

Third Quarterly Report 2003

Q3  
2003

**TOM.COM LIMITED**

Incorporated in the Cayman Islands with limited liability



Higher Margin  
Greater Profit

## CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

*This document, for which the directors of TOM.COM LIMITED 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.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.*

## DEFINITIONS

“Associates”	means	the same definition as described under the GEM Listing Rules
“CETV”	means	China Entertainment Television Broadcast Limited
“CKH”	means	Cheung Kong (Holdings) Limited
“COA”	means	Communication Over The Air Inc.
“Director(s)”	means	the director(s) of TOM
“GEM”	means	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	means	the Rules Governing the Listing of Securities on the GEM
“HWL”	means	Hutchison Whampoa Limited
“Lei Ting Wan Jun”	means	北京雷霆萬鈞網絡科技有限責任公司 (Beijing Lei Ting Wan Jun Network Technology Limited)
“LTWji”	means	北京雷霆無極網絡科技有限公司 (Beijing Leitingwuji Network Technology Company Limited)
“Maya Cultural”	means	上海美亞文化傳播有限公司 (Shanghai Maya Cultural Transmission Company Limited)

“Maya Online”	means	上海美亞在線寬頻網絡有限公司 (Shanghai Maya Online Broadband Network Company Limited)
“PRC”	means	the People’s Republic of China
“Pre-IPO Share Option Plan”	means	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)
“SFO”	means	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share Option Scheme”	means	the share option scheme adopted by TOM on 11 February 2000 (as amended)
“Stock Exchange”	means	The Stock Exchange of Hong Kong Limited

## CHAIRMAN'S STATEMENT

I am pleased to announce the results of TOM.COM LIMITED (“TOM” or the “Company”) and its subsidiaries (collectively referred to as the “TOM Group” or the “Group”) for the third quarter and the nine months ended 30 September 2003.

Against a soft operating background, the TOM Group successfully delivered its second consecutive quarter of profit attributable to shareholders. With continuing revenue and margin initiatives, particularly in the Internet Group, offsetting a difficult quarter in the Sports and Entertainment Group, the Group delivered modest growth in revenue overall as well as a higher overall profitability margin.

Key third quarter achievements include:

- Second consecutive quarter of profit attributable to shareholders
- 81% increase in profit attributable to shareholders over the last quarter
- Continued growth in positive EBITDA, by 25% over last quarter
- Internet Group, Outdoor Media Group and Publishing Group all registered growth in EBITDA over last quarter, with Sports & Entertainment Group registering a decline
- Compared to the same three month period last year, EBITDA grew by one and a half times and profit attributable to shareholders swung HK\$63 million from a net loss of HK\$44 million, to HK\$18 million
- Achieved positive year-to-date operating profit and profit before tax

## Financial Highlights

	For the three month period ended		
	30 September	30 June	30 September
	2003	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<b>456,433</b>	455,538	451,553
Gross profit	<b>218,952</b>	204,687	185,624
Earnings before interest, taxation, depreciation and amortization	<b>82,046</b>	65,449	33,345
Profit/(loss) attributable to shareholders	<b>18,450</b>	10,183	(44,135)

## Financial Performance

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The TOM Group's unaudited consolidated revenue for the three months ended 30 September 2003 was HK\$456 million, flat over the last quarter. Internet Group revenue increased by 2% quarter-on-quarter, with an increase in EBITDA margin to 48% compared to 45% last quarter. Outdoor Media Group and Publishing revenues grew by 1% and 10% respectively, with EBITDA margins improving to 27% and 13%. Sports & Entertainment revenue declined by 27%, with a slight drop in EBITDA margin from 9% to 7%.

TOM is reporting a second consecutive quarter of profit attributable to shareholders, amounting to HK\$18 million – an improvement of HK\$8 million over last quarter's attributable profit of HK\$10 million. EBITDA continues to grow, with a 25% increase to HK\$82 million, with EBITDA margin now at 18%.

Comparing overall financial performance to the same period last year, revenue for the nine months ended 30 September 2003 amounted to HK\$1.3 billion, a 17% increase from HK\$1.1 billion in the corresponding period in 2002. Operating profit was HK\$26 million and profit before taxation was HK\$8 million, compared to an operating loss of HK\$75 million and loss before taxation of HK\$114 million for the same nine month period in 2002. Loss attributable to shareholders in the first nine months of 2003 was HK\$14 million, 92% lower than the Group's attributable loss of HK\$169 million for the same period in 2002, representing an improvement of HK\$154 million.

