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TOM Group Limited

TOM集團有限公司\*

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

(Stock Code: 8001)

**DISCLOSEABLE TRANSACTION**

**INVOLVING CASH CONSIDERATION AND ISSUANCE OF NEW SHARES**

**in respect of**

**the acquisition of 50% of the equity interest in Hong Xiang New Co.,**

**a company established in the People's Republic of China**

**which is engaged in the business of making of, distribution and sale of**

**audio and video products**

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

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## CHARACTERISTICS OF GEM

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

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

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

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## DEFINITIONS

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

“10-day Average Price”	means HKD1.88, being the average closing price per TOM Share for the 10 consecutive trading days immediately before and including the date of the Supplemental Agreement as quoted on the Stock Exchange
“Agreement”	means a cooperation framework agreement entered into between TOM Solutions and Mr. Zhang in respect of the Hong Xiang Acquisition on 5th March, 2002 (as amended by four supplemental agreements dated 27th December, 2002, 30th June, 2003, 31st December, 2003 and 31st March, 2004, respectively)
“Asset Acquisition”	means the transfer by Hong Xiang of all the business/assets in relation to the making of (including manufacturing through outsourcing), distribution and sale of audio and video products owned by it as at the date of the Agreement to Hong Xiang New Co. upon the establishment of Hong Xiang New Co.
“Associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	means the board of Directors
“BVI”	means the British Virgin Islands
“BVI Shareholder”	means Prime Digital Limited, a company incorporated in the BVI with limited liability and wholly-owned by TOM Solutions. As at the Latest Practicable Date, the BVI Shareholder owns 50% of the equity interest in Hong Xiang New Co.
“Cash Consideration”	means a sum of RMB45,000,000 (approximately HKD42,452,830) paid to Mr. Zhang in cash as part of the Consideration
“Completion”	means completion of the Hong Xiang Acquisition which took place on 8th April, 2004
“Consideration”	means the consideration for the Hong Xiang Acquisition paid by TOM Solutions to Mr. Zhang (being an amount of RMB110,131,730 (approximately HKD103,897,858), which comprises the Cash Consideration and the Consideration Shares
“Consideration Shares”	means 11,151,548 TOM Shares credited as fully paid at HKD5.51 per TOM Share allotted and issued to Mr. Zhang on 19th April, 2004 as part of the Consideration

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## DEFINITIONS

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“Director(s)”	means the director(s) of TOM
“Earn-out Payment”	means a sum of RMB15,000,000 (approximately HKD14,150,943) payable by TOM Solutions to Mr. Zhang and/or his nominee(s) by way of issuance and allotment of the Incentive Shares
“Enlarged Capital”	means 3,891,981,594 TOM Shares in issue upon the issuance and allotment of the Incentive Shares assuming that there are no further issues of TOM Shares from the Latest Practicable Date up to the date of such issue other than the Incentive Shares
“Equity Transfer”	means the acquisition by TOM Nominee of 1% of the equity interest in Hong Xiang New Co. from the PRC Shareholder
“Existing Capital”	means 3,889,413,365 TOM Shares in issue as at the Latest Practicable Date
“GEM”	means the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on GEM
“HKD”	means Hong Kong dollars
“HKGAAP”	means the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hong Xiang”	means廣州市鴻翔音像製作有限公司 (Guangzhou Hong Xiang Audio-Video Production Company Limited), a domestic limited liability company organized and existing under the laws of the PRC. As at the Latest Practicable Date, transfer of equity interest in Hong Xiang has been effected (subject to receipt of regulatory approval), Hong Xiang will be owned as to 50% by Mr. Zhang and as to 50% by Ms. Zhang
“Hong Xiang Acquisition”	means the acquisition by TOM Solutions of 50% of the equity interest in Hong Xiang New Co. through the Equity Transfer and the Share Acquisition pursuant to the Agreement

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## DEFINITIONS

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“Hong Xiang Advertising”	means 吉林省鴻翔音像廣告有限公司 (Jilin Hong Xiang Audio-Video Advertising Company Limited), a domestic limited liability company organized and existing under the laws of the PRC which is engaged in the business of retail distribution of audio video products and is independent from the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates. As at the Latest Practicable Date, as advised by Mr. Zhang, Hong Xiang Advertising is controlled by him
“Hong Xiang New Co.”	means 廣州鴻翔音像有限公司 (Guangzhou HongXiang Audio-Video Co., Ltd.), a sino-foreign cooperative joint venture enterprise established in the PRC pursuant to the Agreement. As at the Latest Practicable Date, Hong Xiang New Co. is owned as to 49% by the BVI Shareholder, as to 50% by the PRC Shareholder and as to 1% by TOM Nominee
“Incentive Shares”	means 2,568,229 TOM Shares credited as fully paid at HKD5.51 per TOM Share to be allotted and issued to Mr. Zhang and/or his nominee(s) pursuant to the Earn-out Payment
“Jingcai”	means 廣東精彩無限文化有限公司 (Guandong FAB Enless Culture Company Limited), a domestic limited liability company organized and existing under the laws of the PRC which is engaged in the retail distribution of audio video products business and is independent of the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates. As at the Latest Practicable Date, as advised by Mr. Zhang, Jingcai is controlled by him
“Jinhui”	means 成都市金輝音像有限公司 (Chengdu Jinhui Audio-Video Company Limited), a domestic limited liability company organized and existing under the laws of the PRC which is engaged in the business of retail distribution of audio video products and is independent from the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates. As at the Latest Practicable Date, as advised Mr. Zhang, Jinhui is controlled by him

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## DEFINITIONS

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“Latest Practicable Date”	means 28th April, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Market Price”	means HKD2.05, being the closing price per TOM Share as quoted on the Stock Exchange on 8th April, 2004 (i.e., the date of the Supplemental Agreement)
“Mr. Zhang”	means Zhang Baocheng (張寶成), who is independent of the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates. As at the Latest Practicable Date, Mr. Zhang owns 50% of the equity interest in Hong Xiang and all of the equity interest of the PRC Shareholder
“Ms. Zhang”	means Zhang Jing (張靜), Mr. Zhang’s sister, who is independent of the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates
“Option Interests”	means (1) the entire issued share capital of the BVI Shareholder; and (2) 1% of the equity interest in Hong Xiang New Co. held by TOM Nominee (which together represent 50% of the equity interest in Hong Xiang New Co.)
“PRC”	means the People’s Republic of China
“PRC Shareholder”	means 廣州市鴻翔影視有限公司 (Guangzhou Hong Xiang Film and Television Company Limited), a domestic limited liability company organized and existing under the laws of the PRC and is beneficially wholly-owned by Mr. Zhang. As at the Latest Practicable Date, PRC Shareholder owns 50% of the equity interest in Hong Xiang New Co.
“PRC GAAP”	means the generally accepted accounting principles adopted in the PRC
“Pre-IPO Share Option Plan”	means the pre-IPO share option plan adopted by TOM on 11th February, 2000 (as described in Appendix IV of TOM’s prospectus dated 18th February, 2000)
“Put Option”	means the right granted by Mr. Zhang to TOM Solutions at nil consideration to require Mr. Zhang and/or his nominee(s) to purchase the Option Interests pursuant to the Supplemental Agreement

