
Total assets less current liabilities	1,387,705	47,000	(18,941)	7,213			3,145,028
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)	7,213			2,078,583

Notes:

1. The net assets of the TOM Group as at 30 June 2003 include the audited consolidated net assets of Cite Publishing Holding Limited as at 30 June 2003. The net assets of the CETV Acquisition as at 30 June 2003 represents the audited negative net assets of CETV as at 30 June 2003, as extracted from the financial information of CETV set out in section F of Appendix VI of this Circular.

2. This represents the estimated goodwill arising from the Completed Acquisitions, the Other Acquisition and the Puccini Acquisition.

3. This represents the net cash proceeds received from the placing and subscription of TOM Shares totalling HK$996,500,000, deducted by the cash consideration and estimated expenses paid for the CETV Acquisition, Other Acquisition and the Puccini Acquisition of HK$21,000,000, HK$25,030,000 and HK$591,000,000, respectively.

4. This represents the settlement of consideration payable in respect of acquisitions made prior to 30 June 2003 by allotment of Shares of HK$57,650,000 and the repayment of third party loans amounted to HK$2,440,000 according to the Share Purchase Agreement of the CETV Acquisition at the date of completion on 15 September 2003.

5. This represents the release and repayment of minority shareholder and third party loans at the date of completion on 15 September 2003 according to the Share Purchase Agreement of the CETV Acquisition.

3. INDEBTEDNESS

Borrowings

As at the close of business on 31 August 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$1,365,872,000, comprising unsecured loans from substantial Shareholders of TOM of HK$850,000,000, unsecured loans from TBSAP to CETV of HK$469,327,000, unsecured bank and other borrowings of HK$23,335,000 and secured bank and other borrowings of HK$23,210,000. The Enlarged TOM Group's secured bank borrowings were secured by charges on 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 and other third parties in the accounts of CETV had been released and repaid by TBSAP at the date of completion of the acquisition on 15 September 2003, respectively. As at 31 August 2003, such amounts were HK$476,844,000.

Contingent liabilities

As at 31 August 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 50% equity interest.

In addition, LTWJi provides access to songs to users of its IVR services. LTWJi obtained such songs from an original publisher in China but has not so far paid any separate copyright fees to the original publisher or artists. Should the original song publisher or any artist pursue legal action to obtain fees and damages, there is uncertainty as to whether LTWJi could ultimately be held liable. In China, the assessment of copyright fees and damages is up to the greater of the actual damages incurred plus three times the revenues earned from the use of the songs or four times the revenues earned from the use of the songs. Based on the latest operational data of LTWJi, the Directors believe that the ultimate liability, if any, with respect to this contingency will not materially affect the Enlarged TOM Group's financial position, results of operations or cash flows.

Capital commitments

As at 31 August 2003, the Enlarged TOM Group had capital commitments in respect of the acquisition of approximately 64.07% of the issued share capital of CETV amounting to approximately HK$55,250,000.

As at 31 August 2003, the Enlarged TOM Group had capital commitments in respect of acquisition of fixed assets and other non-current assets amounting to approximately HK$161,960,000.

As at 31 August 2003, the Enlarged TOM Group had capital commitments in respect of contributions to the registered capital of certain investments amounting to approximately HK$46,530,000.

Pledge of assets

As at 31 August 2003, bank deposits and cash totalling approximately HK$34,377,000 were pledged to banks for securing banking facilities granted to the Enlarged TOM Group and an investee company.

As at 31 August 2003, concession rights and property at net book value of HK$5,966,000 and HK$824,000 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 31 August 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 31 August 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 31 August 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 Enlarged 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"), Sharp Point Publishing Company Limited ("Sharp Point") and China Entertainment Television Broadcast Limited ("CETV"), 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 and 26 August 2003 in respect of the acquisition of an aggregate of 11.645% of the issued share capital of Cité Publishing Holding Limited and the acquisition of approximately 64.07% of the issued share capital of CETV, respectively. 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:

		For the year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Turnover	8(a)	981,225	825,530	961,725
Cost of sales		(538,247)	(399,658)	(422,027)
Gross profit		442,978	425,872	539,698
Other revenues	8(a)	2,595	5,158	1,766
Selling and administrative expenses		(539,783)	(447,913)	(444,188)
Other operating income		5,840	14,276	5,489
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		6,521	375	555
(Loss)/profit before taxation		(82,946)	(4,186)	102,093
Taxation	8(d)	(19,878)	(5,101)	(12,242)
(Loss)/profit for the year		(102,824)	(9,287)	89,851
Minority interests		2,198	2,764	(2,329)
(Loss)/profit after minority interests		(100,626)	(6,523)	87,522

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:

		As at 31 December		
		2000	2001	2002
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(h)	45,030	39,971	34,366
Goodwill	8(i)	–	8,962	7,702
Associated companies	8(l)	3,643	1,881	2,342
Investment securities	8(k), (s)	169,701	140,426	63,034
Deferred tax assets	8(u)	–	–	20,222
		218,374	191,240	127,666
Current assets				
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
		305,950	351,182	547,216
Current liabilities				
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)	–
		(462,315)	(324,781)	(382,429)
Net current (liabilities)/assets		(156,365)	26,401	164,787
Total assets less current liabilities		62,009	217,641	292,453
Represented/financed by:				
Equity /(deficit)	8(v)	35,235	(1,220)	64,704
Minority interests		13,977	4,349	6,678
Non-current liabilities				
Pension obligations	8(t)	12,797	19,142	25,701
Loan from immediate holding company	8(n)	–	195,370	195,370
		12,797	214,512	221,071
		62,009	217,641	292,453

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:

		As at 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(h)	34,802	25,138	23,305
Subsidiaries	8(j)	97,986	208,986	169,000
Associated companies	8(l)	31,405	600	698
Investment securities	8(k), (s)	168,359	138,676	62,013
Deferred tax assets	8(u)	–	–	14,315
		332,552	373,400	269,331
Current assets				
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
		376,773	293,001	388,510
Current liabilities				
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)	–
		(488,515)	(301,011)	(325,671)
Net current (liabilities)/assets		(111,742)	(8,010)	62,839
Total assets less current liabilities		220,810	365,390	332,170
Financed by:				
Equity	8(v)	209,703	155,738	117,894
Non-current liabilities				
Pension obligations	8(t)	11,107	14,282	18,906
Loan from immediate holding company	8(n)	–	195,370	195,370
		11,107	209,652	214,276
		220,810	365,390	332,170

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:

		For the year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*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		(165,659)	(114,967)	41,038
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		(78,788)	(16,003)	52,167
Net cash (outflow)/inflow before financing		(244,447)	(130,970)	93,205
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		181,336	186,193	(8,716)
(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		35,707	90,930	175,419
Analysis of balance of cash and cash equivalents				
Bank balances and cash		35,707	90,930	175,419

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:

	2000	2001	2002
	NT$'000	*NT$'000*	*NT$'000*
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	–	–
Total equity/(deficit) as at 31 December	35,235	(1,220)	64,704

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:

	For the year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Turnover			
Publishing, circulation and distribution of magazines and books, net of discounts and returns	651,954	527,630	613,317
Magazine advertising income, net of discounts	329,271	297,900	348,408
	981,225	825,530	961,725
Other revenues			
Interest income	2,595	1,972	1,766
Dividend income	–	3,186	–
	2,595	5,158	1,766
Total revenues	983,820	830,688	963,491

(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*
Crediting:			
Gain on dilution of interests in a subsidiary *(note 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
Charging:			
Cost of materials consumed	123,021	115,817	96,143
Staff costs *(note 8(f))*	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 *(note (ii))*	–	2,082	–

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 *(note 8(r))*	–	–	200
	1,097	1,954	1,227

(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 *(note ii)*	15,370	–	28,293
Additional income tax (10%) in Taiwan *(note iii)*	2,700	4,828	1,343
Under provision in prior years	119	–	2,636
Deferred taxation *(note 8(u))*	–	–	(20,222)
	18,189	4,828	12,050
Share of taxation attributable to:			
Associated companies	1,689	273	192
	19,878	5,101	12,242

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 *(note i)*	161	5,863	319
Pension costs – defined benefits plans	6,496	4,586	6,559
	187,793	219,427	217,672

(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:

	For the year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Salaries and allowances and other benefits in kind	7,297	7,675	–

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:

	For the year ended 31 December		
	2000	**2001**	**2002**
Directors	2	1	–
Employees	3	4	5
	5	5	5

Details of the emoluments of employees as mentioned above are as follows:

	For the year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Basic salary and allowances	7,266	8,946	14,431

The emoluments of employees fell within the following bands:

	For the year ended 31 December		
	2000	**2001**	**2002**
NT$nil – NT$4,000,000 (equivalent to HK$1,000,000)	3	4	4
NT$4,000,001 (equivalent to HK$1,000,001) – NT$6,000,000 (equivalent to HK$1,500,000)	–	–	1
	3	4	5

(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 improvements *NT$'000*	Furniture and fixtures *NT$'000*	Office and computer equipment *NT$'000*	Motor vehicles *NT$'000*	Total *NT$'000*
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	13,881	19,678	32,424	1,929	67,912
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	3,951	6,533	12,072	326	22,882
Net book value					
31 December 2000	9,930	13,145	20,352	1,603	45,030
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	22,102	20,323	40,800	1,550	84,775
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	14,932	10,156	19,248	468	44,804
Net book value					
31 December 2001	7,170	10,167	21,552	1,082	39,971
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	9,640	17,125	40,300	1,550	68,615
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	2,273	10,603	20,700	673	34,249
Net book value					
31 December 2002	7,367	6,522	19,600	877	34,366

Company

	Leasehold improvements *NT$'000*	Furniture and fixtures *NT$'000*	Office and computer equipment *NT$'000*	Motor vehicles *NT$'000*	Total *NT$'000*
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	10,248	15,923	25,980	1,339	53,490
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	2,926	5,332	10,242	188	18,688
Net book value					
31 December 2000	7,322	10,591	15,738	1,151	34,802
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	14,487	15,730	29,391	960	60,568
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	12,167	7,944	15,097	222	35,430
Net book value					
31 December 2001	2,320	7,786	14,294	738	25,138
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	4,366	13,403	27,678	960	46,407
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	746	8,202	13,835	319	23,102
Net book value					
31 December 2002	3,620	5,201	13,843	641	23,305

(i) Goodwill

Movement of goodwill for the Relevant Periods is as follows:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Cost			
As at 1 January	–	–	9,697
Additions	–	9,697	–
As at 31 December	–	9,697	9,697
Accumulated amortisation			
As at 1 January	–	–	735
Charge for the year	–	735	1,260
As at 31 December	–	735	1,995
Net book value	–	8,962	7,702

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

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Investments in unlisted subsidiaries, at cost	97,986	208,986	169,000

(k) Investment securities

	Group			Company		
	As at 31 December			As at 31 December		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'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
	169,701	140,426	63,034	168,359	138,676	62,013
Market value of listed shares	–	1,218	4,687	–	1,218	4,687

(l) Associated companies

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Share of net assets, other than goodwill	7,738	1,881	2,244
Due (to)/from associated companies	(4,095)	–	98
	3,643	1,881	2,342

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
At cost	35,500	600	600
Due (to)/from associated companies	(4,095)	–	98
	31,405	600	698

(m) Inventories

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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)
	22,743	16,284	17,142