## Business Review

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### *Internet Group*

The Internet Group reported revenue of HK\$126 million with an improvement in EBITDA margin to 48%. Wireless data services continued to be the main contributor with the SMS customer base growing from 17 million to 20 million this quarter, and the MMS customer base increasing from 200,000 to 320,000 users. Continuing emphasis was also placed on operating expenses.

During the quarter, the Internet Group also took steps aimed at broadening its revenue base and developing a more balanced platform of Internet services. The announcement of the acquisition of LTWJi, an interactive voice response service, will allow the Internet Group to develop a new source of revenue that is expected to provide it with another channel of growth. Apart from broadening the existing wireless product portfolio, LTWJi will also provide margin improvement. Wireless interactive voice response services are a new category of wireless value-added services in Mainland China that allow users to access pre-recorded information content from their mobile telephones by dialing access telephone numbers, and to interact with each other in chat-rooms and through one-on-one dating communication services.

The discontinuation of the Internet Group's promotion arrangements with certain third party web sites has taken effect on the wireless revenue. However, other wireless applications such as MMS, WAP and ring back tone had been the new growth drivers, providing compensation for the impact from the reduced promotional arrangements, resulting in a flat wireless revenue compared to last quarter. Since the distribution channel is crucial for the success of wireless services, arrangements had been setup with leading mobile phone producers to manufacture certain handset models with embedded icons that enable direct user access to our wireless services.



Furthermore, the Internet Group has been working closely with its strategic partner, China Mobile, to co-promote our wireless products on a regular basis.

The Internet Group overall revenue growth of 2% over the second quarter has been primarily driven by a modest growth in online advertising. During the quarter, there was strong demand for online advertising with a number of major domestic corporations being secured as customers and commercial relationships being established with leading advertising agencies. A licensing agreement with a leading Korean games company was also signed as the Internet Group prepares to launch its first online game, “Karma Online”, a first person shooting game. Although no formal launch date has been set yet, it is expected this game will provide users with a new and unique gaming experience. Other initiatives to diversify the revenue mix include the launch of a paid-listing service, targeting small-medium enterprises, to be based on subscription-fees. Further enhancements to the Portal are being made, a partnership has been formed with Baidu, a local search engine provider, to upgrade the Portal’s existing search services.

We believe the Internet Group will resume growth momentum and demonstrate robust results.

### *Outdoor Media Group*

The Outdoor Media Group continued to make progress in the post-SARS period, recording revenue of HK\$75 million for the quarter, with EBITDA margin increasing to 27%.

A total HK\$27 million in network sales contracts were secured with multinationals and large domestic corporations. This included a single nationwide contract with a leading domestic mobile phone manufacturer for HK\$16 million, to place outdoor advertising throughout twenty-three cities across the country. The Outdoor Media Group is well positioned to bid for this customer’s second stage nationwide advertising campaign, which is estimated at HK\$15 million.

The Outdoor Media Group has built up additional marketing channels and significantly raised its profile through establishing closer association with various industry publications. The Group assisted the International Advertising Magazine, a leading industry journal, in the publishing of the “China Outdoor Advertising Magazine”.

On the expansion front, new concessions obtained in the quarter included 100 units contributing over 3,000 square meters of outdoor asset space in five different cities. Over two-thirds of the new capacity increase was in the billboard asset class.

### *Publishing*

Publishing reported revenue of HK\$202 million, a growth of 10% over the previous quarter. EBITDA margin has also improved to 13%. In addition, the Publishing Group also secured a five year syndicated facility of NT\$1.9 billion (HK\$426 million) for working capital and future development purposes. The financing will allow the Publishing Group to become more financially independent and self-funded as it continues to pursue its operational and growth initiatives.

Management continued to focus on driving costs down. Cost savings in the area of bulk paper procurement have now been achieved and the next area of cost rationalization will be on printing. CUP magazine in Hong Kong is undergoing a complete reorganization and revamp, targeting the young affluent reader demographic. CUP has also branched into providing custom publishing services to corporate clients. Magazines published and marketed under the CUP umbrella include “AV magazine”, a leading audio and visual electronics magazine, “Lifestyle Plus”, a leisure and lifestyle magazine available to residents of properties managed by the Cheung Kong Group and the recently launched “ParknShop Magazine 生活百寶”, a food, health and home magazine available in all ParknShop supermarkets.

