

# First Quarterly Report 2001



**TOM.COM LIMITED**

(incorporated in the Cayman Islands with limited liability)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**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 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.**

*This document, for which the directors of TOM.COM LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to TOM.COM LIMITED. The directors of TOM.COM LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## CHAIRMAN'S STATEMENT

I am pleased to announce the first quarterly results of TOM.COM LIMITED ("Tom") and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2001.

Tom maintained a strong competitive position in its markets and advanced in a number of key areas as the whole industry faced difficult operating conditions during the quarter.

To summarise our key developments:

- Revenues reached HK\$77 million, representing a 10% increase over the previous quarter.
- Offline media revenue grew by 63%.
- Online revenue grew by 18% after adjustment.
- Gross margin improved over the previous quarter to 51%.
- Loss before interest, taxation, depreciation and amortisation reduced by 19% with operating expenses held below budget.
- Secured close to 120 new advertisers despite difficult market situation worldwide.
- Entered the print media sector by acquiring Yazhou Zhoukan.

## Financial Highlights

	For the three months period ended	
	31 March 2001	31 December 2000
	HK\$'000	HK\$'000
Turnover	<b>77,004</b>	69,985
Cost of sales	<b>38,005</b>	43,877
Gross profit	<b>38,999</b>	26,108
Loss before interest, taxation, depreciation and amortisation	<b>55,650</b>	69,059
Loss attributable to shareholders	<b>70,334</b>	78,325

## Financial Performance

The Group's total revenue for the first quarter was HK\$77 million, representing an increase of 10% over the previous quarter. Online revenue grew by 18% after adjusting for the one-off revenue for the provision of technical services amounting to HK\$18 million in the previous quarter. Offline media revenue grew by 63% to HK\$56 million with contributions from Kunming Fench Star Information Industry Limited, YCP Advertising Limited, 廣東羊城報業廣告有限公司 and 廣東羊城報業體育發展有限公司 and with the inclusion of Yazhou Zhoukan for the first time as a subsidiary. During the quarter, close to 120 new clients advertised on our properties, further demonstrating the strength of our media platform.

Despite recent interest rate cuts that have lowered our cash interest income from HK\$16 million in the last quarter to HK\$11 million in this quarter, we have managed to reduce loss before interest, taxation, depreciation and amortisation by 19% over the previous quarter, to HK\$56 million. Operating expenses were held below budget as a result of our conservative and disciplined approach to overall cost management.

## **Business Review**

Execution of our cross media strategy continued to deliver results. Apart from the growth in both pure online and offline revenue respectively, cross media advertising sales also grew during the quarter to reach approximately 10% of total advertising revenue. Integration of Tom's acquisitions has proceeded well, in particular in the area of sales. The client bases of all Tom's properties have been integrated and a unified service approach is taken to cultivate key advertisers across the base.

After reaching 50 million average daily pageviews in the last quarter, Tom has become one of the top portals in Mainland China. Our top priority now is the monetisation of traffic instead of the pure aggregation of traffic and users. Our monetisation efforts include offering Internet access packages to users through Tom's virtual ISP dial-up services. Our first initiative is the recent partnership with China Netcom, one of China's leading telecom companies. In cooperation with China Netcom, we launched TOMNET, an integrated Internet access package offered to customers that includes network access, content and other value-added services. This package offers dial-up access in 17 cities throughout China. Tom will continue to seek similar alliances with other telecom service providers in order to secure access revenue.

During the quarter, we completed our first print media acquisition. The Group acquired a 50% interest in Yazhou Zhoukan, the popular Chinese weekly current affairs magazine. Yazhou Zhoukan currently has a franchise of international readers covering overseas Chinese in the Asia Pacific region. We aim to distribute the magazine in Mainland China to increase both circulation and revenue when China regulations permit.

In March we announced a joint venture with Taiwan-based ChinaTimes.com that will develop the interactive marketing business in Mainland China. Tom will invest HK\$39 million in China Plus representing 50% of the venture.