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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)
	13,364	4,707	4,902

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

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Open-ended mutual funds in Taiwan, 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

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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 and sales returns	(40,617)	(51,100)	(53,428)
	182,782	184,304	224,073

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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 and sales returns	(29,784)	(23,683)	(37,651)
	183,221	123,316	166,964

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	164,029	102,121	127,517

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	187,795	58,612	84,249

(r) Loan from a related party

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Unsecured	–	–	4.000

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Loans from non-financial institutions – Secured	21,393	12,716	–

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	12,797	19,081	26,996
Fair value of plan assets	–	–	–
Present value of unfunded obligations	12,797	19,081	26,996
Unrecognised actuarial gains/(losses)	–	61	(1,295)
Liability in the consolidated balance sheet	12,797	19,142	25,701

The amounts recognised in the balance sheets are determined as follows:

		As at 31 December	
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	11,107	15,095	21,627
Fair value of plan assets	–	–	–
Unrecognised actuarial losses	–	(813)	(2,721)
Liability in the balance sheet	11,107	14,282	18,906

The amounts recognised in the consolidated results of operations are determined as follows:

		For the year ended 31 December	
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Current service costs	6,496	3,784	5,699
Interest costs	–	802	811
Net actuarial losses recognised	–	–	49
Total included in staff costs *(note 8(f))*	6,496	4,586	6,559

Movement in the liability recognised in the consolidated balance sheets:

	2000 *NT$'000*	2001 *NT$'000*	2002 *NT$'000*
1 January	6,301	12,797	19,142
Acquisition of a subsidiary *(Note 8(w)(ii))*	–	1,759	–
Total expenses	6,496	4,586	6,559
31 December	12,797	19,142	25,701

(u) Deferred taxation

The movement of deferred taxation is as follows:

Group

	As at 31 December		
	2000 *NT$'000*	**2001** *NT$'000*	**2002** *NT$'000*
1 January	–	–	–
Transfer from results of operations *(note 8(d))*	–	–	20,222
31 December	–	–	20,222

Company

	As at 31 December		
	2000 *NT$'000*	**2001** *NT$'000*	**2002** *NT$'000*
1 January	–	–	–
Transfer from results of operations	–	–	14,315
31 December	–	–	14,315

The potential deferred tax assets not provided for in the accounts are analysed as follows:

Group

	As at 31 December		
	2000 *NT$'000*	**2001** *NT$'000*	**2002** *NT$'000*
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	5,293	–	–
	14,511	22,346	–

Company

	As at 31 December		
	2000	2001	2002
	NT$'000	*NT$'000*	*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	–
	6,040	15,069	–

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	Accumulated deficit	Investment revaluation reserve	Total
	NT$'000	*NT$'000*	*NT$'000*	*NT$'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 of additional interest in a subsidiary	–	(25,422)	–	(25,422)
Surplus on revaluation of investment securities	–	–	5,502	5,502
At 31 December 2000	216,874	(169,844)	(11,795)	35,235
At 1 January 2001	216,874	(169,844)	(11,795)	35,235
Loss after minority interests	–	(6,523)	–	(6,523)
Deficit on revaluation of investment securities	–	–	(29,932)	(29,932)
At 31 December 2001	216,874	(176,367)	(41,727)	(1,220)
At 1 January 2002	216,874	(176,367)	(41,727)	(1,220)
Profit after minority interests	–	87,522	–	87,522
Deficit on revaluation or investment securities	–	–	(21,598)	(21,598)
At 31 December 2002	216,874	(88,845)	(63,325)	64,704

Company

	Reserves	(Accumulated deficit)/ retained earnings	Investment revaluation reserve	Total
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*
At 1 January 2000	70,931	(7,470)	(17,297)	46,164
Transfers	145,943	–	–	145,943
Surplus on revaluation of investment securities	–	–	7,035	7,035
Profit for the year	–	10,561	–	10,561
At 31 December 2000	216,874	3,091	(10,262)	209,703
At 1 January 2001	216,874	3,091	(10,262)	209,703
Deficit on revaluation of investment securities	–	–	(30,340)	(30,340)
Loss for the year	–	(23,625)	–	(23,625)
At 31 December 2001	216,874	(20,534)	(40,602)	155,738
At 1 January 2002	216,874	(20,534)	(40,602)	155,738
Deficit on revaluation of investment securities	–	–	(21,650)	(21,650)
Loss for the year	–	(16,194)	–	(16,194)
At 31 December 2002	216,874	(36,728)	(62,252)	117,894

(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	–
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
Net cash (outflow)/inflow generated from operations	(152,404)	(90,249)	41,842

(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 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)	–
	–	9,303	–
Goodwill	–	9,697	–
	–	19,000	–
Cash consideration	–	19,000	
Less: Bank balances and cash acquired	–	(9,667)	–
	–	9,333	–

(iii) Analysis of changes in financing during the year

	Reserves	**Minority interests**	**Short term loans**	**Loans from immediate holding company**	**Total**
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*
At 1 January 2000	70,931	10,587	–	–	81,518
Minority interests' share of results	–	(2,198)	–	–	(2,198)
Cash inflows	145,943	14,000	21,393	–	181,336
Purchase of additional interests in subsidiary from minority Shareholders	–	(8,412)	–	–	(8,412)
At 31 December 2000	216,874	13,977	21,393	–	252,244
At 1 January 2001	216,874	13,977	21,393	–	252,244
Minority interests' share 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 in subsidiary	–	(14,050)	–	–	(14,050)
At 31 December 2001	216,874	4,349	12,716	195,370	429,309
At 1 January 2002	216,874	4,349	12,716	195,370	429,309
Minority interests' share of results	–	2,329	–	–	2,329
Cash outflows	–	–	(8,716)	–	(8,716)
At 31 December 2002	216,874	6,678	4,000	195,370	422,922

(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:

		As at 31 December	
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Not later than one year	5,410	–	–
Later than one year but not later than five years	1,276	–	–
	6,686	–	–

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:

		For the year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Cité Publishing Limited				
Sales commission paid/payable	(i)	–	1,492	9,652
A spouse of a director of a subsidiary				
Interest expense *(Note 8(r))*		–	–	200

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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Turnover	8(a)	840,712	855,432	943,384
Cost of sales		(565,395)	(472,215)	(518,342)
Gross profit		275,317	383,217	425,042
Other revenue	8(a)	4,479	2,321	950
Selling and administrative expenses		(263,286)	(310,052)	(334,719)
Other operating income, net		10,214	22,854	14,854
Operating profit	8(b)	26,724	98,340	106,127
Finance costs	8(c)	(11,778)	(8,372)	(6,780)
Profit before taxation		14,946	89,968	99,347
Taxation	8(d)	(15,470)	(26,916)	(29,327)
(Loss)/profit for the year		(524)	63,052	70,020
Minority interests		2,992	(1,497)	(3,283)
Profit attributable to Shareholders		2,468	61,555	66,737
Dividends	8(e)	42,210	–	–
Earnings per share	8(f)	0.11	2.19	2.37

2. CONSOLIDATED BALANCE SHEETS

The following is the consolidated balance sheets of the Cité Group as at 31 December 2000, 2001 and 2002:

		As at 31 December		
		2000	2001	2002
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(i)	19,011	26,887	32,806
Deferred tax assets	8(t)	–	–	12,704
Associated companies	8(l)	–	2,999	–
Investment securities	8(k)	17,200	46,548	34,986
Current assets				
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
		597,346	708,058	797,175
Current liabilities				
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)
		(397,841)	(458,978)	(483,247)
Net current assets		199,505	249,080	313,928
Total assets less current liabilities		235,716	325,514	394,424
Financed by:				
Share capital	8(u)	281,715	281,715	281,715
Reserves	8(v)	(61,218)	4,237	65,961
Shareholders' funds		220,497	285,952	347,676
Minority interests		918	8,535	11,732
Non-current liabilities				
Long term loans	8(r)	–	10,000	9,813
Pension obligations	8(s)	14,301	21,027	25,203
		235,716	325,514	394,424

3. BALANCE SHEETS

The following is the balance sheets of Cité as at 31 December 2000, 2001 and 2002:

		As at 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(i)	13,501	16,966	23,940
Deferred tax assets	8(t)	–	–	9,501
Subsidiaries	8(j)	46,994	62,797	62,798
Associated companies	8(l)	–	2,999	–
Investment securities	8(k)	17,200	39,794	34,986
Current assets				
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
		579,850	652,976	678,894
Current liabilities				
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)
		(388,919)	(419,214)	(409,777)
Net current assets		190,931	233,762	269,117
Total assets less current liabilities		268,626	356,318	400,342
Financed by:				
Share capital	8(u)	281,715	281,715	281,715
Reserves	8(v)	(25,444)	46,454	89,974
Shareholders' funds		256,271	328,169	371,689
Non-current liabilities				
Long-term loans	8(r)	–	10,000	7,500
Pension obligations	8(s)	12,355	18,149	21,153
		268,626	356,318	400,342

4. CONSOLIDATED CASH FLOW STATEMENTS

The following is the consolidated cash flow statements of the Cité Group for the Relevant Periods:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*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		(60,277)	(1,366)	90,123
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		(32,100)	(31,129)	(7,084)
Net cash (outflow)/inflow before financing		(92,377)	(32,495)	83,039
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		146,194	15,000	(58,452)
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		80,534	64,224	88,521
Analysis of balance of cash and cash equivalents				
Bank balances and cash		80,534	64,224	88,521

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

	For the year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Total equity as at 1 January	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)
Total equity as at 31 December	220,497	285,952	347,676

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	840,712	855,432	943,384
Other revenue			
Interest income	4,479	2,321	950
Total revenues	845,191	857,753	944,334

(b) Operating profit

The operating profit of the Cité Group is stated after crediting and charging the following:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Crediting:				
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
Charging:				
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)

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Interest on bank loans and other financial institutions	11,778	8,191	6,031
Interest on loans from fellow subsidiaries	–	181	749
	11,778	8,372	6,780

(d) Taxation

The taxation charge comprised:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Income tax in Taiwan			
– Current year *(note ii)*	11,458	25,106	29,032
– Additional income tax *(note iii)*	4,012	1,676	9,264
– Under provision in prior years	–	134	3,735
– Deferred taxation *(Note 8(t))*	–	–	(12,704)
	15,470	26,916	29,327

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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	–	–
	42,210	–	–

(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 *(Note 8(s))*	5,944	6,826	4,376
	90,423	129,948	153,249

(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	–	–	–
	8,126	6,028	–

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
	5	5	5

Details of the emoluments of employees as mentioned above are as follows:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Basic salaries and allowances	6,170	5,003	12,087
Bonuses	–	–	–
	6,170	5,003	12,087

The emoluments of employees fell within the following bands:

	Year ended 31 December		
	2000	**2001**	**2002**
Nil to NT$4,000,000 (equivalent to HK$1,000,000)	3	3	5

(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 land and building *NT$'000*	**Leasehold improvements** *NT$'000*	**Computer and office equipment** *NT$'000*	**Motor vehicles** *NT$'000*	**Total** *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	–	6,265	28,573	947	35,785
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	–	4,278	12,110	386	16,774
Net book value					
At 31 December 2000	–	1,987	16,463	561	19,011
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	3,868	10,314	34,923	2,058	51,163
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	–	6,153	17,131	992	24,276
Net book value					
At 31 December 2001	3,868	4,161	17,792	1,066	26,887
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	3,835	13,334	47,877	2,419	67,465
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	77	7,226	25,891	1,465	34,659
Net book value					
At 31 December 2002	3,758	6,108	21,986	954	32,806