During the quarter, two new magazines titles were launched in Taiwan, including the internationally renowned “International Wrist Watch” magazine (Chinese version). A further 18 book titles were licensed for production by Mainland publishers. On the book-publishing front, the Group published a total of 469 new book titles.

### *Sports & Entertainment*

The weak performance of the Sports & Entertainment Group for the quarter reflects the continuing impact of SARS from prior periods, which has resulted in cancellation or postponement of sporting events that were originally planned for the quarter. In particular, the 2003 China Open, an ATP event originally scheduled to be held in Beijing in September of this year, has been postponed to 2004. This event contributed significantly to both revenue and bottom line in 2002 when the event was still being hosted in Hong Kong. As a result, the Group reported revenue of HK\$53 million, a decline of 27% over the previous quarter, with a recorded EBITDA margin of 7% for the period.

The Group’s entertainment business in the area of distribution and sale of audio and video products operates in complex market environment with issues such as piracy and proper provision of taxation. During the quarter, the Group has undergone a complete revamp of this business putting in place various management system control including conservative accounting and tax policies. The aim is to ensure a clean book of business and to lay solid foundations for the future, thus affecting the current revenue and margins of this business.

With the official completion of the acquisition of CETV, management handover began at the end of September. Planning and preparation has begun on the restructuring and relocation of the current operations setup, with a view to migrating the majority of its operations to Mainland China. It is expected that the management and operations reorganization, along with the overall channel revamp will take several months. A hard re-launch of the channel is targeted for the end of the second quarter in 2004.

Sports marketing activities have regained some momentum since the end of the second quarter. Marketing rights including the future commercial rights to the China National Table Tennis Team have been secured, at the same time an international sponsor has already been locked in. The Philips Inter-University Football league was held in September where thirty-eight university football teams competed in the semi-finals in four universities. The debut Thailand Open, the first ever ATP event in Thailand, was met with a favorable response. The event received support from over twenty sponsors, all elite tier overseas and Thai domestic companies, which are likely long-term partners of the event. Tickets were sold out in the first day of public sale. Total audience was over 75,000 watching 50 matches over the nine-day event. Overall, prospects for this group look somewhat brighter for the remainder of this year and looking forward.

## Business Outlook

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This quarter has been a rewarding period for the Group, marked with a number of special events. Firstly, the Group has achieved profitability for a second consecutive quarter, building good momentum towards accumulated profit attributable to shareholders. Secondly, with the official completion of CETV, TOM now has completed its foundations as a media conglomerate, and one that is unique in Asia. The Group will focus efforts restructuring with an aim to relaunch a new CETV in 2004. Thirdly, a share placement was successfully completed raising funds exceeding HK\$990 million, further strengthening the Group's balance sheet. Fourthly, the completion of the syndicated facility of NT\$1.9 billion (HK\$426 million) for the Publishing Group provides flexibility in the Group's future financing and funding requirement. Going forward, the Group will continue to focus on margin expansion with the key priority being bottom line profitability.

The recent announcement of the establishment of a Sino-Foreign publishing joint venture with the Sanlian Group will allow TOM to further expand in the Chinese language publishing sector and build a strategic foothold in the Mainland China publishing market.

On 6 November, the TOM Group entered into an agreement for the issuance of convertible bonds, due 2008, to the amount of US\$150 million, with an option to issue up to a further US\$35 million. We have taken advantage of the current market window of opportunity for very low cost financing, hence further strengthening the Group's financial position.

I am confident that despite a soft operating environment this year, TOM remains on track to continue to create additional growth and deliver value to our shareholders.