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## DEFINITIONS

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“Retailers”	means Shiji Hong Xiang, Jinhui and Hong Xiang Advertising
“RMB”	means Renminbi
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Acquisition”	means the acquisition by TOM Solutions of the entire issued share capital of BVI Shareholder from Mr. Zhang
“Share Option Scheme”	means the share option scheme adopted by TOM on 11th February, 2000 (as amended)
“Shiji Hong Xiang”	means 北京世紀鴻翔音像有限公司 (Beijing Shiji Hong Xiang Audio-Video Company Limited), a domestic limited liability company organized and existing under the laws of the PRC which is engaged in the business of retail distribution of audio video products and is independent of the Directors, chief executive, substantial shareholders or management shareholders of TOM or any of their respective Associates. As at the Latest Practicable Date, as advised by Mr. Zhang, Shiji Hong Xiang is controlled by him
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	means a supplemental agreement entered into between TOM Solutions and Mr. Zhang on 8th April, 2004 to supplement and amend certain terms and conditions of the Agreement
“TOM”	means TOM Group Limited, a company incorporated in the Cayman Islands, whose shares are listed on GEM
“TOM Group”	means TOM and its subsidiaries
“TOM Nominee”	means 北京國佳通信息諮詢有限公司 (Beijing Guojiatong Information Consultancy Company Limited), a domestic limited liability company organised and existing under the laws of PRC and which has been nominated by TOM Solutions to hold 1% of the equity interest in Hong Xiang New Co.. The shareholders of TOM Nominee have granted options to a subsidiary of TOM, under which such subsidiary of TOM is entitled at any time to acquire all the equity interests owned by the shareholders in TOM Nominee at a total consideration for an amount equal to the entire registered capital of TOM Nominee



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## DEFINITIONS

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“TOM Online”	means TOM Online Inc., a company incorporated in the Cayman Islands, whose shares are listed on GEM. As at the Latest Practicable Date, TOM owns approximately 71.86% of the issued share capital of TOM Online
“TOM Share(s)”	means share(s) of par value of HKD0.10 each in the capital of TOM
“TOM Solutions”	means TOM Solutions Limited, a company incorporated in the BVI with limited liability on 8th February, 2000 and a wholly-owned subsidiary of TOM

HKD1 = RMB1.06



TOM Group Limited

TOM集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8001)

*Directors:*

Frank Sixt\* (Chairman)

Sing Wang (Chief Executive Officer)

Tommei Tong

Henry Cheong<sup>#</sup>

Angelina Lee<sup>#</sup>

Anna Wu<sup>#</sup>

Debbie Chang\*

Susan Chow\*

Edmond Ip\*

Holger Kluge\*

James Sha\*

Wang Lei Lei\*

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Cayman Islands

British West Indies

*Head office and principal  
place of business:*

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99 Queen's Road Central

Central

Hong Kong

\* Non-executive Directors

<sup>#</sup> Independent non-executive Directors

29th April, 2004

*To the shareholders of the Company*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION  
INVOLVING CASH CONSIDERATION AND ISSUANCE OF NEW SHARES  
in respect of  
the acquisition of 50% of the equity interest in Hong Xiang New Co.,  
a company established in the People's Republic of China  
which is engaged in the business of making of, distribution and sale of  
audio and video products**

**1. INTRODUCTION**

On 5th March, 2002, the Board announced that TOM Solutions has entered into the Agreement with Mr. Zhang, under which and subject to the terms and conditions thereof, TOM Solutions agreed to acquire, through the Equity Transfer and the Share Acquisition, an aggregate of 50% of the equity interest in Hong Xiang New Co. at an aggregate consideration of RMB110,131,730 (approximately HKD103,897,858).

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Consideration has been fully paid. Of the Consideration, RMB45,000,000 (approximately HKD42,452,830), being approximately 41% of the Consideration, has been paid by cash; and RMB65,131,730 (approximately HKD61,445,028), being approximately 59% of the Consideration, has been satisfied by the issuance and allotment of 11,151,548 TOM Shares (representing approximately 0.29% of the Existing Capital) (credited as fully paid) at HKD5.51 per TOM Share on 19th April, 2004.

In addition, pursuant to the Agreement, an additional amount of RMB15,000,000 (approximately HKD14,150,943) will be paid by way of issuance and allotment of 2,568,229 Incentive Shares (representing approximately 0.07% of the Existing Capital and approximately 0.07% of the Enlarged Capital) (credited as fully paid) at HKD5.51 per TOM Share to Mr. Zhang and/or his nominee(s) if Hong Xiang New Co. attains an audited after-tax profits of not less than RMB30,000,000 (approximately HKD28,301,887) for the year ended 31st December, 2002.

Based on the adjusted net tangible assets of TOM as at 30th September, 2001, the Hong Xiang Acquisition constituted a discloseable transaction involving issuance of new TOM Shares under Chapter 19 of the GEM Listing Rules as at the date of signing of the Agreement. Details of which have been disclosed in the circular dated 26th March, 2002 issued by TOM.

On 8th April, 2004, TOM Solutions entered into the Supplemental Agreement with Mr. Zhang, under which and subject to the terms and conditions thereof, Mr. Zhang has granted the Put Option to TOM Solutions.

The Board considers the grant of the Put Option by Mr. Zhang to TOM Solutions to be a material variation to the Agreement and, accordingly, TOM is required to reclassify the Hong Xiang Acquisition under the GEM Listing Rules. Under Chapter 19 of the GEM Listing Rules, the Hong Xiang Acquisition constitutes a discloseable transaction as at the date of signing of the Supplemental Agreement.