Company

	Leasehold improvements *NT$'000*	**Computer and office equipment** *NT$'000*	**Motor vehicles** *NT$'000*	**Total** *NT$'000*
Cost				
At 1 January 2000	3,608	6,506	520	10,634
Additions	2,657	14,800	427	17,884
Disposal	–	(500)	–	(500)
At 31 December 2000	6,265	20,806	947	28,018
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)
At 31 December 2000	4,278	9,853	386	14,517
Net book value				
At 31 December 2000	1,987	10,953	561	13,501
Cost				
At 1 January 2001	6,265	20,806	947	28,018
Additions	4,249	4,600	–	8,849
Disposal	(200)	–	–	(200)
At 31 December 2001	10,314	25,406	947	36,667
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)
At 31 December 2001	6,153	13,027	521	19,701
Net book value				
At 31 December 2001	4,161	12,379	426	16,966
Cost				
At 1 January 2002	10,314	25,406	947	36,667
Additions	3,020	12,242	–	15,262
At 31 December 2002	13,334	37,648	947	51,929
Accumulated depreciation				
At 1 January 2002	6,153	13,027	521	19,701
Charge for the year	1,073	7,042	173	8,288
At 31 December 2002	7,226	20,069	694	27,989
Net book value				
At 31 December 2002	6,108	17,579	253	23,940

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Unlisted, at cost	46,994	62,797	62,798

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Equity securities, listed in Hong Kong	–	9,235	4,427
Unlisted equity securities	17,200	37,313	30,559
	17,200	46,548	34,986
Market value of listed securities	–	9,235	4,427

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Equity securities, listed in Hong Kong	–	9,235	4,427
Unlisted equity securities	17,200	30,559	30,559
	17,200	39,794	34,986
Market value of listed securities	–	9,235	4,427

(l) Associated companies – Group and Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Share of net assets, other than goodwill	–	2,999	–

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	197,776	267,042	282,873
Provision for inventory obsolescence	(4,487)	(15,938)	(39,473)
	193,289	251,104	243,400

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	177,241	218,308	227,258
Provision for inventory obsolescence	(4,487)	(9,263)	(31,841)
	172,754	209,045	195,417

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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	–
	–	4,612	12,062

Particulars of the amount due from a director are as follows:

Mr. Ho Fei Peng	–	7,111	–

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	–

(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
	219,758	247,754	330,798
Less: Provision for bad and doubtful debts and sales returns	(12,458)	(32,420)	(30,242)
	207,300	215,334	300,556

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
	155,740	195,035	276,614
Less: Provision for bad and doubtful debts and sales returns	(8,231)	(25,451)	(23,714)
	147,509	169,584	252,900

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*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	–
	170,731	193,722	161,919

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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	–
	142,220	150,822	128,453

(r) Long term loans

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Bank loans – secured	–	10,000	12,493

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
	–	10,000	12,493

At 31 December 2000, 2001 and 2002, the Cité Group's bank loans were repayable as follows:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	–	10,000	12,493

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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	–	–	–
	–	10,000	10,000

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	–	–	–
	–	10,000	10,000

(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:

	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	4.00%	3.00%	3.00%

The amounts recognised in the consolidated balance sheets are determined as follows:

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	14,301	24,222	28,468
Fair value of plan assets	–	(100)	(301)
Present value of unfunded obligations	14,301	24,122	28,167
Unrecognised actuarial gains	–	(3,095)	(2,964)
Liability in the consolidated balance sheet	14,301	21,027	25,203

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	12,355	20,993	23,394
Fair value of plan assets	–	(100)	(301)
Present value of unfunded obligations	12,355	20,893	23,093
Unrecognised actuarial gains	–	(2,744)	(1,940)
Liability in the balance sheet	12,355	18,149	21,153

The amounts recognised in the consolidated results of operations are determined as follows:

	For the year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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	–	–
Total, included in staff costs *(Note 8(g))*	5,944	6,826	4,376

Movement of the liability recognised in the consolidated balance sheets:

	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
At 1 January	8,357	14,301	21,027
Total expenses	5,944	6,826	4,376
Contributions paid	–	(100)	(200)
At 31 December	14,301	21,027	25,203

(t) Deferred taxation

The movements of the deferred tax assets are as follows:

Group

	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
At 1 January	–	–	–
Transfer from results of operations *(Note 8(d))*	–	–	12,704
At 31 December	–	–	12,704

Company

	2000 *NT$'000*	**2001** *NT$'000*	**2002** *NT$'000*
At 1 January	–	–	–
Transfer from results of operations	–	–	9,501
At 31 December	–	–	9,501

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 *NT$'000*	**2001** *NT$'000*	**2002** *NT$'000*
Provision for inventory obsolescence	–	2,316	–
Provision for bad and doubtful debts	–	557	–
Provision for sales returns	2,222	2,127	–
Total not recognised	2,222	5,000	–

(u) Share capital

	Authorised			
	Preference shares of NT$10 each		**Ordinary shares of NT$10 each**	
	No. of shares	*Amount NT$'000*	*No. of shares*	*Amount NT$'000*
At 1 January 2000	6,000,000	60,000	14,000,000	140,000
Increase in authorised share capital *(Note (i))*	–	–	20,000,000	200,000
At 31 December 2000	6,000,000	60,000	34,000,000	340,000
Exchange of preference shares for ordinary shares *(Note (vi))*	(6,000,000)	(60,000)	6,000,000	60,000
At 31 December 2001 and 2002	–	–	40,000,000	400,000

	Issued and fully paid			
	Preference shares of NT$10 each		Ordinary shares of NT$10 each	
	No. of shares	*Amount NT$'000*	*No. of shares*	*Amount NT$'000*
At 1 January 2000	6,000,000	60,000	9,100,000	91,000
Issuance of shares *(Note (ii))*	–	–	8,350,000	83,500
Issuance of shares as bonuses to staff *(Note (iii))*	–	–	4,221,000	42,210
Issuance of share dividend *(Note (iv))*	–	–	469,000	4,690
Issuance of shares for acquisition of certain interests in subsidiaries *(Note (v))*	–	–	31,500	315
At 31 December 2000	6,000,000	60,000	22,171,500	221,715
Exchange of preference shares for ordinary shares *(Note (vi))*	(6,000,000)	(60,000)	6,000,000	60,000
At 31 December 2001 and 2002	–	–	28,171,500	281,715

(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 premium NT$'000	Capital reserve NT$'000	Investment revaluation reserve NT$'000	Exchange reserve NT$'000	Statutory reserve NT$'000	Retained earnings/ (accumulated deficit) NT$'000	Total 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 against reserves	–	(14,023)	–	–	–	–	(14,023)
As at 31 December 2000	30,000	(19,216)	–	–	5,790	(77,792)	(61,218)
Profit for the year	–	–	–	–	–	61,555	61,555
Transfers	–	–	–	–	165	(165)	–
Investment revaluation surplus	–	–	2,714	–	–	–	2,714
Translation differences	–	–	–	1,186	–	–	1,186
As at 31 December 2001	30,000	(19,216)	2,714	1,186	5,955	(16,402)	4,237
Profit for the year	–	–	–	–	–	66,737	66,737
Transfers	–	–	–	–	5,102	(5,102)	–
Investment revaluation deficit	–	–	(4,808)	–	–	–	(4,808)
Translation differences	–	–	–	(205)	–	–	(205)
As at 31 December 2002	30,000	(19,216)	(2,094)	981	11,057	45,233	65,961

Company

	Share premium NT$'000	Investment revaluation reserve NT$'000	Statutory reserve NT$'000	Retained earnings/ (accumulated deficit) NT$'000	Total 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	30,000	–	5,790	(61,234)	(25,444)
Profit for the year	–	–	–	69,184	69,184
Transfers	–	–	165	(165)	–
Investment revaluation surplus	–	2,714	–	–	2,714
As at 31 December 2001	30,000	2,714	5,955	7,785	46,454
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	30,000	(2,094)	11,057	51,011	89,974

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*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 including premium	**Minority interests**	**Long term bank loans**	**Short term loans**
	NT$'000	*NT$'000*	*NT$'000*	*NT$'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	**2001**	**2002**
	NT$'000	*NT$'000*	*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)	–	–
	6,896	–	–
Goodwill	14,023	–	–
	20,919	–	–
Satisfied by			
Cash	20,919	–	–
	20,919	–	–

Analysis of the net cash outflow in respect of acquisition of subsidiaries

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Cash consideration	20,919	–	–
Bank balances and cash acquired	(10,583)	–	–
	10,336	–	–

(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:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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
	15,126	40,872	57,849

(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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
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

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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Turnover	8(a)	546,372	624,711	677,359
Cost of sales		(203,876)	(268,621)	(260,313)
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		5,446	22,201	9,181
Operating profit	8(b)	174,025	156,804	151,057
Share of results of associated companies		1,449	10,900	5,334
Profit before taxation		175,474	167,704	156,391
Taxation	8(c)	(36,346)	(19,300)	(45,793)
Profit after taxation		139,128	148,404	110,598
Minority interests		(11)	(2,764)	(739)
Profit after minority interests		139,117	145,640	109,859

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:

		As at 31 December		
		2000	2001	2002
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(h)	20,250	21,116	20,831
Deferred tax assets	8(r)	766	8,137	4,225
Associated companies	8(j)	63,605	7,289	12,067
Investment securities	8(k)	–	73,556	67,373
		84,621	110,098	104,496
Current assets				
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
		386,739	346,220	386,159
Current liabilities				
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)
		(286,034)	(243,269)	(276,201)
Net current assets		100,705	102,951	109,958
Total assets less current liabilities		185,326	213,049	214,454
Financed by:				
Equity	8(s)	163,026	176,606	174,471
Minority interests		5,509	16,278	17,154
Non-current liabilities				
Pension obligations	8(g)	16,791	20,165	22,829
		185,326	213,049	214,454

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:

		As at 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	8(h)	16,319	15,739	12,921
Deferred tax assets	8(r)	716	4,400	1,582
Subsidiaries	8(i)	64,403	82,153	81,014
Associated companies	8(j)	74,054	–	–
Investment securities	8(k)	–	73,556	67,373
		155,492	175,848	162,890
Current assets				
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
		324,173	251,457	299,790
Current liabilities				
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)
		(238,804)	(193,751)	(234,325)
Net current assets		85,369	57,706	65,465
Total assets less current liabilities		240,861	233,554	228,355
Financed by:				
Equity	8(s)	230,918	221,290	214,551
Non-current liabilities				
Pension obligations	8(g)	9,943	12,264	13,804
		240,861	233,554	228,355

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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*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		116,613	126,767	158,568
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		4,920	29,890	(76,448)
Net cash inflow/(outflow) before financing		121,533	156,657	82,120
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		21,828	(124,623)	(105,675)
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		182,988	215,022	191,467
Analysis of balance of cash and cash equivalents				
Bank balances and cash		182,988	215,022	191,467

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:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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)	–
Total equity as at 31 December	163,026	176,606	174,471

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:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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
	546,372	624,711	677,359
Other revenues			
Interest income	4,709	1,734	2,895
Dividend income	–	–	556
	4,709	1,734	3,451
Total revenues	551,081	626,445	680,810