**Frank Sixt**  
*Chairman*

Hong Kong, 13 November 2003

## UNAUDITED CONSOLIDATED RESULTS

For the three months and nine months ended 30 September 2003

	Note	Three months ended 30 September		Nine months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover		<b>456,433</b>	451,553	<b>1,323,375</b>	1,130,771
Cost of sales		<b>(237,481)</b>	(265,929)	<b>(747,517)</b>	(702,807)
Interest income		<b>4,265</b>	1,323	<b>5,479</b>	4,532
Selling and marketing expenses		<b>(45,569)</b>	(43,843)	<b>(133,552)</b>	(129,681)
Administrative expenses		<b>(49,887)</b>	(64,102)	<b>(152,622)</b>	(165,770)
Other operating expenses		<b>(89,472)</b>	(81,295)	<b>(269,294)</b>	(211,931)
Operating profit/(loss)		<b>38,289</b>	(2,293)	<b>25,869</b>	(74,886)
Finance costs		<b>(4,114)</b>	(5,433)	<b>(13,725)</b>	(13,681)
Share of losses of jointly controlled entities		<b>(857)</b>	(8,645)	<b>(5,855)</b>	(25,806)
Share of profits less losses of associated companies		<b>556</b>	190	<b>1,288</b>	(122)
Profit/(loss) before taxation		<b>33,874</b>	(16,181)	<b>7,577</b>	(114,495)
Taxation	2	<b>(10,120)</b>	(15,855)	<b>(11,974)</b>	(39,818)
Profit/(loss) after taxation		<b>23,754</b>	(32,036)	<b>(4,397)</b>	(154,313)
Minority interests		<b>(5,304)</b>	(12,099)	<b>(9,827)</b>	(14,329)
Profit/(loss) attributable to shareholders		<b>18,450</b>	(44,135)	<b>(14,224)</b>	(168,642)
Earnings/(loss) per share	3				
Basic		<b>HK0.49 cents</b>	HK(1.34) cents	<b>HK(0.41) cents</b>	HK(5.12) cents
Diluted		<b>HK0.48 cents</b>	N/A	<b>N/A</b>	N/A

Notes:

## 1. BASIS OF PREPARATION OF THE ACCOUNTS

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention except that certain investment securities are stated at fair value. The Group has adopted the new and revised Hong Kong Statements of Standard Accounting Practice (“SSAPs”) which became effective on 1 January 2003. The adoption of these new and revised SSAPs has no material effect on the Group’s results.

Certain comparative figures have been reclassified to conform with the current period’s presentation.

## 2. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Three months		Nine months	
	ended 30 September		ended 30 September	
	2003	2002	2003	2002
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Hong Kong profits tax	–	(4,264)	–	(5,057)
Overseas taxation	(8,973)	(10,090)	(20,653)	(28,556)
Over-provision in prior years	3,408	–	5,045	–
Deferred taxation	(4,555)	(1,501)	3,634	(6,205)
	<u>(10,120)</u>	<u>(15,855)</u>	<u>(11,974)</u>	<u>(39,818)</u>



### 3. EARNINGS/(LOSS) PER SHARE

#### (a) Basic

The calculation of the basic earnings/(loss) per share for the three months and nine months ended 30 September 2003 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$18,450,000 and unaudited consolidated loss attributable to shareholders of HK\$14,224,000 (2002: unaudited consolidated loss attributable to shareholders of HK\$44,135,000 and HK\$168,642,000) and the weighted average number of 3,789,230,372 and 3,488,212,188 (2002: 3,303,021,737 and 3,294,768,001) ordinary shares outstanding during the periods.

#### (b) Diluted

The calculation of the diluted earnings per share for the three months ended 30 September 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$18,450,000 and the weighted averaged number of 3,834,230,827 ordinary shares, after adjusting for the effects of all dilutive potential shares during the period.

The exercise of share options granted by the Company would have an anti-dilutive effect on the loss per share for the three months ended 30 September 2002 and nine months ended 30 September 2003 and 30 September 2002.

### 4. DIVIDENDS

No dividend had been paid or declared by the Company during the period (2002: HK\$Nil).