On 8th April, 2004, the Board announced that completion of the Hong Xiang Acquisition took place on 8th April, 2004.

The purpose of this circular is to provide the shareholders of TOM with further information relating to the Hong Xiang Acquisition and the Put Option. This circular also contains information in compliance with the GEM Listing Rules.

## 2. THE AGREEMENT

Date: 5th March, 2002

(as amended by four supplemental agreements dated 27th December, 2002, 30th June, 2003, 31st December, 2003 and 31st March, 2004, respectively)

Parties: (1) TOM Solutions

(2) Mr. Zhang

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## LETTER FROM THE BOARD

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### Assets acquired

50% of the equity interest in Hong Xiang New Co. (of which 1% has been acquired by TOM Nominee (designated by TOM Solutions) and 49% has been acquired by TOM Solutions through the Equity Transfer and the Share Acquisition respectively).

### Major terms of the Agreement

(1) *Establishment of Hong Xiang New Co.*

Hong Xiang New Co. (known as 廣州鴻翔音像有限公司 (Guangzhou HongXiang Audio-Video Co., Ltd.)) has been established in the PRC pursuant to the Agreement.

*The corporate structure of Hong Xiang New Co. is as follows:*

- (a) Registered capital: RMB1,380,000 (approximately HKD1,301,887)  
(all of which were contributed by the PRC Shareholder and the BVI Shareholder in cash)
- (b) Shareholders:
  - (i) PRC Shareholder (50%)
  - (ii) BVI Shareholder (49%)
  - (iii) TOM Nominee (1%)
- (c) Scope of business: wholesale, retail and rental of audio and video products

(2) *Restructuring of Hong Xiang New Co.*

Pursuant to the Agreement, upon the establishment of Hong Xiang New Co., Mr. Zhang shall:

- (a) procure that:
  - (i) the shareholders of Hong Xiang (i.e., Mr. Zhang and Ms. Zhang) shall transfer all the business/assets in relation to the making of (including manufacturing through outsourcing), sale and distribution of audio and video products owned by Hong Xiang as at the date of the Agreement to Hong Xiang New Co.; and
  - (ii) each member of the management team and other essential staff members (comprising at least 3 persons including Mr. Zhang (as general manager) and Ms. Zhang (as manager)) of Hong Xiang shall enter into a labour service contract (in such form and substance satisfactory to TOM Solutions) with Hong Xiang New Co. prior to Completion.
- (b) subject to TOM Solutions having been satisfied with the results of the due diligence exercise on the assets and liabilities, business and prospects of the Retailers, Mr.

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## LETTER FROM THE BOARD

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Zhang and TOM Solutions will enter into a separate agreement whereby Mr. Zhang will transfer all of the equity interest that he directly or indirectly owns in each of the Retailers to Hong Xiang New Co.; and

- (c) if TOM Solutions is not satisfied with the results of the due diligence exercise on the Retailers, TOM Solutions may, at its sole discretion, either (i) acquire Hong Xiang New Co. only and not the Retailers; or (ii) acquire none of the Retailers or Hong Xiang New Co., and in the latter case, the Agreement will be terminated.

As at the date of the Supplemental Agreement, the Asset Acquisition referred to in item (a)(i) above has been completed and the labour service contracts referred to item (a)(ii) above have been entered into.

As disclosed in TOM's announcement dated 8th April, 2004, TOM Solutions has decided not to acquire any of the Retailers as the results of the due diligence exercise on the Retailers are not satisfactory.

(3) *Equity Transfer*

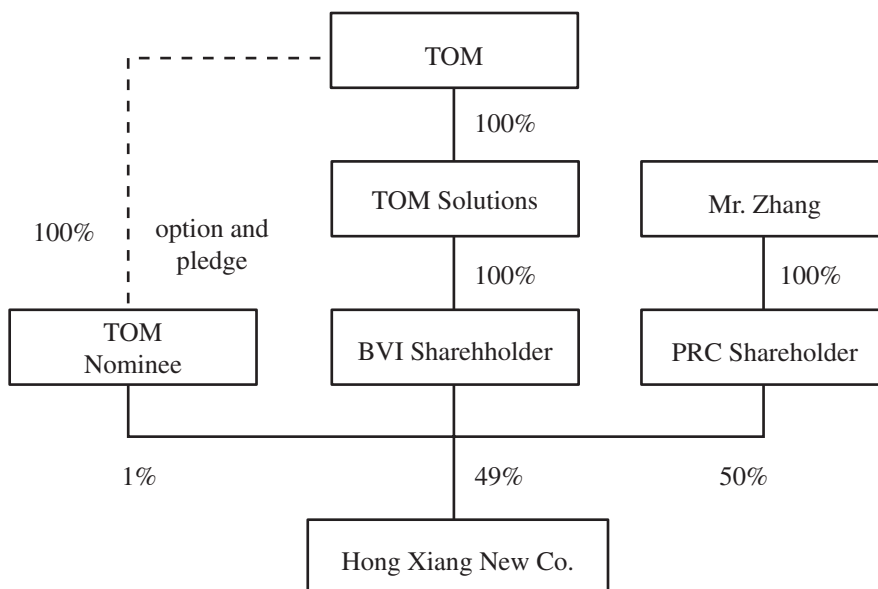
TOM Nominee has acquired 1% of the equity interest in Hong Xiang New Co. from the PRC Shareholder. As a result, Hong Xiang New Co. is owned as to 50% by the PRC Shareholder, as to 49% by the BVI Shareholder and as to 1% by the TOM Nominee.

(4) *Share Acquisition*

TOM Solutions has acquired the entire issued share capital of the BVI Shareholder from Mr. Zhang. Upon Completion, the board of directors of Hong Xiang New Co. consists of 5 members, of which 3 are indirectly nominated by TOM Solutions and the remaining 2 are nominated by Hong Xiang.

# LETTER FROM THE BOARD

## Shareholding structure of Hong Xiang New Co. immediately after Completion



### Consideration

The aggregate consideration for the Equity Transfer and the Share Acquisition is RMB110,131,730 (approximately HKD103,897,858). As at the Latest Practicable Date, the Consideration has been fully paid. Of the Consideration:

- (a) RMB45,000,000 (approximately HKD42,452,830), being approximately 41% of the Consideration, has been paid in cash. The Cash Consideration is funded by internal resources of TOM.