(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*
Crediting:			
Gain on disposal of an associated company *(note i)*	–	40,923	–
Gain on disposal of a long term investment *(note ii)*	37,098	–	–
Gain on dilution of interest in a subsidiary	3,615	–	–
Charging:			
Cost of materials consumed	66,300	79,140	57,264
Staff costs *(Note 8(e))*	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

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 *(note ii)*	35,441	14,318	38,987
– Additional income tax *(note iii)*	–	11,154	948
– Under/(over) provision to prior year	1,113	1,199	1,946
– Deferred taxation *(Note 8(r))*	(208)	(7,371)	3,912
	36,346	19,300	45,793

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	120,204	145,472	164,497

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Fees	–	–	–
Salaries and allowances and other benefits in kind	11,966	12,726	6,819
Discretionary bonuses	2,971	1,685	–
	14,937	14,411	6,819

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
	5	5	5

Details of the emoluments of employees as mentioned above are as follows:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Basic salaries and allowances	3,173	2,665	4,740
Bonuses	47	1,857	1,494
	3,220	4,522	6,234

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 HK$1,000,000)	2	2	3
NT$4,000,001 (equivalent to HK$1,000,001) – NT$6,000,000 (equivalent to HK$1,500,000)	–	–	–
	2	2	3

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	19,826	23,723	30,228
Fair value of plan assets	(3,952)	(4,975)	(7,195)
Present value of unfunded obligations	15,874	18,748	23,033
Unrecognised actuarial gains	917	1,417	(204)
Liability in the consolidated balance sheet	16,791	20,165	22,829

The amounts recognised in the consolidated results of operations are determined as follows:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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	–	(29)	119
Total, included in staff costs *(Note 8(e))*	3,776	4,110	4,698

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	(1,377)	(736)	(2,034)
At 31 December	16,791	20,165	22,829

(h) Fixed assets

Movements of fixed assets are as follows:

Group

	Leasehold improvements *NT$'000*	Office and computer equipment *NT$'000*	Motor vehicles *NT$'000*	Total *NT$'000*
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	3,730	30,341	7,413	41,484
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	1,037	15,820	4,377	21,234
Net book value				
At 31 December 2000	2,693	14,521	3,036	20,250
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	4,615	37,326	6,380	48,321
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	1,883	20,719	4,603	27,205
Net book value				
At 31 December 2001	2,732	16,607	1,777	21,116
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	4,265	28,931	8,554	41,750
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	2,293	14,413	4,213	20,919
Net book value				
At 31 December 2002	1,972	14,518	4,341	20,831

Company

	Leasehold improvements *NT$'000*	Office and computer equipment *NT$'000*	Motor vehicles *NT$'000*	Total *NT$'000*
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	3,643	22,019	5,457	31,119
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	959	10,695	3,146	14,800
Net book value				
At as 31 December 2000	2,684	11,324	2,311	16,319
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	4,528	25,690	5,457	35,675
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	1,808	14,276	3,852	19,936
Net book value				
At as 31 December 2001	2,720	11,414	1,605	15,739
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	3,991	14,942	6,650	25,583
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	2,224	6,678	3,760	12,662
Net book value				
At as 31 December 2002	1,767	8,264	2,890	12,921

(i) Subsidiaries

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Unlisted, at cost	69,970	80,730	80,730
Due (to)/from subsidiaries (i)	(5,567)	1,423	284
	64,403	82,153	81,014

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Group			
Share of net assets, other than goodwill	63,605	7,289	12,067
Company			
Interest at cost, unlisted shares outside Hong Kong *(Note 8(b)(ii))*	74,054	–	–

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Equity securities, listed in Hong Kong	–	21,306	15,123
Unlisted equity securities	–	52,250	52,250
	–	73,556	67,373

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Equity securities, listed in Hong Kong	–	21,306	15,123
Unlisted equity securities	–	52,250	52,250
	–	73,556	67,373

(l) Inventories

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Group			
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)
	3,115	4,887	1,151
Company			
Raw materials	2,642	4,012	–
Work in progress	34	8	–
Provision for inventory obsolescence	(1,051)	–	–
	1,625	4,020	–

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:

Group

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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
	133,208	103,265	121,713
Less: Provision for bad and doubtful debts and sales returns	(11,175)	(10,522)	(13,371)
	122,033	92,743	108,342

Company

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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
	97,730	61,763	75,568
Less: Provision for doubtful debts and sales returns	(7,962)	(7,818)	(7,085)
	89,768	53,945	68,483

(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 plantiff, 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

	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
At 1 January	558	766	8,137
Transfer from/(to) results of operations	208	7,371	(3,912)
At 31 December	766	8,137	4,225

Company

	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
At 1 January	558	716	4,400
Transfer from/(to) results of operations	158	3,684	(2,818)
At 31 December	716	4,400	1,582

(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 revaluation reserve *NT$'000*	Reserves *NT$'000*	(Accumulated deficit)/ Retained earnings *NT$'000*	Total *NT$'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 *(Note (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 investment securities	(6,182)	–	–	(6,182)
As at 31 December 2002	(6,182)	(72,928)	253,581	174,471

Company

	Investment revaluation reserve *NT$'000*	Reserves *NT$'000*	Accumulated deficit *NT$'000*	Total *NT$'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 investment securities	(6,182)	–	–	(6,182)
As at 31 December 2002	(6,182)	290,234	(69,501)	214,551

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	2001	2002
	NT$'000	*NT$'000*	*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	135,977	176,566	175,219

Analysis of changes in financing during the year

	Reserves 2000	2001	2002	Minority interests 2000	2001	2002
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'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	140,714	56,093	(72,928)	5,509	16,278	17,154

* 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	**2001**	**2002**
	NT$'000	*NT$'000*	*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)	–	–
	(2,569)	–	–
Goodwill	70,369	–	–
	67,800	–	–
Satisfied by			
Allotment of shares	–	–	–
Cash	67,800	–	–
	67,800	–	–

Analysis of the net cash outflow in respect of purchase of subsidiaries:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Cash consideration paid	67,800	–	–
Bank balance and cash acquired	(22,670)	–	–
	45,130	–	–

(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:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Expiring in:			
Not later than one year	8,621	829	15,154
Later than one year and not less than 5 years	52	–	10,970
	8,673	829	26,124

(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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Cité Publishing Limited – an associated company which later 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 Intercollore Publishing Co., Ltd., – a minority Shareholder of a subsidiary*				
Rental expenses	(ii)	(589)	–	–
Mr. Pan Sy-Zuan, Director				
Gain on disposal of a long term investment	8(b)(ii)	37,098	–	–

* 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:

		Year ended 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Turnover	7(a)	470,086	559,058	474,001
Cost of sales		(356,098)	(366,967)	(362,148)
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		(415)	(981)	1,019
Operating profit/(loss)	7(b)	5,257	75,599	(6,620)
Finance costs	7(c)	(1,148)	(2,521)	(3,008)
Profit/(loss) before taxation		4,109	73,078	(9,628)
Taxation	7(d)	(4,044)	(20,627)	(1,335)
Profit/(loss) after taxation		65	52,451	(10,963)

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:

		As at 31 December		
		2000	**2001**	**2002**
	Note	*NT$'000*	*NT$'000*	*NT$'000*
Fixed assets	7(g)	7,251	6,910	8,018
Deferred tax assets	7(h)	5,719	7,238	19,218
		12,970	14,148	27,236
Current assets				
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
		179,310	294,576	311,941
Current liabilities				
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)	–
		(191,877)	(204,018)	(245,638)
Net current (liabilities)/assets		(12,567)	90,558	66,303
Total assets less current liabilities		403	104,706	93,539
Represented/financed by:				
(Deficit)/Equity		(6,362)	98,139	87,176
Non-current liabilities				
Pension obligations	7(o)	6,765	6,567	6,363
		403	104,706	93,539

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:

		Year ended 31 December		
		2000	2001	2002
	Note	*NT$'000*	*NT$'000*	*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)
Net cash inflow/(outflow) from operating activities		15,270	(53,138)	(37,334)
Investing activities				
Purchase of fixed assets		(6,032)	(3,170)	(3,910)
Proceeds from sale of fixed assets		6	332	181
Net cash outflow from operating activities		(6,026)	(2,838)	(3,729)
Net cash inflow/(outflow) before financing		9,244	(55,976)	(41,063)
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	–
Net cash inflow from financing		13,015	56,912	48,123
Increase in cash and cash equivalents		22,259	936	7,060
Cash and equivalents at 1 January		7,108	29,367	30,303
Cash and cash equivalents at 31 December		29,367	30,303	37,363
Analysis of balance of cash and cash equivalents				
Bank balances and cash		29,367	30,303	37,363

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:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Total (deficit)/equity as at 1 January	(16,427)	(6,362)	98,139
Profit/(loss) for the year	65	52,451	(10,963)
Transfers	10,000	52,050	–
Total (deficit)/equity as at 31 December	(6,362)	98,139	87,176

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, net of discounts and returns	449,558	506,570	417,026
Magazine advertising income, net of discounts	17,961	43,591	52,703
Sales of editing and publishing services	2,567	8,897	4,272
	470,086	559,058	474,001
Other revenue			
Interest income	295	466	282
Total revenues	470,381	559,524	474,283

(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*
Crediting:			
Gain on disposal of fixed assets	–	304	165
Net exchange gain	–	378	1,241
Charging:			
Staff costs *(Note 7(f))*	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	–

(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 *(Note 7(t))*	48	1,233	–
Interest on loan from a fellow subsidiary *(Note 7(k))*	–	–	2,890
Other finance charges	424	–	–
	1,148	2,521	3,008

(d) Taxation

Taxation comprised:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Income tax in Taiwan			
– Current year *(note ii)*	9,471	20,190	10,438
– Additional income tax *(note iii)*	–	1,821	4,969
– Under/(over) provision of prior years	292	135	(2,092)
– Deferred taxation *(see Note 7(h))*	(5,719)	(1,519)	(11,980)
	4,044	20,627	1,335

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	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Wages and salaries	69,904	79,350	74,659
Discretionary bonuses	–	95	400
Pension costs – defined benefits plan *(Note 7(o))*	1,677	1,677	1,502
	71,581	81,122	76,561

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	2,197	3,008	3,069
Discretionary bonuses	–	234	197
	2,197	3,242	3,266

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
	5	5	5

Details of the emoluments of employees as mentioned above are as follows:

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Basic salaries and allowances	4,075	2,675	2,813
Bonuses	–	2,217	1,943
	4,075	4,892	4,756

The emoluments of employees fell within the following bands:

	Year ended 31 December		
	2000	**2001**	**2002**
NT$nil – NT$4,000,000 (equivalent to HK$1,000,000)	3	3	3

(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 machinery	**Computer equipment**	**Office equipment furniture and fixtures**	**Motor vehicles**	**Total**
	NT$'000	*NT$'000*	*NT'000*	*NT$'000*	*NT'000*
Cost					
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	(1,255)	8,840	(7,585)	–	–
At 31 December 2000	9,100	8,840	15,044	2,740	35,724
Accumulated depreciation					
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	(426)	3,813	(3,387)	–	–
At 31 December 2000	8,662	3,813	13,258	2,740	28,473
Net book value					
As at 31 December 2000	438	5,027	1,786	–	7,251