## 5. MOVEMENT OF RESERVES

	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	General reserves HK\$'000	Revaluation reserve HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	2,231,099	(377)	776	139	-	(547)	(1,978,761)	252,329
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	70,391	-	-	-	-	-	-	70,391
Exercise of share options, net of issuing expenses	18,537	-	-	-	-	-	-	18,537
Investment revaluation deficit	-	-	-	-	(1,741)	-	-	(1,741)
Loss for the period	-	-	-	-	-	-	(168,642)	(168,642)
Exchange difference	-	-	-	-	-	40	-	40
At 30 September 2002	<u>2,320,027</u>	<u>(377)</u>	<u>776</u>	<u>139</u>	<u>(1,741)</u>	<u>(507)</u>	<u>(2,147,403)</u>	<u>170,914</u>
	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	General reserves HK\$'000	Revaluation reserve HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	2,333,916	(377)	776	343	-	(802)	(2,388,544)	(54,688)
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	249,139	-	-	-	-	-	-	249,139
Placement of shares, net of issuing expenses	951,270	-	-	-	-	-	-	951,270
Investment revaluation surplus	-	-	-	-	18,616	-	-	18,616
Loss for the period	-	-	-	-	-	-	(14,224)	(14,224)
Transfer to general reserves	-	-	-	15,201	-	-	(15,201)	-
Exchange difference	-	-	-	62	-	3,441	-	3,503
At 30 September 2003	<u>3,534,325</u>	<u>(377)</u>	<u>776</u>	<u>15,606</u>	<u>18,616</u>	<u>2,639</u>	<u>(2,417,969)</u>	<u>1,153,616</u>

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

As at 30 September 2003, the interests or short positions of the Directors 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 Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to TOM and the Stock Exchange, were as follows:

### (a) Long positions in shares of TOM

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

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

## (b) Rights to acquire shares of TOM

Pursuant to the Pre-IPO Share Option Plan and/or the Share Option Scheme, certain Directors were granted share options to subscribe for the shares of TOM, details of which as at 30 September 2003 were as follows:

Name of Directors	Date of grant	Number of share options outstanding as at 30 September 2003	Option period	Subscription price per share of TOM HK\$
Sing Wang	30/6/2000	3,000,000	30/6/2000 – 29/6/2010	5.27
	8/8/2000	2,138,000	8/8/2000 – 7/8/2010	5.30
	7/2/2002	20,000,000	7/2/2002 – 6/2/2012	3.76
James Sha	15/11/2000	15,000,000	15/11/2000 – 14/11/2010	5.30
Wang Lei Lei	11/2/2000	9,080,000	11/2/2000 – 10/2/2010	1.78
	7/2/2002	850,000	7/2/2002 – 6/2/2012	3.76

Save as disclosed above, during the nine months ended 30 September 2003, none of the Directors or their Associates was granted options to subscribe for shares of TOM, nor had exercised such rights.

## (c) Short positions in associated corporations

Mr. Wang Lei Lei has as of 12 June 2001 granted an option to a wholly-owned subsidiary of TOM in respect of his 20% (RMB2,200,000) equity interest in Lei Ting Wan Jun whereby such wholly-owned subsidiary of TOM has the right at any time to acquire all of Mr. Wang Lei Lei's equity interest in Lei Ting Wan Jun at an exercise price of RMB2,200,000. In addition, Mr. Wang Lei Lei has also pledged all his equity interest in Lei Ting Wan Jun to the aforesaid wholly-owned subsidiary of TOM, which also serves to secure his obligations under the option.

Save as disclosed above, none of the Directors or their Associates had, as at 30 September 2003, any interests or short positions in any shares, underlying shares or debentures of, TOM or any of its 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 under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 and 5.58 of the GEM Listing Rules, to be notified to TOM and the Stock Exchange.

## OUTSTANDING SHARE OPTIONS

As at 30 September 2003, options to subscribe for an aggregate of 118,656,000 shares of TOM granted pursuant to the Pre-IPO Share Option Plan and the Share Option Scheme were outstanding. Details of which were as follows:

### **(a) Pre-IPO Share Option Plan**

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As at 30 September 2003, options to subscribe for an aggregate of 16,196,000 shares of TOM at a subscription price of HK\$1.78 per 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 11 February 2000, but shall lapse where the grantee ceases to be employed by the Group or the HWL group of companies.

## (b) Share Option Scheme

Options to subscribe for an aggregate of 102,460,000 shares of TOM which were granted to certain continuous contract employees of the Group (including the directors of the Group as disclosed above) were outstanding as at 30 September 2003, breakdown of which are set out below:

Date of grant	No. of share options	No. of employees	Subscription price per share of TOM HK\$	Option period * (commencing from date of grant and terminating ten years thereafter)
23/3/2000	2,722,000	64	11.30	23/3/2000 – 22/3/2010
31/5/2000	2,332,000	1	4.685	31/5/2000 – 30/5/2010
26/6/2000	1,240,000	36	5.89	26/6/2000 – 25/6/2010
30/6/2000	3,000,000	1	5.27	30/6/2000 – 29/6/2010
8/8/2000	18,782,000	55	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	59,384,000	43	3.76	7/2/2002 – 6/2/2012

\* 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).