The Cash Consideration has been paid to Mr. Zhang in the following manner:

- (a) RMB5,000,000 (approximately HKD4,716,981) has been paid on 5th March, 2002; and
  - (b) RMB40,000,000 (approximately HKD37,735,849) has been paid on 28th March, 2002.
- (b) RMB65,131,730 (approximately HKD61,445,028), being approximately 59% of the Consideration, has been satisfied by the issuance and allotment of 11,151,548 Consideration Shares (representing approximately 0.29% of the Existing Capital) (credited as fully paid) at HKD5.51 per TOM Share to Mr. Zhang on 19th April, 2004.

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## LETTER FROM THE BOARD

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The price per Consideration Share represents a premium of approximately 168.8% to the Market Price and a premium of approximately 193.1% to the 10-day Average Price. The price per TOM Share was arrived at after arm's length negotiations between the parties and being a price being acceptable to Mr. Zhang and TOM Solutions.

The issuance and allotment of the Consideration Shares will not result in a change in control of TOM.

The Consideration was arrived at after arm's length negotiations between the parties and based on TOM's internal evaluation of the current size of the business and future prospects (i.e., revenue growth and profit growth) of Hong Xiang New Co..

### **Earn-out Payment**

Pursuant to the Agreement, if the amount of the audited after-tax profits made by Hong Xiang New Co. prepared in accordance with HKGAAP for the year ended 31st December, 2002 is equal to or more than RMB30,000,000 (approximately HKD28,301,887), Mr. Zhang will be entitled to the Earn-out Payment for an amount of RMB15,000,000 (approximately HKD14,150,943).

The Earn-out Payment will be satisfied by the issuance and allotment of 2,568,229 Incentive Shares (representing approximately 0.07% of the Existing Capital and approximately 0.07% of the Enlarged Capital) (credited as fully paid) at HKD5.51 per TOM Share to Mr. Zhang and/or his nominee(s) within 15 days from the later of (i) the date of issuance of the proforma audited accounts of Hong Xiang New Co. for the year ended 31st December, 2002 (which audited accounts is expected to be issued within 2004); and (ii) the date of Completion.

The price per Incentive Share represents a premium of approximately 168.8% to the Market Price and a premium of approximately 193.1% to the 10-day Average Price.

The issuance and allotment of Incentive Shares will not result in a change in control of TOM.

As at the Latest Practicable Date, the audited accounts of Hong Xiang New Co. for the year ended 31st December, 2002 has not yet been issued (which accounts is expected to be issued within 2004 as extra time is required to finalise such accounts), and therefore the issuance of Incentive Shares has not yet been determined.

Before the issuance of the Incentive Shares, the above amount will be reviewed by the independent Directors and TOM will disclose in an announcement and in TOM's annual report the details of whether the aforesaid amount is met or not and accordingly whether the Earn-out Payment is required to be made.

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## LETTER FROM THE BOARD

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### Lock-up period for Consideration Shares and Incentive Shares

(a) *Consideration Shares*

- (i) None of the Consideration Shares may be sold during the first 6 months after 19th April, 2004 (i.e. the date of issue of the Consideration Shares);
- (ii) (1) 50% of the Consideration Shares may be sold from the beginning of the 7th month after 19th April, 2004; and
- (2) the remaining 50% of the Consideration Shares may be sold from the beginning of the 18th month after 19th April, 2004,

provided that the aggregate number of the Consideration Shares sold on any one trading day may not exceed 1% of the total number of the Consideration Shares.

(b) *Incentive Shares*

- (i) None of the Incentive Shares may be sold during the first 6 months after the date of issue of the Incentive Shares;
- (ii) (1) 50% of the Incentive Shares may be sold from the beginning of the 7th month after the date of issue of the Incentive Shares; and
- (2) the remaining 50% of the Incentive Shares may be sold from the beginning of the 18th month after the date of issue of the Incentive Shares,

provided that the aggregate number of the Incentive Shares sold on any one trading day may not exceed 1% of the total number of the Incentive Shares.

All of the Consideration Shares are mortgaged to TOM Solutions during the above lock-up period as a security for the due performance of the obligations of Mr. Zhang under the Agreement. The Incentive Shares (if any) will also be mortgaged to TOM Solutions during the above lock-up period.

### Incentive Profits

Pursuant to the Agreement, it was agreed that if the audited after-tax profits of Hong Xiang New Co. prepared in accordance with HKGAAP for the 5 years ending 31st December, 2002 to 2006 (inclusive) in aggregate is not less than RMB183,150,000 (approximately HKD172,783,019) (“Incentive Profits”), then the management (being Mr. Zhang and other management) of Hong Xiang New Co. will be entitled to a bonus, payable in cash after the issue of the audited accounts of Hong Xiang New Co. for the year ending 31st December, 2006, for an amount equal to 20% of the amount that exceeds such Incentive Profits.



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## LETTER FROM THE BOARD

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At the option of TOM Solutions, any shortfall in the Incentive Profits will be compensated within 15 business days after the date of issue of the audited accounts of Hong Xiang New Co. for the year ending 31st December, 2006 by:

- (a) the deduction from the PRC Shareholder's entitlement to any dividend to be declared and paid by Hong Xiang New Co.; and/or
- (b) the sale proceeds from the disposal of such number of the Consideration Shares and/or Incentive Shares mortgaged to TOM Solutions as mentioned above; and/or
- (c) the payment by Jingcai (which is a company controlled by Mr. Zhang) in cash. Mr. Zhang undertakes to procure that Jingcai will make such payment.

The calculation on the Incentive Profits or any shortfall in the Incentive Profits (if any) will be reviewed by the independent Directors and TOM will make appropriate disclosures in an announcement and its annual report accordingly.