	Plant and machinery *NT$'000*	Computer equipment *NT$'000*	Office equipment furniture and fixtures *NT'000*	Motor vehicles *NT$'000*	Total *NT'000*
Cost					
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	6,146	10,402	12,168	1,899	30,615
Accumulated depreciation					
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	6,123	6,991	9,400	1,191	23,705
Net book value					
As at 31 December 2001	23	3,411	2,768	708	6,910

	Plant and machinery *NT$'000*	Computer equipment *NT$'000*	Office equipment furniture and fixtures *NT$'000*	Motor vehicles *NT'000*	Leasehold improvements *NT$'000*	Total *NT'000*
Cost						
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	5,857	12,907	5,557	1,122	2,540	27,983
Accumulated depreciation						
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	5,857	7,584	4,705	549	1,270	19,965
Net book value						
As at 31 December 2002	–	5,323	852	573	1,270	8,018

(h) Deferred tax assets

Movements of deferred tax assets are as follows:

	2000	2001	2002
	NT$'000	*NT$'000*	*NT$'000*
At 1 January	–	5,719	7,238
Charge to results of operations	5,719	1,519	11,980
At 31 December	5,719	7,238	19,218

(i) Inventories

	As at 31 December		
	2000	2001	2002
	NT$'000	*NT$'000*	*NT$'000*
Finished goods – books and magazines	124,997	150,997	192,755
Provision for inventory obsolescence	(18,430)	(16,235)	(61,023)
	106,567	134,762	131,732

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:

	As at 31 December		
	2000	2001	2002
	NT$'000	*NT$'000*	*NT$'000*
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
	18,115	115,217	131,240
Less: Provision for bad and doubtful debts and sales returns	(12,440)	(19,162)	(33,040)
	5,675	96,055	98,200

(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:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
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
	100,864	102,317	106,882

(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:

	2000	**2001**	**2002**
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:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*
Present value of funded obligations	11,271	15,031	17,019
Fair value of plan assets	(4,506)	(6,522)	(8,457)
Present value of unfunded obligations	6,765	8,509	8,562
Unrecognised past service costs	–	(1,942)	(2,199)
Liability in the balance sheet	6,765	6,567	6,363

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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
Total, included in staff costs *(Note 7(f))*	1,677	1,677	1,502

Movement in the liability recognised in the balance sheets:

	As at 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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)
At 31 December	6,765	6,567	6,363

(p) Analysis of changes in equity

	Reserves	**Accumulated deficit**	**Total**
	NT$'000	*NT$'000*	*NT$'000*
As at 1 January 2000	32,000	(48,427)	(16,427)
Profit after taxation	–	65	65
Transfers	10,000	–	10,000
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
As at 31 December 2001	102,960	(4,821)	98,139
Loss after taxation	–	(10,963)	(10,963)
Transfers	4,446	(4,446)	–
As at 31 December 2002	107,406	(20,230)	87,176

(q) Notes to cash flow statements

(i) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operations

	Year ended 31 December		
	2000	**2001**	**2002**
	NT$'000	*NT$'000*	*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)
	20,910	78,778	(3,999)
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)
Net cash inflow/(outflow) generated from operations	16,874	(36,299)	(10,096)

(ii) Analysis of changes in financing during the year

	Loan from a fellow subsidiary			Reserves			Pledged bank deposits			Short term bank loans		
	2000	**2001**	**2002**	**2000**	**2001**	**2002**	**2000**	**2001**	**2002**	**2000**	**2001**	**2002**
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'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	–	–	69,890	42,000	102,960	107,406	(1,200)	(3,000)	(3,000)	12,215	18,877	–

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*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
	27,019	22,099	11,091

(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	**2001**	**2002**
	NT$'000	*NT$'000*	*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 – a fellow subsidiary			
Distribution of magazines and books *(Note i)*	–	–	10,661
Business Weekly Publishing Inc. – a fellow subsidiary			
Interest paid *(Note 7(k))*	–	–	2,890

* *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						
	Cité	**PC Home**	**Sharp Point**	**Business Weekly**	**Adjustments**	*Note*	**Combined**
	NT$'000	*NT$'000*	*NT$'000* (4)	*NT$'000*	*NT$'000*		*NT$'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 expenses	(263,286)	(539,783)	(108,611)	(215,724)	2,333	2	(1,125,071)
Gain on disposal of a 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 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 of minority interests	2,468	(100,626)	65	139,117			41,264
Pro-forma combined profit/(loss) entitled by TOM	2,180	(88,908)	57	123,129		3	36,458

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.

	Cité	PC Home	Sharp Point	Business Weekly	Adjustments	Note	Combined
	Year ended 31 December 2001						
	NT$'000	*NT$'000*	*NT$'000*	*NT$'000*	*NT$'000*		*NT$'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 expenses	(310,052)	(447,913)	(115,977)	(264,144)	3,726	1	(1,134,360)
Gain on disposal of an 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 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 minority interests	61,555	(6,523)	52,451	145,640			201,789
Pro-forma combined profit/(loss) 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						
	Cité	PC Home	Sharp Point	Business Weekly	Adjustments	*Note*	Combined
	NT$'000	*NT$'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 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 minority interests	66,737	87,522	(10,963)	109,859			253,155
Pro-forma combined profit/(loss) 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 Home	Sharp Point	Business 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)
Net current assets	313,928	164,787	66,303	109,958			654,976
Total assets less current liabilities	394,424	292,453	93,539	214,454			994,870
Non-current liabilities							
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)
Net assets	347,676	64,704	87,176	174,471			674,027
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.

F. FINANCIAL INFORMATION ON CETV

I. CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Section V	Year ended 31 December			Six months ended 30 June	
		2000	**2001**	**2002**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	3	–	9,012	3,510	1,027	5,351
Cost of sales		–	46,800	44,143	21,795	22,592
Other revenues	3	(41)	(114)	(42)	(42)	–
Selling and marketing 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		27,605	28,793	28,838	14,357	14,525
Operating loss	4	44,088	123,511	137,423	65,223	65,925
Finance costs	5	13,314	9,057	13,351	6,427	7,348
Loss before taxation		57,402	132,568	150,774	71,650	73,273
Taxation	6	–	–	177	–	103
Loss attributable to Shareholders	7	57,402	132,568	150,951	71,650	73,376
Loss per share	9	HK$1,913	HK$4,419	HK$5,032	HK$2,388	HK$2,446

II(A). CONSOLIDATED BALANCE SHEETS

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

II(B). BALANCE SHEETS OF CETV

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

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section V	Year ended 31 December			Six months ended 30 June	
		2000	**2001**	**2002**	**2002**	**2003**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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		(105,754)	(238,322)	(389,273)	(309,972)	(462,649)

IV. CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 December			Six months ended 30 June	
	Section V	2000	2001	2002	2002	2003
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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)
Net cash used in operating activities		(54,589)	(93,834)	(102,897)	(55,294)	(41,004)
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)
Net cash used in investing activities		(12,940)	(30,610)	(39,575)	(20,581)	(12,897)
Net cash used before financing		(67,529)	(124,444)	(142,472)	(75,875)	(53,901)
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)	–	–	–
Net cash from financing		74,151	130,999	136,077	69,861	54,112
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
Cash and cash equivalents, at 31 December/30 June		242	6,797	402	783	613
Analysis of balances of cash and cash equivalents						
Bank balances and cash		242	6,797	402	783	613

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 $33^1/_3$%
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*
Crediting:					
Forfeiture of amounts due to creditors	9,712	–	–	–	–
Forfeiture of amounts due to directors	8,561	–	–	–	–
Write-back of unrealised airtime deposit	–	8,313	–	–	–
Charging:					
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

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	–	–	–
Total borrowing cost incurred	13,314	9,057	13,351	6,427	7,348

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	(57,402)	(132,568)	(150,774)	(71,650)	(73,273)
Calculated at a taxation rate of 17.5% (2002: 16%, 2001: 16%, 2000: 16%)	(9,184)	(21,211)	(24,124)	(11,464)	(12,823)
Effect of different taxation rates 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	6,857	20,370	23,319	10,943	12,296
Taxation charge	–	–	177	–	103

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	1,988	–	–	–	–
	13,236	30,791	36,127	19,024	20,590

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, 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 as directors	1,988	–	–	–	–
	3,233	1,825	1,830	1,029	978

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, 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:					
– contractual payments	–	–	526	–	–
	2,689	6,378	6,375	3,015	2,693

The emoluments of the individuals fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
Emolument bands	**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	–	–

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

12. Fixed assets – Group and CETV

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Studio and broadcasting equipment *HK$'000*	Motor vehicles *HK$'000*	Total *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

	31 December			30 June
	2000	**2001**	**2002**	**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
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
	2,798	28,052	57,943	74,290
Net book value at 31 December/30 June	2,670	6,641	15,204	10,758

14. Subsidiary – CETV

	31 December			30 June
	2000	**2001**	**2002**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	6	–	–	–
Amount due from the subsidiary	16	–	–	–
	22	–	–	–

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:

	31 December			30 June
	2000	**2001**	**2002**	**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
	–	1,312	2,360	5,224

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, and interest accrued thereon	5,112	5,365	5,626	5,753
– Interest free loans	1,725	1,725	1,725	1,725
	6,837	7,090	7,351	7,478
Less: current portion of other long-term loans	–	–	–	(2,440)
	6,837	7,090	7,351	5,038

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
	6,837	7,090	7,351	7,478

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	9	9	9	9

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

20. Accumulated losses

Group

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

CETV

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

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

	Tax losses
	HK$'000
At 1 January 2000	1,458
Credited to consolidated profit and loss account	561
At 31 December 2000	2,019
Charged to consolidated profit and loss account	(1,008)
At 31 December 2001	1,011
Credited to consolidated profit and loss account	1,371
At 31 December 2002	2,382
Charged to consolidated profit and loss account	(513)
At 30 June 2003	1,869

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

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

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 and film rights	699	25,254	29,891	14,620	16,347
Loss on disposals/write-off of 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)	–	–	–
Operating loss before working capital changes	(56,640)	(86,023)	(105,763)	(49,730)	(48,465)
Increase in trade receivables, prepayments, deposits and other receivables	(320)	(1,440)	(706)	(5,297)	(2,912)
Increase/(decrease) in trade payables, other payables and accruals	946	811	3,851	(1,760)	5,262
Decrease/(increase) in net amounts due from related companies	2,809	(7,180)	(233)	1,493	5,280
Decrease in amounts due to directors	(460)	–	–	–	–
Net cash outflow from operations	(53,665)	(93,832)	(102,851)	(55,294)	(40,835)

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 capital	Obligation under finance lease	Loans from third parties and immediate holding company	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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)
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)
At 31 December 2001	9	–	235,260	235,269
New loans	–	–	136,077	136,077
Accrued interest	–	–	13,351	13,351
At 31 December 2002	9	–	384,688	384,697
New loans	–	–	54,112	54,112
Accrued interest	–	–	7,348	7,348
At 30 June 2003	9	–	446,148	446,157
At 1 January 2002	9	–	235,260	235,269
New loans	–	–	69,861	69,861
Accrued interest	–	–	6,427	6,427
At 30 June 2002	9	–	311,548	311,557

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:

	31 December			30 June
	2000	2001	2002	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
	3,087	1,323	1,264	1,004
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
	252,804	228,946	203,965	190,908
Total	255,891	230,269	205,229	191,912

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:

		Year ended 31 December			Six months 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 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	3,036	8,802	13,097	6,304	7,220

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.