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 30 September 2003, the persons or corporations (not being a Director or chief executive of TOM) who have interests or short positions in the shares and underlying shares of TOM as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to TOM were as follows:

Name of shareholders	Capacity	No. of shares of TOM held	Approximate percentage of shareholding
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	1,429,024,545 <i>(Notes 1 &amp; 2)</i>	37.05%
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 <i>(Notes 1 &amp; 2)</i>	37.05%
Li Ka-Shing Unity Trustcorp Limited <i>(as trustee of another discretionary trust)</i>	Trustee & beneficiary of a trust	1,429,024,545 <i>(Notes 1 &amp; 2)</i>	37.05%
Li Ka-Shing Unity Trustee Company Limited <i>(as trustee of The Li Ka-Shing Unity Trust)</i>	Trustee	1,429,024,545 <i>(Notes 1 &amp; 2)</i>	37.05%

<b>Name of shareholders</b>	<b>Capacity</b>	<b>No. of shares of TOM held</b>	<b>Approximate percentage of shareholding</b>
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,429,024,545 <i>(Notes 1 &amp; 2)</i>	37.05%
Cheung Kong Investment Company Limited	Interest of controlled corporations	476,341,182 <i>(Note 1)</i>	12.35%
Cheung Kong Holdings (China) Limited	Interest of controlled corporations	476,341,182 <i>(Note 1)</i>	12.35%
Sunnylink Enterprises Limited	Interest of a controlled corporation	476,341,182 <i>(Note 1)</i>	12.35%
Romefield Limited	Beneficial owner	476,341,182 <i>(Note 1)</i>	12.35%
Hutchison Whampoa Limited	Interest of a controlled corporation	952,683,363 <i>(Note 2)</i>	24.70%
Hutchison International Limited	Interest of a controlled corporation	952,683,363 <i>(Note 2)</i>	24.70%
Easterhouse Limited	Beneficial owner	952,683,363 <i>(Note 2)</i>	24.70%
Chau Hoi Shuen	Interest of controlled corporations	952,683,363 <i>(Note 3)</i>	24.70%



Name of shareholders	Capacity	No. of shares of TOM held	Approximate percentage of shareholding
Cranwood Company Limited	Beneficial owner & interest of controlled corporations	952,683,363 (Note 3)	24.70%
Schumann International Limited	Beneficial owner	580,000,000 (Note 3)	15.04%
Handel International Limited	Beneficial owner	348,000,000 (Note 3)	9.02%

*Notes:*

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

By virtue of the SFO, Cheung Kong Investment Company Limited, Cheung Kong Holdings (China) Limited and Sunnynlink Enterprises Limited are all deemed to be interested in the 476,341,182 shares of TOM held by Romefield Limited.

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited. Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li-Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 hold units in The Li Ka-Shing Unity Trust.

- (2) Easterhouse Limited is a wholly-owned subsidiary of Hutchison International Limited, which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited. By virtue of the SFO, Hutchison Whampoa Limited and Hutchison International Limited are deemed to be interested in the 952,683,363 shares 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 SFO, Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, Li Ka-Shing Unity Trustee Corporation Limited, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Company Limited and Cheung Kong (Holdings) Limited are all deemed to be interested in the 476,341,182 shares of TOM and 952,683,363 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 SFO, Cranwood Company Limited is 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 in addition to 24,683,363 shares of TOM held by itself.

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

Save as disclosed above, as at 30 September 2003, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of TOM representing 5% 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 HWL and directors of certain of its Associates (collectively referred to as “HWL Group”). Mr. Frank Sixt is also a non-executive director of CKH. Mr. Edmond Ip, a non-executive director of TOM, is an executive director of CKH and a director of certain of its Associates (collectively referred to as “CKH Group”). Both HWL Group and CKH Group are engaged in e-commerce projects and operate general information portals. The Directors believe that there is a risk that such businesses may compete with those of the Group.