### **Conditions precedent**

Completion was conditional on, inter alia, the following conditions having been fulfilled or waived on or before 8th April, 2004 (or such other date as the parties may agree):

- (a) Hong Xiang New Co. having been established in accordance with the laws of the PRC, being owned as to 49% by BVI Shareholder and as to 51% by PRC Shareholder and Hong Xiang New Co. having obtained the required approvals and licences for the sale and distribution of audio and video products;
- (b) the BVI Shareholder having been established in accordance with the laws of the BVI and being wholly-owned by Mr. Zhang;
- (c) the Asset Acquisition having been completed in accordance with all applicable laws, rules and regulations;
- (d) the Equity Transfer having been completed in accordance with all applicable laws, rules and regulations after completion of the Asset Acquisition;
- (e) a labour service contract in such form and substance satisfactory to TOM Solutions having been duly executed between Hong Xiang New Co. and each member of the management team and other essential staff members (comprising of at least 3 persons including Mr. Zhang and Ms. Zhang) of Hong Xiang New Co.;
- (f) TOM Solutions having been satisfied with the result of the due diligence exercise carried out by it on the assets and liabilities, business and prospects of Hong Xiang New Co.;

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## LETTER FROM THE BOARD

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- (g) TOM Solutions having been satisfied with the result of the due diligence exercise carried out by it on the assets and liabilities, business and prospects of the Retailers and the related documents with respect to the acquisition of the Retailers having been entered into and completed;
- (h) the board of directors of TOM Solutions having approved the transactions contemplated under the Agreement;
- (i) the Board and/or shareholders, if necessary, of TOM having approved the transactions contemplated under the Agreement (including, without limitation, the issuance of the Consideration Shares and the Incentive Shares);
- (j) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares and the Incentive Shares. The aforesaid listing approval has been granted by the Stock Exchange on 7th April, 2004;
- (k) all of the equity interest in each of the Retailers owned by Mr. Zhang having been duly transferred to Hong Xiang New Co. in accordance with all applicable laws, rules and regulations;
- (l) a legal opinion (in such form and substance satisfactory to TOM Solutions) opining on the legality of the transactions contemplated under the Agreement having been issued by such PRC legal counsel approved by TOM Solutions; and
- (m) each of Jingcai and the Retailers having entered into a sales agreement (in such form and substance satisfactory to TOM Solutions) with Hong Xiang New Co..

All the above conditions precedent (other than conditions (g) and (k) relating to the transfer of all of the equity interest in each of the Retailers owned by Mr. Zhang to Hong Xiang New Co. (“Waived Conditions”)) have been fulfilled by 8th April, 2004.

### **Completion**

As disclosed in TOM’s announcement dated 8th April, 2004, as all the conditions precedent to Completion under the Agreement (other than the Waived Conditions) have been fulfilled. Completion took place on 8th April, 2004.

### **3. THE SUPPLEMENTAL AGREEMENT**

Date: 8th April, 2004

Parties: (1) TOM Solutions  
(2) Mr. Zhang

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## LETTER FROM THE BOARD

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### Major terms of the Supplemental Agreement

Subject to the terms and conditions of the Supplemental Agreement, Mr. Zhang has granted TOM Solutions a right at nil consideration to require him (or his nominee(s)) to purchase:

- (1) the entire issued share capital of the BVI Shareholder held by TOM Solutions; and
- (2) 1% of the equity interest in Hong Xiang New Co. held by TOM Nominee.

(which together represent 50% of the equity interest in Hong Xiang New Co.) at the consideration of RMB45,000,000 (which is equivalent to the Cash Consideration under the Agreement).

Pursuant to the terms of the Supplemental Agreement, the Put Option may be exercised by TOM Solutions in the event that all of the outstanding receivables of Hong Xiang as at 31st March, 2004, being RMB103,682,224 (“Receivables”), are not collected by Hong Xiang by 8th April, 2006.

Under the Supplemental Agreement, in the event that Hong Xiang fails to collect at least 90% of all of the Receivables (which is equal to RMB93,585,728) by 8th October, 2004:

- (1) TOM Solutions may sell such number of the Consideration Shares such that the net amount of the proceeds of sale thereof (“Sale Proceeds”) will be equal to the difference between RMB93,585,728 and the amount of the Receivables actually collected by Hong Xiang as at 8th October, 2004 (“Shortfall”); and
- (2) TOM Solutions will be entitled to keep the Sale Proceeds.

It is anticipated that if the Put Option becomes exercisable in accordance with the terms of the Supplemental Agreement, all of the Consideration Shares would probably already have been sold in accordance with the above by 8th April, 2006 to cover the Shortfall.

If TOM Solutions exercises the Put Option, TOM Group will cease to have any interest in Hong Xiang New Co. and the board members of Hong Xiang New Co. nominated by TOM Solutions will then resign.

The transfer of the Option Interests by TOM Solutions to Mr. Zhang will be classified in accordance with the GEM Listing Rules at the time of exercise of the Put Option by TOM Solutions and TOM will comply with the relevant requirements of the GEM Listing Rules whether or not the Put Option is exercised by TOM Solutions.

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## LETTER FROM THE BOARD

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### 4. INFORMATION ON HONG XIANG

Hong Xiang was established in August 1993 in Guangzhou, the PRC. The company is primarily engaged in the business of making of (including manufacturing through outsourcing), distribution and sale of audio-video products which include digital video discs (DVD), video compact discs (VCD), compact discs (CD), video tapes (VHS) and cassettes. Hong Xiang also produces (including the design and creation of content) and licences programs from copyright owners. Such programs include television series, movies, educational and documentary programs, music videos (MV), karaoke and classical music. Hong Xiang itself also creates proprietary contents in the areas such as (i) health care and beauty, (ii) sports, (iii) musical instruments, (iv) dancing, (v) cookery and (vi) self-improvement.

The unaudited profit/loss before taxation of Hong Xiang prepared in accordance with PRC GAAP were profit of approximately HK\$1.4 million and loss of approximately HK\$0.7 million for the period from 16th October, 2002 to the period ended 31st December, 2002 and the year ended 31st December, 2003, respectively. The unaudited profits/loss after taxation of Hong Xiang prepared in accordance with PRC GAAP were profit of approximately HK\$0.9 million and loss of approximately HK\$0.7 million for the period from 16th October, 2002 to the period ended 31st December, 2002 and year ended 31st December, 2003, respectively. As at 31st December, 2003, the unaudited net assets of Hong Xiang prepared in accordance with PRC GAAP was approximately HK\$29 million.

### 5. REASONS FOR ENTERING INTO THE AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

The Directors consider that the Hong Xiang Acquisition is a strategic investment as Hong Xiang will provide TOM exciting new content and e-commerce opportunities. Hong Xiang can strengthen TOM's media platform, including but not limited to the production of online and offline advertising content, broadband infotainment content syndication (music and video) for TOM's "Lifestyle for Chinese" portals as well as the e-commerce opportunity in Hong Xiang's music CD and VCD products. Such activities might allow TOM to further expand its revenue streams.

Furthermore, by leveraging Hong Xiang's distribution network, Hong Xiang will enable TOM to bundle traditional and new media assets into different configurations of product packages according to client needs. TOM's online content can be distributed to offline clients in the form of video tapes, CD ROMs, VCDs, music CDs, etc. thus helping TOM to distribute its content to a much wider audience in the PRC. This is an important component to achieving a "total advertising solution" for TOM, which is a key element in its new media development strategies.