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 Company. 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. DISCLOSURE OF 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

		Number of Shares					Approximate
Name of Directors	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	percentage of shareholding
Sing Wang *(Note)*	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
	9/10/2003	38,000,000	9/10/2003 – 8/10/2013	2.505
Tommei Tong	9/10/2003	15,000,000	9/10/2003 – 8/10/2013	2.505
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
	9/10/2003	6,850,000	9/10/2003 – 8/10/2013	2.505

(c) Short positions in associated corporations

Mr. Wang Lei Lei has as of 12 June 2001 granted an option to a wholly-owned subsidiary of the Company in respect of his 20% (RMB2,200,000) equity interest in Beijing Lei Ting Wan Jun Network Technology Company Limited (北京雷霆萬鈞網絡科技有限責任公司 ("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. In addition, Mr. Wang Lei Lei has also pledged all his equity interest in 雷霆萬鈞 to the aforesaid wholly-owned subsidiary of the Company, which also serves to secure his obligations under the option.

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)*	37.05%
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)*	37.05%
Li Ka-Shing Unity Trustcorp Limited *(as trustee of another discretionary trust)*	Trustee & beneficiary of a trust	1,429,024,545 *(Notes 1 & 2)*	37.05%
Li Ka-Shing Unity Trustee Company Limited *(as trustee of The Li Ka-Shing Unity Trust)*	Trustee	1,429,024,545 *(Notes 1 & 2)*	37.05%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,429,024,545 *(Notes 1 & 2)*	37.05%
Cheung Kong Investment Company Limited	Interest of controlled corporations	476,341,182 *(Note 1)*	12.35%
Cheung Kong Holdings (China) Limited	Interest of controlled corporations	476,341,182 *(Note 1)*	12.35%
Sunnylink Enterprises Limited	Interest of a controlled corporation	476,341,182 *(Note 1)*	12.35%
Romefield Limited	Beneficial owner	476,341,182 *(Note 1)*	12.35%
Hutchison Whampoa Limited	Interest of a controlled corporation	952,683,363 *(Note 2)*	24.70%
Hutchison International Limited	Interest of a controlled corporation	952,683,363 *(Note 2)*	24.70%
Easterhouse Limited	Beneficial owner	952,683,363 *(Note 2)*	24.70%
Chau Hoi Shuen	Interest of controlled corporations	952,683,363 *(Note 3)*	24.70%
Cranwood Company Limited	Beneficial owner & interest of controlled corporations	952,683,363 *(Note 3)*	24.70%
Schumann International Limited	Beneficial owner	580,000,000 *(Note 3)*	15.04%
Handel International Limited	Beneficial owner	348,000,000 *(Note 3)*	9.02%

Notes:

(1) Romefield Limited is a wholly-owned subsidiary of Sunnylink 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 Sunnylink 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 ad 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%
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%

Name of subsidiaries	Name of Shareholders	No. and class of shares held	Percentage of shareholding
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%
廣州鴻翔音像有限公司	廣州市鴻翔影視有限公司	Registered capital RMB690,000	50%
Hong Xiang Entertainment (Hong Kong) Co. Ltd	Zhang Hongcheng (alias Zhang Baocheng)	1 ordinary share	50%
China Entertainment Television Broadcast Limited	Turner Broadcasting System Asia Pacific, Inc.	10,778 ordinary shares	35.93%

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 Hutchison Whampoa Limited ("HWL") and directors of certain of its associates (collectively referred to as "HWL Group"). Mr. Frank Sixt is also a non-executive director of Cheung Kong (Holdings) Limited ("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 HWL Group and 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 LTWJi whose main business consists of the provision of wireless data services. Mr. Wang Lei Lei has granted an option to Puccini (wholly-owned by Cranwood), under which, Puccini is entitled at any time to acquire all of Mr. Wang Lei Lei's equity interests in LTWJi. The Directors believe that there is a risk that such business may compete with those of the TOM Group. However, the Directors are also of the view that the invaluable experience of Mr. Wang 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 of the Company 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 203,843,000 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 187,647,000 Shares (which includes the options granted to Mr. Sing Wang, Ms. Tommei Tong, 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:

Date of grant	**No. of share options**	**No. of employees**	**Subscription price per Share** *HK$*	**Option period* (commencing from date of grant and terminating ten years thereafter)**
23/3/2000	2,722,000	64	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	1,240,000	37	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	18,782,000	155	5.30	8/8/2000 – 7/8/2010
15/11/2000	15,000,000	1	5.30	15/11/2000 – 14/11/2010
7/2/2002	38,030,000	9	3.76	7/2/2002 – 6/2/2012
9/10/2003	106,541,000	57	2.505	9/10/2003 – 8/10/2013

* 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. EXPERTS

The following is the qualification of the experts who have given opinion or advice, which is contained in this circular:

Name	Qualification
Rothschild	Restricted licence bank and deemed registered institution
PricewaterhouseCoopers	Certified public accountants

As at the Latest Practicable Date, Rothschild and PricewaterhouseCoopers have given and have not withdrawn their respective written consents to the issue of this circular with inclusion of their opinions and letters, as the case may be, which have been prepared for inclusion in this circular, and references to their names in the form and context in which they are respectively included.

As at the Latest Practicable Date, neither Rothschild nor PricewaterhouseCoopers 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:

	HK$
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 framework agreement dated 24 October 2001 entered into between Beijing GreaTom United Technology Company Limited ("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.

2. An agreement (代付代購協議) dated 24 October 2001 entered into between TOM.COM (China) Investment Limited ("TOM China") and 賽爾網絡有限公司 ("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.

3. A supplemental agreement No. 1 to the HMG Subscription Agreement dated 31 October 2001 entered into between Home Media Group Limited ("HMG"), Domatic International Limited ("Domatic"), persons named in Exhibit A, B, C & D of the HMG Subscription Agreement, PC Home, Cité and TOM.COM INTERNATIONAL LIMITED ("TOM International").

4. A Shareholders' agreement dated 31 October 2001 entered into between Domatic, Mr. Jan Hung-Tze ("Mr. Jan"), Ho Fei-Peng ("Mr. Ho"), HMG, TOM International and persons named in Schedule 1 to the Shareholders' agreement.

5. 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.

6. 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.

7. 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 北京唐碼國際廣告有限公司("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.

8. 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.

9. 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.

10. An escrow agreement dated as of 30 November 2001 entered into between T Holdings Limited ("T Holdings"), Green Treasure Holdings Limited ("Green Treasure"), Cranwood 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.

11. 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.

12. 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.

13. A loan assignment deed dated 30 November 2001 entered into between T Holdings, Green Treasure and T Advertising Limited ("T Advertising") whereby T Holdings agreed to assign to Green Treasure its rights in the loan owed by T Advertising to T Holdings.

14. 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.

15. A deed of novation dated 6 December 2001 entered into between York Island (Guangzhou) Limited ("YIG") as assignor, Perfect Team Limited ("Perfect") as assignee and TOM Centro Limited ("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 Group Limited ("ADV"), China Media Network (BVI) Limited ("China Media"), YIG and Capital Standard Management Limited ("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.

16. 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.

17. A facility letter dated 10 December 2001 to the Company from Cranwood under which Cranwood advanced a Shareholder's loan to the Company.

18. 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.

19. 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.

20. 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.

21. A supplemental loan agreement dated as at 15 December 2001 entered into between 深圳市新飛網信息技術有限公司 ("Shenzhen Freenet") as borrower and Mr. Sing Wang as lender.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

30. 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.

31. 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.

32. 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 深圳市新易網通網絡信息技術有限公司(「新易網通」).

33. 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.

34. 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.

35. A loan agreement dated 28 December 2001 between Lahiji Vale Limited ("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.

36. A loan agreement dated 28 December 2001 between Lahiji and Ms. Wang whereby Lahiji agreed to grant a loan to Ms. Wang for general working capital of 雷霆萬鈞.

37. 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.

38. A share pledge agreement dated 28 December 2001 entered into between Lahiji and Ms. Wang whereby Ms. Wang agreed to pledge her entire equity interest in 雷霆萬鈞 to Lahiji.

39. A sole exclusive right to purchase shares agreement dated 28 December 2001 entered into among others, Lahiji, Mr. Wang Lei Lei and Ms. Wang in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 雷霆萬鈞.

40. An agreement dated 31 December 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 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.

41. A settlement agreement entered into between BNI Business Network Corporation ("BNI"), Beijing Business News International Information Co., Mr. Jan and HMG in 2002.

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. 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.

56. 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.

57. A share pledge agreement dated 10 April 2002 entered into between 深圳市新飛訊能廣告有限公司(「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.

58. 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.

59. 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.).

60. 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.

61. 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.

62. A supplemental Shareholders' agreement dated 3 June 2002 entered into between AA Stock International Limited ("AA Stocks"), All Asia Financial LLC ("All Asia"), TOM Stocks Limited ("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.

63. A share transfer agreement dated 17 June 2002 entered into between TOM International and TOM China, pursuant to which TOM International agreed to transfer all of its shareholding in Shanghai Super Channel to TOM China.

64. A framework agreement dated 21 June 2002 entered into between TOM OMG, Sano Jinxiang Advertising Company Limited and Mr. Wang Cheng-cheng whereby TOM OMG has agreed to acquire 60% of the equity interest in Shenyang Sano Global Media Company Limited, as amended by a supplemental agreement dated 20 December 2002 entered into between the same parties.

65. 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.

66. 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.

67. 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.

68. 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.

69. 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.

70. 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.

71. 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.

72. A memorandum of understanding ("ATV.com MOU") dated 9 July 2002 entered into between TOM Television Group Limited (which is a company incorporated in the British Virgin Islands with limited liability) ("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.

73. 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.

74. A loan agreement dated 25 July 2002 entered into between Devine Gem, Mr. Wang Lei Lei and Ms. Wang, pursuant to which Devine Gem provided Mr. Wang Lei Lei and Ms. Wang a certain sum respectively, to be invested exclusively in LTWJi.

75. 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, as amended by the supplemental agreements dated 20 December 2002 and 15 January 2003 entered into between the same parties.

76. A share transfer agreement dated 8 August 2002 entered into between Mr. Wang Lei Lei and Ms. Wang whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 雷霆萬鈞 to Ms. Wang.

77. A share transfer agreement dated 8 August 2002 entered into between Mr. Wang Lei Lei and Ms. Wang whereby Mr. Wang Lei Lei agreed to transfer his entire equity interest in 唐碼國際廣告to Ms. Wang.

78. A sole exclusive right to purchase shares agreement dated 8 August 2002 entered into among others, Lahiji, Ms. Wang and Mr. Wang Lei Lei in relation to the sole exclusive right for Lahiji to purchase entire equity interest of 雷霆萬鈞.

79. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang whereby Ms. Wang agreed to pledge her entire equity interest in 雷霆萬鈞 to Lahiji.

80. 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.

81. A loan agreement dated 8 August 2002 between Lahiji and Ms. Wang whereby Lahiji agreed to grant a loan to Ms. Wang for general working capital of 雷霆萬鈞.

82. 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.

83. A sole exclusive right to purchase shares agreement dated 8 August 2002 entered into among others, Lahiji, Ms. Wang 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.

84. A share pledge agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang whereby Ms. Wang agreed to pledge her entire equity interest in 唐碼國際廣告 to Lahiji.