Mr. Wang Lei Lei, a non-executive director of TOM, is a director and a shareholder of LTWJi whose main business consists of the provision of wireless data services. Mr. Wang Lei Lei is also a director and a shareholder of COA whose main business consists of the provision of WAP technical programming and application services. Mr. Wang Lei Lei has granted options to Devine Gem Management Limited (beneficially owned by Ms. Chau Hoi Shuen), under which, Devine Gem Management Limited is entitled at any time to acquire all of Mr. Wang Lei Lei's equity/shareholding interests in LTWJi and COA. The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Wang Lei Lei in the Internet industry will complement the development of the Group's business.

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

## WAIVERS FOR CERTAIN DISCLOSURE OBLIGATIONS UNDER CHAPTER 17 OF THE GEM LISTING RULES

As the net tangible assets (i.e. the aggregate of capital and reserves (excluding minority interests and intangibles)) shown in TOM's latest published audited consolidated financial statements for the year ended 31 December 2002 was negative, any advance to an entity or any financial assistance granted to or any guarantee (however minor) given for the benefit of the affiliated companies of the Group which remained outstanding as at 31 December 2002 or made after 31 December 2002 would give rise to a disclosure obligation under Rules 17.15, 17.16, 17.17 and 17.18 of the GEM Listing Rules. Given the timeliness disclosure and as it was impracticable to strictly comply with the rules, TOM has made an application to the Stock Exchange for substitution of "net tangible assets" with "net assets" when interpreting, inter alia, Rules 17.15, 17.16 and 17.18 of the GEM Listing Rules.

On 3 April 2003, the GEM Listing Committee granted waivers in respect of, inter alia, the following disclosure obligations under Chapter 17 of the GEM Listing Rules and to adopt a modified approach in the calculation of the thresholds. In respect of Rules 17.15, 17.16 and 17.18 of the GEM Listing Rules, "net tangible assets" will be substituted by "net assets" and the percentage thresholds will be downward adjusted as follows:

<b>GEM Listing Rules</b>	<b>Modified percentage thresholds</b>
Rule 17.15 – advance to an entity	8% or more
Rule 17.16 – further advance to an entity	3% or more
Rule 17.18 – financial assistance to affiliates	8% or more

Disclosure obligation will be triggered immediately upon such thresholds being met.

The aforesaid waivers are valid until the earlier of (1) an amendment to the GEM Listing Rules in this area; or (2) the publication or the due date of the annual report of TOM for the year ending 31 December 2003 (i.e. on or before 31 March 2004).

## ADVANCES TO AN ENTITY

Based on the modified approach in determining the disclosure obligations under Chapter 17 of the GEM Listing Rules as mentioned above, as at 30 September 2003, details of advances (including guarantee given by the Group) which are non-trading nature, made by the Group to the following entities (which amount exceeds 8% of the net assets of the Group as at 31 December 2002) were as follows:

Name of company	Relationship with the Group	Advances HK\$'000	Corporate guarantee HK\$'000
Maya Online	Investee company	11,271 ( <i>Note 1</i> ) 18,798 ( <i>Note 2</i> ) 70,902 ( <i>Note 3</i> )	9,400 ( <i>Note 4</i> )
Maya Cultural	Investee company	29,849 ( <i>Note 5</i> )	

*Notes:*

1. This advance to Maya Online made on 16 August 2000 is unsecured, bearing interest at the rate of 6.5% per annum and is repayable on or before 1 August 2010.
2. This advance to Maya Online made on 10 May 2001 is unsecured, bearing interest at the rate of 6% per annum and is repayable on or before 30 April 2011.
3. These advances to Maya Online made between the period from 27 December 2000 to 30 September 2003 are unsecured, interest free and repayable on demand.
4. This represents the corporate guarantee secured by a fixed deposit of HK\$9,400,000 for a bank loan of RMB10,000,000 granted to Maya Online on 26 September 2001 for working capital purposes. The aforesaid bank loan has been fully utilized by Maya Online.
5. These advances to Maya Cultural made between the period from 5 February 2001 to 30 September 2003 are unsecured, interest free and repayable on demand.

## 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, Ms. Tommei Tong and three independent non-executive Directors, namely Mrs. Angelina Lee, Mr. Henry Cheong and Ms. Anna Wu.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2003, neither TOM nor any of its subsidiaries purchased, sold or redeemed any of TOM’s listed shares.