## **Business Outlook**

The recent weakness in the capital markets and technology sector has highlighted Tom's inherent strengths. We are pioneers of the cross media business model which has proven to be more sustainable than the pure play Internet models of our competitors. We expect continued strong organic revenue growth in the immediate coming quarters from the cross media businesses which will shorten the Group's path to overall profitability. Growth through acquisitions will be focussed on the outdoor advertising media, print media sectors, ISP access and other telecommunication value-added services.

In this quarter we have begun to build the foundations of another important pillar to our business model: the access component. Through cooperation with telecom operators we intend to secure access and telecom value-added services revenue. We will also explore opportunities in the bundling of access and content that will further realise the full potential of Tom's Internet and media platform.

On behalf of the Board, I would like to express our sincere gratitude and appreciation of the continuing dedication of all our staff and management.

**Frank Sixt**

*Chairman*

Hong Kong, 9 May 2001

## UNAUDITED CONSOLIDATED RESULTS

For the three months ended 31 March 2001

	<i>Notes</i>	<b>Three months ended 31 March</b>	
		<b>2001</b>	2000
		<b>HK\$'000</b>	HK\$'000
Turnover		<b>77,004</b>	738
Direct expenses		<b>38,005</b>	60
Interest income		<b>(10,673)</b>	(39,816)
Website development expenses		<b>23,616</b>	24,694
Advertising and promotion expenses		<b>16,068</b>	28,363
Depreciation and amortisation		<b>24,837</b>	12,090
General and administrative expenses		<b>46,789</b>	25,240
Operating loss		<b>61,638</b>	49,893
Share of losses of jointly controlled entities		<b>7,253</b>	–
Share of losses of associates		<b>923</b>	989
Loss before taxation		<b>69,814</b>	50,882
Taxation	2	<b>611</b>	–
Loss after taxation		<b>70,425</b>	50,882
Minority interests		<b>91</b>	5,512
Loss attributable to shareholders		<b>70,334</b>	45,370
Loss per share	3	<b>2.22 cents</b>	1.79 cents

Notes:

**(1) Basis of preparation**

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

**(2) Taxation**

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits in Hong Kong for the period.

People's Republic of China ("PRC") income tax has been calculated on the estimated assessable profits for the period at the rates of taxation applicable to enterprises in the PRC.

No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

**(3) Loss per share**

The calculation of the basic loss per share for the three months ended 31 March 2001 is based on the unaudited consolidated loss attributable to shareholders of HK\$70,334,000 (2000: HK\$45,370,000) and the weighted average number of 3,174,442,383 (2000: 2,539,151,685) ordinary shares outstanding. The 2,300,000,000 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 as if those shares had been in issue since 1 January 2000.

The exercise of the share options granted by Tom in 2001 and 2000 would have an anti-dilutive effect on the loss per share for the three months ended 31 March 2001 and 2000.

**(4) Interim dividend**

The directors do not recommend the payment of an interim dividend for the period (2000: Nil).

**(5) Movement of reserves**

During the three months ended 31 March 2001, 6,054,000 shares and 53,504,776 shares were allotted and issued at HK\$1.78 and HK\$5.51 per share pursuant to the exercise of share options granted and as payment of consideration for acquisitions, respectively, resulting in increase of HK\$299,631,000 in the share premium account.



## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2001, the interests of the directors of Tom ("Directors") in the shares and options of Tom and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as required to be recorded in the register maintained by Tom under Section 29 of the SDI Ordinance were as follows: -

### (1) Directors' interests in shares

Name of Directors	Number of shares of Tom				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Sing Wang ( <i>Note</i> )	-	-	5,898,000	-	5,898,000
Guy Look	40,000	-	-	-	40,000

*Note:* By virtue of the SDI Ordinance, Mr. Sing Wang is deemed to be interested in 5,898,000 shares of Tom held by Amerinvest Technology Associates I Limited, which is wholly-owned by him.

Save as disclosed above, none of the Directors or their associates had, as at 31 March 2001, any interests in the shares of Tom or its associated corporations as recorded in the register required to be kept under Section 29 of the SDI Ordinance.