85. 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.

86. A loan agreement dated 8 August 2002 entered into between Lahiji and Ms. Wang whereby Lahiji agreed to grant a loan to Ms. Wang for general working capital of 唐碼國際廣告.

87. 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.

88. 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").

89. A termination agreement dated 19 August 2002 entered into between TOM TV and eSun terminating the ATV.com MOU.

90. A termination agreement dated 19 August 2002 entered into between TOM TV (HK) and Lai Sun terminating the ATV MOU.

91. A loan agreement dated 21 August 2002 entered into between Commercelink Profits Limited ("Commercelink"), AIS and Mr. Wang Lei Lei whereby AIS advanced to Mr. Wang Lei Lei a certain sum for his onward lending to Commercelink.

92. 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.

93. 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.

94. 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").

95. A pledge agreement dated 1 September 2002 entered into between Qilu, Jinan Qilu and Qilu Media.

96. 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.

97. A capital transfer agreement dated 5 September 2002 entered into between Mr. Wang Lei Lei, Ms. Wang and 昆明風馳企業管理顧問諮詢有限公司(「風馳顧問」), under which, Mr. Wang Lei Lei agreed to transfer his capital injected in 風馳顧問 to Ms. Wang.

98. A sole exclusive right to purchase shares agreement dated 5 September 2002 entered into among others, Hitech Profits Limited ("Hitech"), Li Jian, Ms. Wang and Mr. Wang Lei Lei in relation to the sole exclusive right for Hitech to purchase entire equity interest of 風馳顧問.

99. A share pledge agreement dated 5 September 2002 entered into between Hitech and Ms. Wang whereby Ms. Wang agreed to pledge her entire equity interest in 風馳顧問 to Hitech.

100. 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.

101. 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.

102. 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.

103. 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.

104. 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.

105. A Shareholders' agreement dated 20 September 2002 ("TML Shareholders' Agreement") entered into between Modern Perfect, Spectrum International, Mr. Venancio and Tennis Management.

106. 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.

107. 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.

108. 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.

109. 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, 28 May 2003, 25 June 2003 and 27 August 2003 with respect to the extension of the appointment of BLG as an escrow agent.

110. 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.

111. 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.

112. A deed of adherence dated 29 October 2002 given by Windsor Hill Corporation in favour of Diamond and TOM International.

113. A supplemental agreement dated 29 October 2002 entered into between Diamond and PC Home which supplements to the BW Stock Purchase Agreement.

114. A deed of adherence dated 29 October 2002 given by PC Home in favour of Diamond and TOM International.

115. 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.

116. A deed of adherence dated 29 October 2002 given by Golden River Holdings Limited in favour of Diamond and TOM International.

117. A pledge agreement dated 1 November 2002 entered into between Seeout and Seeout Media.

118. An ISP cooperation agreement dated 4 November 2002 between 雷霆萬鈞 and Cernet Information Technology Company Limited ("CIT"), as amended in May 2003. Pursuant to this agreement, CIT provides a dial-in number to customers of 雷霆萬鈞 to access the Internet and 雷霆萬鈞 pays a monthly usage fee. In addition, the parties share the profits equally. Notwithstanding the above, 雷霆萬鈞 will pay a fixed monthly usage fee to CIT for the period from May 2003 to October 2003. This agreement will expire on 1 November 2003, with an automatic extension of one year if no party objects.

119. 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.

120. 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.

121. A license agreement dated 21 November 2002 between CIT and 雷霆萬鈞 pursuant to which, 雷霆萬鈞 granted a license to CIT to use the TOMNET trademark, but CIT does not have the right to sub-license the TOMNET trademark to any third parties without prior consent from 雷霆萬鈞. 雷霆萬鈞 also permits CIT to use various related network resources and customer information of TOMNET. The term of this agreement is from 21 November 2002 to 20 November 2004.

122. 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.

123. 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 in relation to the sole exclusive right for AIS to purchase the entire equity interest of Shenzhen Freenet.

124. A share pledge agreement dated 25 November 2002 entered into between AIS and Ms. Wang whereby Ms. Wang agreed to pledge her entire equity interest in Shenzhen Freenet to AIS.

125. 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.

126. 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.

127. 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.

128. 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.

129. 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.

130. 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 2 November 2000 to Mr. Wang Lei Lei.

131. 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.

132. 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.

133. 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.

134. 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.

135. 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.

136. 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.

137. A loan agreement dated 25 November 2002 entered into between Ms. Wang, AIS and Shenzhen Freenet, pursuant to which AIS granted Ms. Wang a loan facility, the proceeds of which shall be used exclusively towards the working capital of Shenzhen Freenet or Beijing Redsail Netlegend Data Network Technology Company Limited ("Redsail"). AIS has a right to demand payment of loan at any time.

138. A loan agreement dated 25 November 2002 entered into between AIS, Ms. Wang and Shenzhen Freenet, pursuant to which AIS agreed to grant a certain sum to Ms. Wang for the exclusive purpose of contributing towards registered capital of Shenzhen Freenet.

139. 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.

140. 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.

141. 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.

142. 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.

143. 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.

144. 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.

145. 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.

146. 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.

147. 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.

148. 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.

149. 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.

150. A sale and purchase agreement dated 3 December 2002 entered into between Texcept and Team Wish Enterprises Limited relating to the purchase of assets.

151. 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.

152. A capital transfer agreement dated 2 December 2002 entered into between Shenzhen Freenet, Ms. Zhang Jing ("Ms. Zhang") and Mr. Zhang Hongcheng (as known as Mr. Zhang), pursuant to which Ms. Zhang agreed to transfer all her capital injected in 廣州市鴻翔音像製作有限公司 ("Hong Xiang") and Mr. Zhang agreed to transfer part of his capital injected in Hong Xiang to Shenzhen Freenet.

153. 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).

154. A subscription agreement dated 27 December 2002 ("Cité Subscription Agreement") entered into between Cité Publishing Holding Limited ("Cité Publishing Holding"), TOM Print Media Group Limited ("TOM Print Media"), persons named in schedule 1 of Cité Subscription Agreement and Mr. Jan in respect of subscription of new shares in Cité 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.

155. A share sale and purchase agreement dated 17 January 2003 entered into between TOM Print Media and Business Weekly.

156. 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.

157. A stock purchase agreement dated 14 February 2003 entered into between TOM Print Media, Cité Publishing Holding and Mr. Jan with respect to the acquisition of up to an aggregate of 11.645% of the issued share capital of Cité 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.

158. 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.

159. 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.

160. A surrender agreement dated 14 April 2003 entered into between Metro Broadcast Corporation Limited and the Company.

161. A framework agreement dated 30 April 2003 entered into between TOM International, 北京紅帆譽翔公用電話有限公司("Redsail Yuxiang") and 北京三錦泰和科技發展有限公司(「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.

162. 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.

163. 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.

164. A lease agreement dated 3 June 2003 entered into between LTWJi and Redsail. Pursuant to this lease agreement, LTWJi agreed to lease from Redsail two seats in its customer service center in Beijing so that LTWJi can provide customer services to its users of wireless IVR services. This agreement expires on 3 June 2004. LTWJi entered into a supplemental lease agreement with Redsail on 9 September 2003 to lease 12 additional seats.

165. 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.

166. A tenancy agreement dated 16 June 2003 entered into between 北京經開科創科技孵化器有限公司 and LTWJi, in relation to the lease of Room 422, Block A, No. 12 Hong Huan Bei Lu, Beijing Economic and Technology Development District, Beijing, the PRC for a period of one year expiring on 16 June 2004.

167. A sub-tenancy agreement dated 15 June 2003 entered into between TOM China and TOM International (Beijing Representative Office) in relation to the sub-lease of the room 908D of 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.

168. A sub-tenancy agreement dated 15 June 2003 entered into between TOM China and 北京國佳通信息諮詢有限公司 in relation to the sub-lease of the room 902C of 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.

169. A sub-tenancy agreement dated 15 June 2003 entered into between TOM China and TOM OMG (Beijing Representative Office) in relation to the sub-lease of the room 902B of 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.

170. 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.

171. 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.

172. A share purchase agreement dated 2 July 2003 entered into between Turner Broadcasting System Asia Pacific, Inc. ("TBSAP"), TOM TV, Turner Broadcasting System, Inc. ("TBS") and the Company relating to the sale and purchase of 64.07% of the issued share capital of CETV, as amended on 28 August 2003 entered into the same parties.

173. 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 International Multimedia Limited.

174. 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 Wah Peng, Robert.

175. 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.

176. 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.

177. 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.

178. 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.

179. 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.

180. A financing facility agreement dated 10 July 2003 entered into between 1) Cité, Business Weekly, PC Home and Sharp Point as the co-borrowers; 2) The Development Bank of Singapore Ltd, Taipei Branch, Credit Lyonnais, Taipei Branch, United Overseas Bank Limited, Taipei Branch, Bank Sinopac, The Bank of Nova Scotia, Taipei Branch as the banks; 3) The Development Bank of Singapore Ltd as the coordinating arranger and facility agent; and 4) Bank Sinopac as the fiscal agent;

181. 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.

182. 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 1,260,068 shares of the Company by Redsail Yuxiang in favour of 雷霆萬鈞 and Redsail.

183. 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 282,872 shares of the Company by 三錦泰Min favour of 雷霆萬鈞 and Redsail.

184. An agreement dated 21 July 2003 entered into between Cite 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.

185. An escrow letter dated 2 September 2003 relating to the appointment of Scotiatrust (Asia) Limited ("Scotiatrust") as an escrow agent by Redsail Yuxiang, Redsail, 雷霆萬鈞 and 趙學英 to hold the certificate for 1,260,068 ordinary shares of the Company.

186. An escrow letter dated 2 September 2003 relating to the appointment of Scotiatrust as an escrow agent by 三錦泰和, Redsail, 雷霆萬鈞 and 趙學英 to hold the certificate for 282,872 ordinary shares of the Company.

187. A Shareholders' deed dated 15 September 2003 entered into between TOM TV, TBSAP, the Company, TBS and CETV under which, among other things, TOM TV will provide CETV with funding for working capital purposes of CETV as determined by the board of directors of CETV from time to time.

188. A option deed dated 15 September 2003 entered into between TOM TV, TBSAP, the Company and TBS, pursuant to which TOM TV agreed to grant to TBSAP a call option over all of the 19,222 ordinary shares of HK$0.30 each in the capital of CETV held by TOM TV upon the terms and subject to the conditions set out in the deed.

189. A program management agreement dated 15 September 2003 entered into between TBSAP, CETV and TOM TV, under which TBSAP will provide certain programming management services to CETV at such fee agreed by TBSAP and CETV.

190. An asset purchase agreement dated 15 September 2003 entered into between TBSAP and CETV, pursuant to which CETV will acquire from TBSAP certain office equipments (such as computers and printers) at a consideration of HK$1 upon the terms and subject to the conditions set out in the agreement.

191. A tax deed dated 15 September 2003 entered into between TBSAP and CETV, pursuant to which 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 15 September 2003 and which are not disclosed in the audited accounts of CETV for the years ended 31 December 2001 and 31 December 2002, respectively

192. A tenancy agreement dated 16 September 2003 entered into between 滙龍森國際企業孵化（北京）有限公司 and Puccini, in relation to the lease of Room B407-5, No. 14 Zhong He Street, Beijing Economic and Technology Development District, Beijing, the PRC for a period of one year expiring on 30 September 2004.