Moreover, the Hong Xiang Acquisition will provide TOM's portals the best selling products to be sold online thus generating significant revenues for TOM and good returns for TOM's shareholders.

TOM would like to provide the broadband content of music, movies and educational programmes through its portals. Hong Xiang, because of its expertise and close relationships with the copyright owners, can help TOM in producing and licensing such content exclusively. Hong Xiang itself also creates proprietary contents in the areas such as (i) health care and beauty, (ii) sports, (iii) musical instruments, (iv) dancing, (v) cookery and (vi) self-improvement. The Directors believe the abovementioned content will become a competitive advantage over their rivals and thus helping TOM to gain more market share and expand its customer-base.

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## LETTER FROM THE BOARD

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TOM considers that the Hong Xiang Acquisition is a strategic investment in providing TOM an extended form of content distribution. In TOM's preliminary due diligence on Hong Xiang, TOM found that Hong Xiang has the capability to help in the aggregation of, bundling and archiving of TOM's online content (e.g. web pages, interviews, archived news, etc) and offline content (e.g. Business Weekly and PC Home magazines) through audio-video products to reach a much wider audience. Such new media will create synergy for and assist TOM to fulfill its objectives in "blending of on-line experiences with *the provision of actual products* and services through accessing *tom.com* will attract significant viewers". Such extended coverage is crucial to TOM's advertising clients (more coverage means more valuable an advertisement is, and accordingly such an advertisement may be sold at a higher cost) and thus helping TOM to becoming a leading provider of "total advertising solution".

The Directors also believe that Hong Xiang is well positioned to provide unique syndication of "Lifestyle for Chinese" content and services to both the traditional media, such as television, and music and the new media such as Internet and interactive broadband services. In particular, TOM has specifically mentioned in its prospectus the online sale of music CDs, entertainment and music related accessories, books, online music and comic courses products which are also the products carried by Hong Xiang. As a result, the Directors believe Hong Xiang's products are the exact products described in TOM's prospectus which TOM would like to have e-commerce services.

The Directors consider that the outstanding amount of the receivables of Hong Xiang as at 31st March, 2004 is quite substantial and if they remain substantially uncollected by mid 2006, this may have an adverse effect on TOM's return on investment in respect of the Hong Xiang Acquisition. As such, it is in the interest of the TOM Group and the shareholders of TOM to enter into the Supplemental Agreement whereby TOM Solutions has the right to exercise the Put Option to sell all its equity interest in Hong Xiang New Co. to Mr. Zhang if the aforesaid receivables are not collected by Hong Xiang by 8th April, 2006.

The Hong Xiang Acquisition (taking into account the Supplemental Agreement) does not have any immediate material impact on either the earnings or the assets and liabilities of the TOM Group upon Completion.

### **6. GENERAL**

The Directors consider that the Agreement and the Supplemental Agreement are entered into on normal commercial terms, and in the ordinary and usual course of business of TOM Group, and that the terms of the Agreement and the Supplemental Agreement are fair and reasonable and in the interests of the shareholders of TOM as a whole are concerned.

The Incentive Shares will be allotted and issued pursuant to the general mandate granted to the Directors by the shareholders of TOM at the annual general meeting of TOM held on 24th April, 2002. Approval for listing of and permission to deal in the Incentive Shares has been granted by the Stock Exchange on 7th April, 2004.

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## LETTER FROM THE BOARD

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

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

Yours faithfully,  
By Order of the Board  
**TOM Group Limited**  
**Sing Wang**  
*Chief Executive Officer*  
*and*  
*Executive Director*

## 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 TOM. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive in the shares, underlying shares and debentures of TOM or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to TOM 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 Rules 5.46 of the GEM Listing Rules, to be notified to TOM and the Stock Exchange, were as follows:

### (a) Long positions in TOM Shares

Name of Directors	Capacity	Number of TOM Shares				Total	Approximate percentage of shareholding
		Personal interests	Family interests	Corporate interests	Other interests		
Sing Wang <i>(Note 1)</i>	Interest of a controlled corporation	–	–	5,898,000 <i>(Note 2)</i>	–	5,898,000	0.15%
Wang Lei Lei	Beneficial owner	300,000	–	–	–	300,000	0.01%

*Notes:*

1. By virtue of the SFO, Mr. Sing Wang is deemed to be interested in 5,898,000 TOM Shares held by Amerinvest Technology Associates I Limited, which is wholly-owned by him.
2. All the 5,898,000 TOM Shares have been pledged as a security against his personal loan.

**(b) Rights to acquire TOM Shares**

Pursuant to the Pre-IPO Share Option Plan and/or the Share Option Scheme, certain Directors were granted share options to subscribe for TOM Shares, details of which as at the Latest Practicable Date were as follows:

<b>Name of Directors</b>	<b>Date of grant</b>	<b>Number of share options outstanding as at the Latest Practicable Date</b>	<b>Option period</b>	<b>Subscription price per TOM Share HKD</b>
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) **Long positions in the shares of TOM Online** (*associated corporation within the meaning of the SFO*)

Name of Directors	Capacity	Number of shares of TOM Online				Total	Approximate percentage of shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Sing Wang (Note)	Interest of a controlled corporation	-	-	83,142	-	83,142	0.002%

*Note:* By virtue of the SFO, Mr. Sing Wang is deemed to be interested in 83,142 shares of TOM Online held by Amerinvest Technology Associates I Limited, which is wholly-owned by him.

(d) **Rights to acquire shares of TOM Online**

Pursuant to the pre-IPO share option plan adopted by TOM Online, a Director was granted share options to subscribe for the shares of TOM Online, details of which as at Latest Practicable Date were as follows:

Name of Director	Date of grant	Number of share options outstanding as at the Latest Practicable Date	Option period	Subscription price per share of TOM Online HKD
Wang Lei Lei	16/2/2004	165,000,000	16/2/2004-15/2/2014	1.50

(e) **Short Positions in associated corporations**

Mr. Wang Lei Lei has as of 12th June, 2001 (as supplemented on 26th September, 2003) granted an option to a subsidiary of TOM in respect of his 20% (RMB2,200,000) equity interest in Beijing Lei Ting Wan Jun Network Technology Limited (“Lei Ting Wan Jun”) whereby such subsidiary of TOM has the right at any time within a period of 10 years commencing from 26th September, 2003 (which may be extended for another 10 years at the option of such subsidiary of TOM) to acquire all of Mr. Wang Lei Lei’s equity interest in Lei Ting Wan Jun at an exercise price of RMB2,200,000.