### (2) Directors' right to acquire shares

Pursuant to the Pre-IPO Share Option Plan adopted by Tom on 11 February 2000 (as described in Appendix IV to Tom's prospectus dated 18 February 2000), Mr. Guy Look was granted an option to subscribe for 9,080,000 shares of Tom at a subscription price of HK\$1.78 per share exercisable during the period from 11 February 2000 to 10 February 2010 (both dates inclusive).

Pursuant to the employee share option scheme (the “Share Option Scheme”) adopted by Tom on 11 February 2000 (as described in Appendix IV to Tom’s prospectus dated 18 February 2000), Mr. Sing Wang was granted an option on 30 June 2000 to subscribe for 15,000,000 shares of Tom at a subscription price of HK\$5.27 per share exercisable during the period from 30 June 2000 to 29 June 2010 (both dates inclusive). In addition, pursuant to the Share Option Scheme, Mr. Sing Wang was granted an option on 8 August 2000 to subscribe for 15,270,000 shares of Tom at a subscription price of HK\$5.30 per share exercisable during the period from 8 August 2000 to 7 August 2010 (both dates inclusive).

Pursuant to the Share Option Scheme, Ms. Michelle Leung was granted an option on 31 May 2000 to subscribe for 7,000,000 shares of Tom at a subscription price of HK\$4.685 per share exercisable during the period from 31 May 2000 to 30 May 2010 (both dates inclusive). In addition, pursuant to the Share Option Scheme, Ms. Michelle Leung was granted an option on 8 August 2000 to subscribe for 5,000,000 shares of Tom at a subscription price of HK\$5.30 per share exercisable during the period from 8 August 2000 to 7 August 2010 (both dates inclusive).

Pursuant to the Share Option Scheme, Mr. James Sha was granted an option on 8 April 2000 (and supplemented) to subscribe for 15,000,000 shares of Tom at a subscription price of HK\$8.78 per share exercisable during the period from 8 April 2000 to 9 April 2003 (both dates inclusive). In addition, pursuant to the Share Option Scheme, Mr. James Sha was granted an option on 15 November 2000 to subscribe for 15,000,000 shares of Tom at a subscription price of HK\$5.30 per share exercisable during the period from 15 November 2000 to 14 November 2010 (both dates inclusive).

Save as disclosed above, during the three months ended 31 March 2001, none of the Directors or their associates was granted options to subscribe for shares of Tom.

## OUTSTANDING SHARE OPTIONS

As at 31 March 2001, options to subscribe for an aggregate of 192,322,000 shares of Tom 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

Options to subscribe for an aggregate of 48,426,000 shares of Tom were outstanding, of which Mr. Guy Look was granted an option to subscribe for 9,080,000 shares of Tom and the balance of 39,346,000 share options were granted to six employees at the date of grant at a subscription price of HK\$1.78 per share. 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 Group or the Hutchison group of companies.

### (2) Share Option Scheme

Options to subscribe for an aggregate of 143,896,000 shares of Tom (which includes the options granted to Mr. Sing Wang, Ms. Michelle Leung and Mr. James Sha as disclosed above) were outstanding as at 31 March 2001, breakdown of which are set out below:

No. of share options	No. of employees	Subscription price per share of Tom <i>HK\$</i>	Option period * (commencing from date of grant and terminating ten years thereafter)
8,030,000	142	11.30	23 March 2000 to 22 March 2010
15,000,000	1	8.78	8 April 2000 to 9 April 2003
7,000,000	1	4.685	31 May 2000 to 30 May 2010
5,962,000	127	5.89	26 June 2000 to 25 June 2010
15,000,000	1	5.27	30 June 2000 to 29 June 2010
73,104,000	286	5.30	8 August 2000 to 7 August 2010
4,800,000	1	5.30	9 November 2000 to 8 November 2010
15,000,000	1	5.30	15 November 2000 to 14 November 2010

\*Note: The options may be exercised at any time within the option period provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the register required to be kept under Section 16(1) of the SDI Ordinance showed that Tom has been notified of the following interests, being 10% or more of the issued share capital of Tom. These interests are in addition to those disclosed above in respect of the Directors:

<b>Name of shareholders</b>	<b>No. of shares held</b>
Li Ka-shing	1,392,000,000 <i>(Notes 1 &amp; 2)</i>
Li Ka-Shing Unity Holdings Limited	1,392,000,000 <i>(Notes 1 &amp; 2)</i>
Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust)	1,392,000,000 <i>(Notes 1 &amp; 2)</i>
Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust)	1,392,000,000 <i>(Notes 1 &amp; 2)</i>
Cheung Kong (Holdings) Limited	1,392,000,000 <i>(Notes 1 &amp; 2)</i>
Cheung Kong Investment Company Limited	464,000,000 <i>(Note 1)</i>
Cheung Kong Holdings (China) Limited	464,000,000 <i>(Note 1)</i>
Sunnylink Enterprises Limited	464,000,000 <i>(Note 1)</i>
Romefield Limited	464,000,000 <i>(Note 1)</i>
Hutchison Whampoa Limited	928,000,000 <i>(Note 2)</i>
Hutchison International Limited	928,000,000 <i>(Note 2)</i>
Easterhouse Limited	928,000,000 <i>(Note 2)</i>
Chau Hoi Shuen	928,000,000 <i>(Note 3)</i>
Cranwood Company Limited	928,000,000 <i>(Note 3)</i>
Schumann International Limited	580,000,000 <i>(Note 3)</i>
Handel International Limited	348,000,000 <i>(Note 3)</i>

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 SDI Ordinance, Cheung Kong Investment Company Limited, Cheung Kong Holdings (China) Limited and Sunnynlink Enterprises Limited are all deemed to be interested in the 464,000,000 shares of Tom held by Romefield Limited.

Li Ka-Shing Unity Holdings Limited, of which Mr. Li Ka-shing owns 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 which as trustee of The Li Ka-Shing Unity Discretionary Trust, holds a majority of 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 SDI Ordinance, Hutchison Whampoa Limited and Hutchison International Limited are deemed to be interested in the 928,000,000 shares of Tom 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 SDI Ordinance, Mr. Li Ka-shing, Li Ka-Shing Unity Holdings Limited, Li Ka-Shing Unity Trustee Corporation Limited, Li Ka-Shing Unity Trustee Company Limited and Cheung Kong (Holdings) Limited are all deemed to be interested in the 464,000,000 shares of Tom and 928,000,000 shares of Tom 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 SDI Ordinance, Ms. Chau Hoi Shuen and Cranwood Company Limited are deemed to be interested in the 580,000,000 shares of Tom and 348,000,000 shares of Tom held by Schumann International Limited and Handel International Limited respectively.

Save as disclosed above, the Directors are not aware of any other person having an interest in shares representing 10% or more of the issued share capital of Tom.

## **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"). Mr. Frank Sixt is also a non-executive director of Cheung Kong (Holdings) Limited ("CKH"). Mr. Edmond Ip, a non-executive Director of Tom, is an executive director of CKH. Both HWL and CKH 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 Group.

Mr. Sing Wang, an executive Director and the Chief Executive Officer of Tom, is a non-executive vice-chairman and shareholder of China Youth Travel Services E-commerce Co. ("CYTS") whose main business consists of the provision of on-line travel services in China. The Directors believe that there is a risk that the businesses of CYTS may compete with those of the 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 Group's business.

Save as disclosed above, none of the Directors or the management shareholders of Tom (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules")) have any interests in a business which competes or may compete with the business of the Group.

## **SPONSOR'S INTERESTS**

As updated and notified by Tom's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), as at 31 March 2001, an associate and an employee of the Sponsor held 200,000 shares and 10,000 shares of Tom respectively.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the securities of Tom, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 17 February 2000 entered into between Tom and the Sponsor, the Sponsor will receive a fee for acting as Tom's retained sponsor for the period from 17 February 2000 to 31 December 2002.

## **AUDIT COMMITTEE**

Tom has established an audit committee in January 2000 with written terms of reference based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises an executive Director, Mr. Guy Look, and two independent non-executive Directors, namely Mrs. Angelina Lee and Mr. Henry Cheong. The audit committee has met 5 times since its formation.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the three months ended 31 March 2001, neither Tom nor any of its subsidiaries purchased, sold or redeemed any of Tom's listed shares.