193. A restructuring agreement dated 20 September 2003 entered into between the Company, TOM Online Inc. and Rich Wealth Holdings Limited ("Rich Wealth"), pursuant to which the Company and Rich Wealth agreed to transfer to TOM Online Inc. their 100% interest in the issued share capital of Lahiji, Laurstinus and AIS, respectively.

194. A license agreement dated 21 September 2003 (as amended on the same date) entered into between Dragonfly GF Co, Ltd. ("Dragonfly") as a licensor and 雷霆萬鈞 as a licensee, pursuant to which Dragonfly agreed to grant 雷霆萬鈞 the license to market, sell, distribute and publish "KARMA ONLINE" program and related user documentation for use.

195. A sale and purchase agreement dated 25 September 2003 entered into between Cranwood as a vendor, Bright Horizon as a purchaser, the Company as a guarantor and TOM Online Inc. as a guarantor with respect to the sale and purchase of the entire issued share capital of Puccini, which provides wireless IVR services in China through LTWJi.

196. A supplemental loan agreement dated 26 September 2003 entered into between Lahiji and Ms. Wang whereby Lahiji agreed to provide Ms. Wang a long term loan to be invested exclusively in 雷霆萬鈞, which supplements to the loan agreement dated 8 August 2002 entered into the same parties.

197. A supplemental loan agreement dated 26 September 2003 entered into between AIS and Ms. Wang whereby AIS agreed to provide Ms. Wang a long term loan to be invested exclusively in Shenzhen Freenet, which supplements to the loan agreement dated 25 November 2002 entered into the same parties.

198 A loan agreement dated 26 September 2003 entered into between AIS and Mr. Sheng Yong whereby AIS agreed to provide Mr. Sheng Yong a long term loan to be invested exclusively in Shenzhen Freenet.

199. A supplemental share pledge agreement dated 26 September 2003 entered into between Beijing Super Channel, Lahiji and Ms. Wang relating to the novation of all rights, obligations and liabilities from Lahiji to Beijing Super Channel, pursuant to the share pledge agreement dated 8 August 2002 entered into between Ms. Wang and Lahiji. Pursuant to the supplemental share pledge agreement, Ms. Wang pledges to Beijing Super Channel all of her interest in 雷霆萬鈞 to guarantee the performance by 雷霆萬鈞 of its obligations under the exclusive

technical and consulting services agreement between 雷霆萬鈞 and Beijing Super Channel. The term of the agreement is from the date of the registration of this pledge with the relevant PRC regulatory authority until the termination or expiration of the exclusive technical and consulting services agreement between Beijing Super Channel and 雷霆萬鈞.

200. A share pledge agreement dated 26 September 2003 entered into between Beijing Super Channel and Mr. Wang Lei Lei, pursuant to which Mr. Wang Lei Lei pledges to Beijing Super Channel all of his interest in 雷霆萬鈞 to guarantee the performance by 雷霆萬鈞 of its obligations under the exclusive technical and consulting services agreement between 雷霆萬鈞 and Beijing Super Channel. The term of the agreement is from the date of the registration of this pledge with the relevant PRC regulatory authority until the termination or expiration of the exclusive technical and consulting services agreement between Beijing Super Channel and 雷霆萬鈞.

201. A share pledge agreement dated 26 September 2003 entered into between Beijing Super Channel and Mr. Sheng Yong, pursuant to which Mr. Sheng Yong pledges to Beijing Super Channel all of his interest in Shenzhen Freenet to guarantee the performance by Shenzhen Freenet of its obligations under the exclusive technical and consulting services agreement between Shenzhen Freenet and Beijing Super Channel. The term of the agreement is from the date of the registration of this pledge with the relevant PRC regulatory authority until the termination or expiration of the exclusive technical and consulting services agreement between Beijing Super Channel and Shenzhen Freenet.

202. A share pledge agreement dated 26 September 2003 entered into between Beijing Super Channel and Ms. Wang, pursuant to which Ms. Wang pledges to Beijing Super Channel all of her interest in Shenzhen Freenet to guarantee the performance by Shenzhen Freenet of its obligations under the exclusive technical and consulting services agreement between Shenzhen Freenet and Beijing Super Channel. The term of the agreement is from the date of the registration of this pledge with the relevant PRC regulatory authority until the termination or expiration of the exclusive technical and consulting services agreement between Beijing Super Channel and Shenzhen Freenet.

203. A share option agreement dated 26 September 2003 entered into between Ms. Wang, Lahiji and 雷霆萬鈞, pursuant to which Ms. Wang granted Lahiji an exclusive option to purchase all of her interest in 雷霆萬鈞 when permitted by PRC law. The term of each of this agreement is 10 years from the date of execution.

204. A share option agreement dated 26 September 2003 entered into between Mr. Wang Lei Lei, Lahiji and 雷霆萬鈞, pursuant to which Mr. Wang Lei Lei granted Lahiji an exclusive option to purchase all of his interest in 雷霆萬鈞 when permitted by PRC law. The term of each of this agreement is 10 years from the date of execution.

205. A share option agreement dated 26 September 2003 entered into between Ms. Wang, AIS and Shenzhen Freenet, pursuant to which Ms. Wang granted AIS an exclusive option to purchase all of her interest in Shenzhen Freenet when permitted by PRC law. The term of each of this agreement is 10 years from the date of execution.

206. A share option agreement dated 26 September 2003 entered into between Mr. Sheng Yong, AIS and Shenzhen Freenet, pursuant to which Mr. Sheng Yong granted AIS an exclusive option to purchase all of his interest in Shenzhen Freenet when permitted by PRC law. The term of each of this agreement is 10 years from the date of execution.

207. A business operation agreement dated 26 September 2003 entered into between Beijing Super Channel, 雷霆萬鈞, Ms. Wang and Mr. Wang Lei Lei, pursuant to which Beijing Super Channel agreed to act as a performance guarantor for 雷霆萬鈞 in respect of its transactions with third parties. In return, 雷霆萬鈞 granted Beijing Super Channel a security interest over all of its assets. In addition, 雷霆萬鈞 and all of its Shareholders agreed that 雷霆萬鈞 will not carry on any transactions that may materially adversely affect its operations and will appoint Beijing Super Channel's designees as its directors, chief executive officer and other senior officers. The term of this agreement is ten years from the date of execution.

208. A business operation agreement dated 26 September 2003 entered into between Beijing Super Channel, Shenzhen Freenet, Ms. Wang and Mr. Sheng Yong, pursuant to which Beijing Super Channel agreed to act as a performance guarantor for Shenzhen Freenet in respect of its transactions with third parties. In return, Shenzhen Freene granted Beijing Super Channel a security interest over all of its assets. In addition, Shenzhen Freenet and all of its Shareholders agreed that Shenzhen Freenet will not carry on any transactions that may materially adversely affect its operations and will appoint Beijing Super Channel's designees as its directors, chief executive officer and other senior officers. The term of this agreement is ten years from the date of execution.

209. A novation agreement dated 26 September 2003 entered into between AIS, Ms. Wang and Mr. Sheng Yong, pursuant to which Mr. Sheng Yong assumes all of the rights and obligations of Ms. Wang with respect certain loans borrowed by Ms. Wang.

210. A tenancy agreement dated 13 October 2003 entered into between Southland Company Limited and TOM (Cup Magazine), in relation to the lease of whole floor of Park Commercial Centre of No. 180 Tung Lo Wan Road, Hong Kong for a period of two years expiring on 9 October 2005.

11. GENERAL

(a) The head office and principal place of business of the Company is at 48th 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 three independent non-executive Directors, namely Mrs. Angelina Lee, Mr. Henry Cheong and Ms. Anna Wu, further details of whom are set out below:

Mrs. Angelina Lee, 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.

Mr. Henry Cheong, 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.

Ms. Anna Wu, aged 52, is a qualified solicitor. She holds a Bachelor of Laws degree and a Post-Graduate Certificate in Laws from the University of Hong Kong. She is currently a non-executive director of the Securities & Futures Commission and a non-executive director of the Mandatory Provident Fund Schemes Authority. Previously she was the chairperson of the Equal Opportunities Commission, chairperson of the Operations Review Committee of the Independent Commission Against Corruption, chairperson of the Consumer Council and a member of the Legislative Council.

Ms. Tommei Tong, aged 38, is Chief Financial Officer and an executive Director. Prior to joining TOM, she was a partner of Arthur Anderson & 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:

a. 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

b. 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 48th 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 19 November 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 and 2002 and half-year report of the Company for the six months ended 30 June 2003;

(f) the letter from Rothschild, the text of which is set out in pages 47 to 69 of this circular;

(g) the accountants' reports and the letter from PricewaterhouseCoopers, the texts of which are set out on pages 72 to 157 of this circular;

(h) the written consents of Rothschild and PricewaterhouseCoopers referred to in paragraph 8 of this appendix;

(i) each of the circulars of the Company issued since 1 January 2003;

(j) the Sale and Purchase Agreement; and

(k) the disclosure letter dated 25 September 2003 from Cranwood to Bright Horizon.

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 (the "Meeting") of TOM.COM LIMITED ("the Company") will be held at the Grand Ballroom I, Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 19 November 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 conditional sale and purchase agreement dated 25 September 2003 entered into between Bright Horizon Enterprises Limited ("Bright Horizon"), TOM Online Inc. ("TOM Online"), the Company and Cranwood Company Limited ("Cranwood") (the "Sale and 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, the acquisition of one share of US$1 in the capital of Puccini International Limited ("Puccini"), representing the entire issued share capital of Puccini, by Bright Horizon from Cranwood at a consideration comprising the Initial Consideration (as defined and more particularly described in the circular dated 3 November 2003 of the Company (the "Circular")) and the Earn-Out Consideration (as defined and more particularly described in the Circular) upon the terms and subject to the conditions set out in the Sale and Purchase Agreement and the execution by each of Bright Horizon, TOM Online and the Company of, and the performance of its obligations under, the Sale and Purchase Agreement be and are hereby generally and unconditionally approved, confirmed and ratified; and

(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 Sale and Purchase Agreement as the Directors may consider necessary, desirable or appropriate in connection therewith."

2. "**THAT** subject to the passing of ordinary resolution number 1 set out in this notice convening the Meeting at which this resolution is proposed, the allotment and issue to Cranwood of the TOM Consideration Shares (as defined and more particularly described in the Circular) by the Company or, as the case may be, the Consideration Shares (as defined and more particularly described in the Circular) by TOM Online upon and subject to the conditions set out in the Sale and Purchase Agreement be and is hereby approved."

3. "**THAT** subject to the passing of ordinary resolutions number 1 and 2 set out in this notice convening the Meeting at which this resolution is proposed, the Continuing Connected Transactions as described in the paragraph headed "Contractual Arrangements" in the letter from the board of Directors of the Company set out in the Circular be and are hereby approved and the Directors be and are hereby authorised to sign any document and/or do anything on behalf of the Company which they may consider desirable or appropriate for the purposes of implementing and/or giving effect to the Continuing Connected Transactions as the Directors may consider necessary or desirable or appropriate in connection therewith."

By Order of the Board
TOM.COM LIMITED
Angela Mak
Company Secretary

Hong Kong, 3 November 2003

Head office and principal place of business:
48th 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 48th 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.