Mr. Wang Lei Lei has also as of 19th November, 2003 granted an option to a subsidiary of TOM in respect of his 80% (RMB800,000) equity interest in Beijing Leitingwuji Network Technology Company Limited (“LTWJi”) whereby such subsidiary of TOM has the right at any time within a period of 10 years commencing from 19th November, 2003 (which may be extended for another 10 years at the option of such subsidiary of TOM) to acquire all of Mr. Wang Lei Lei’s equity interest in LTWJi at an exercise price of RMB800,000.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of chief executive of TOM had any interests or short positions in any shares, underlying shares or debentures of, TOM or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to TOM 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 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 Rule 5.46 of the GEM Listing Rules, to be notified to TOM and the Stock Exchange.

### 3. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of TOM, as at the Latest Practicable Date, the following persons/companies (not being a Director or chief executive of TOM) who have interests or short positions in the shares and underlying shares of TOM which would fall to be disclosed to TOM under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of TOM Shares held</b>	<b>Approximate percentage</b>
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	1,429,024,545 (L) (Notes 1 & 2)	36.74%
Li Ka-Shing Unity Trustee Corporation Limited <i>(as trustee of The Li Ka-Shing Unity Discretionary Trust)</i>	Trustee & beneficiary of a trust	1,429,024,545 (L) (Notes 1 & 2)	36.74%
Li Ka-Shing Unity Trustcorp Limited <i>(as trustee of another discretionary trust)</i>	Trustee & beneficiary of a trust	1,429,024,545 (L) (Notes 1 & 2)	36.74%
Li Ka-Shing Unity Trustee Company Limited <i>(as trustee of The Li Ka-Shing Unity Trust)</i>	Trustee	1,429,024,545 (L) (Notes 1 & 2)	36.74%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,429,024,545 (L) (Notes 1 & 2)	36.74%

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of TOM Shares held</b>	<b>Approximate percentage</b>
Cheung Kong Investment Company Limited	Interest of controlled corporations	476,341,182 (L) <i>(Note 1)</i>	12.25%
Cheung Kong Holdings (China) Limited	Interest of controlled corporations	476,341,182 (L) <i>(Note 1)</i>	12.25%
Sunnylink Enterprises Limited	Interest of a controlled corporation	476,341,182 (L) <i>(Note 1)</i>	12.25%
Romefield Limited	Beneficial owner	476,341,182 (L) <i>(Note 1)</i>	12.25%
Hutchison Whampoa Limited	Interest of a controlled corporation	952,683,363 (L) <i>(Note 2)</i>	24.49%
Hutchison International Limited	Interest of a controlled corporation	952,683,363 (L) <i>(Note 2)</i>	24.49%
Easterhouse Limited	Beneficial owner	952,683,363 (L) <i>(Note 2)</i>	24.49%
Chau Hoi Shuen	Interest of controlled corporations	952,683,363 (L) <i>(Note 3)</i>	24.49%
Cranwood Company Limited	Beneficial owner & interest of controlled corporations	952,683,363 (L) <i>(Note 3)</i>	24.49%
Schumann International Limited	Beneficial owner	580,000,000 (L) <i>(Note 3)</i>	14.91%
Handel International Limited	Beneficial owner	348,000,000 (L) <i>(Notes 3&amp;4)</i>	8.95%

(L) denotes a long position

*Notes:*

- (1) Romefield Limited is a wholly-owned subsidiary of Sunnynlink Enterprises Limited, which in turn is a wholly-owned subsidiary of Cheung Kong Holdings (China) Limited. Cheung Kong Holdings (China) Limited is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited.

By virtue of the SFO, Cheung Kong Investment Company Limited, Cheung Kong Holdings (China) Limited and Sunnynlink Enterprises Limited are all deemed to be interested in the 476,341,182 TOM 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 TOM 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 be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, Li Ka-Shing Unity Trustee Corporation Limited, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Company Limited and Cheung Kong (Holdings) Limited are all deemed to be interested in the 476,341,182 TOM Shares and 952,683,363 TOM 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 TOM Shares and 348,000,000 TOM Shares held by Schumann International Limited and Handel International Limited respectively in addition to 24,683,363 TOM Shares held by itself.

By virtue of the SFO, Ms. Chau Hoi Shuen is deemed to be interested in 24,683,363 TOM Shares, 580,000,000 TOM Shares and 348,000,000 TOM Shares held by Cranwood Company Limited, Schumann International Limited and Handel International Limited respectively.

- (4) Pursuant to the stock borrowing agreements each dated 6th November, 2003, Handel International Limited has lent an aggregate of 30,588,236 TOM Shares to two financial institutions.

So far as is known to any Director or chief executive of TOM, as at the Latest Practicable Date, the following companies/persons were interested in 10% or more of the equity interests of the subsidiaries of TOM:

<b>Name of subsidiaries</b>	<b>Name of Shareholders</b>	<b>Number and class of shares held</b>	<b>Percentage of shareholding</b>
Y.C. Press Advertising Limited	Yangcheng Enterprise Limited	1,200 ordinary shares	20%
YCP Advertising Limited	Yangcheng Enterprise Limited	2 ordinary shares	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%
廣東羊城廣告有限公司	羊城晚報經濟發展總公司	Registered capital RMB1,000,000	20%
Yazhou Zhoukan Holdings Limited	Skyland International Investment Limited	5,000 ordinary shares	50%
Perfect Team Limited	China Media Network (BVI) Limited	1,400,000 ordinary shares	35%
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%

Name of subsidiaries	Name of Shareholders	Number and class of shares held	Percentage of shareholding
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 Decor Construction Company Limited	Registered capital RMB450,000	30%
Sichuan Southwest Outdoor Media Company Limited	Sichuan Southwest International Advertising Company	Registered capital RMB900,000	30%
Fujian Seeout Guangming Media Advertising Company Limited	Fujian Seeout Outdoor Advertising Company Limited	Registered capital RMB1,500,000	30%
CNPIT TOM Culture Company Limited	中國信息技術有限公司	Registered capital RMB1,500,000	30%
China Entertainment Television Broadcast Limited	Turner Broadcasting System Asia Pacific, Inc.	10,778 ordinary shares	35.93%

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors are not aware of any other persons who has an interest or short position in the shares or underlying shares of TOM which fall to be disclosed to TOM 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 Group.

#### 4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Frank Sixt and Mrs. Susan Chow, the Chairman and a non-executive director of TOM 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”) and director of certain of its Associates (collectively referred to as “CKH Group”). Mr. Edmond Ip, a non-executive director of TOM, is an executive director of CKH and a director of certain of its Associates. HWL Group is engaged in e-commerce and general information portals, event production, broadband content, sports-related content, event management and advertising, outdoor media, information technology and new technology, systems integration, and development of software and computer network systems. CKH Group is engaged in e-commerce projects and operating general information portals. The Directors believe that there is a risk that such businesses may compete with those of the Group.

Mr. Sing Wang, an executive director and the chief executive officer of TOM, holds 4.55% of the equity interest in 北京雅寶在線拍賣有限公司 (“Yabuy Online”) whose main business consists of the operation of yabuy.com, an online auction website in the PRC. The Directors believe that there is a risk that the business of Yabuy Online may compete with those of the Group.

Ms. Tommei Tong, an executive director and the chief financial officer of TOM, is a beneficial owner of less than 1% of the equity interest in Qin Jia Yuan Media Services Company Limited (“Qin Jia Yuan”) whose principal business engaged in the provision of media services in the PRC. The Directors believe that there is a risk that the business of Qin Jia Yuan may compete with those of the Group.

Ms. Debbie Chang, a non-executive director of TOM, is a director of Beijing ChinaCare e-Med Limited (“ChinaCare”) whose main business consists of healthcare related information technology, information and consulting services. ChinaCare had entered into a content provision agreement with LTWJi. The Directors are of the view that the provisions of IVR-related content by ChinaCare to LTWJi under the agreement is complementary to, and not in competition with, the business of provision of IVR services by LTWJi. The provision of IVR-related content by ChinaCare will only be in competition with LTWJi's business if ChinaCare provides such content to other IVR services providers in the PRC. In this regard, Cranwood Company Limited (“Cranwood”) has undertaken, inter alia, to TOM that companies controlled by Cranwood will not in the PRC provide IVR-related content to the competitors of TOM and its subsidiaries.

Save as disclosed above, none of the Directors or the management shareholders of TOM or their respective Associates have any interests in a business, which competes or may compete with the business of the Group.

## 5. OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, options to subscribe for an aggregate of 210,275,000 TOM 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 TOM Shares at a subscription price of HKD1.78 per TOM Share were outstanding. The options were granted to 3 persons who are employees of the Group at the date of grant. All of these options have a duration of 10 years from 11th 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 194,079,000 TOM Shares (which includes the options granted to the Directors as disclosed above) were outstanding as at the Latest Practicable Date, breakdown of which are set out below:

<b>Date of grant</b>	<b>No. of share options</b>	<b>No. of employees</b>	<b>Subscription price per TOM Share HKD</b>	<b>Option period* (commencing from date of grant and terminating ten years thereafter)</b>
23/3/2000	2,504,000	59	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	1,150,000	33	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	17,188,000	140	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	37,810,000	8	3.76	7/2/2002-6/2/2012
9/10/2003	105,095,000	53	2.505	9/10/2003-8/10/2013
16/2/2004	10,000,000	1	2.55	16/2/2004-15/2/2014

\* 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. 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.



## 7. SERVICE CONTRACTS

Each of Mr. Sing Wang and Ms. Tommei Tong, being all the executive Directors, has entered into a continuous service contract with the TOM Group commencing from 1st June, 2000 in the case of Mr. Sing Wang and 17th March, 2003 in the case of Ms. Tommei Tong. Mr. Wang Lei Lei, being a non-executive Director, has also entered into a continuous service contract with TOM Online commencing from 1st January, 2004. The terms of the contracts with Mr. Sing Wang and Ms. Tommei Tong are continuous unless terminated by not less than three months' notice in writing served by either party on the other. The term of the contract with Mr. Wang Lei Lei is fixed at three years and thereafter will be continuous unless terminated by not less than three months' notice 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, Mr. Sing Wang and Ms. Tommei Tong are entitled to a bonus payable for each twelve month period at the discretion of the Board. Mr. Wang Lei Lei is also entitled to an annual bonus payable for each twelve month period completed by him commencing on 1st January of each calendar year immediately following the date he entered into his service contract. The amount of the bonus for Mr. Wang Lei Lei shall be determined at the discretion of the board of directors of TOM Online. Each of Mr. Sing Wang, Ms. Tommei Tong and Mr. Wang Lei Lei is entitled to certain allowances, medical benefits and reimbursement of all reasonable out of pocket expenses. Neither of the above Directors is entitled to vote on the relevant board resolutions relation to any bonus payable to him or her. The current basic annual salaries of the above Directors are as follows:

Sing Wang	HKD2,768,016
Tommei Tong	HKD1,502,040
Wang Lei Lei	HKD1,053,919

Save as disclosed, 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).

## 8. GENERAL

- (a) The head office and principal place of business of TOM is at 48th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong. The share registrar and transfer office of TOM is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (b) The Compliance Officer and the Qualified Accountant of TOM 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 both the Chartered Association of Certified Accountants in the England and the Hong Kong Society of Accountants.
- (c) The Company Secretary of TOM 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) TOM has established an audit committee on 21st 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 55, 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 56. 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 53, is a qualified solicitor. She holds a Bachelor of Laws degree and the Postgraduate 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 39, is the Chief Financial Officer and executive Director. She is also a non-executive director of TOM Online. Prior to joining TOM, she served as the Chief Financial Officer and the Chief Operating Officer of Ping An Insurance (Group) of China, Ltd. Before joining Ping An Insurance (Group) of China, Ltd., she was a partner of Arthur Andersen & Co. Ms. Tong graduated from the University of Hong Kong in 1986 with a Bachelor of Social Sciences Degree. She is also a Fellow of both the Chartered Association of Certified Accountants in England and the Hong Kong Society of Accountants.

- (e) The authorised share capital of TOM is HKD500,000,000 divided into 5,000,000,000 TOM Shares of HKD0.10 each. As at the Latest Practicable Date, the issued share capital of TOM was HKD388,941,336.50 divided into 3,889,413,365 TOM Shares of HKD0.10 each.
- (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 TOM or any of its subsidiaries.

- (g) Dealings in TOM 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.
  
- (h) The English text of this circular shall prevail over the Chinese text.