



*On an  
Upswing*



**TOM Group Limited**

Incorporated in the Cayman Islands with limited liability

ANNUAL REPORT 2003

## CHARACTERISTICS OF GEM

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

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This document, for which the directors of TOM Group 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 Group Limited. The directors of TOM Group 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 in 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.

# The Group's strong brands

reflect its diversity and

**PC OFFICE**

www.pcoffice.com.tw 電腦上班族

**Smart 智富幫**

**tom Outdoor 戶外集團**  
新奧戶外廣告

**PC home**  
電腦家庭

**tom Outdoor 戶外集團**  
博美聯合廣告

**@TOM.com**  
TOM郵箱只郵你

**CHAMPIONS DIVING TOUR**

**cité 城邦**

**天下娛樂通**

**MOOK 自遊自在**

**tom Outdoor 戶外集團**  
齊魯國際廣告

美麗佳人  
**marie claire**

**tom Outdoor 戶外集團**  
**Timing 天明**

WWW.TOM.COM  
**雷霆戰隊**  
Karma Online

**PCUSER 電腦人**

**MEDIA SERV**

**電腦報**

**tom Outdoor 戶外集團**  
春雨廣告

**華娛**

**Bella 儂儂**

**CUP**

# market leadership



第四届维达全国年龄组冠军赛

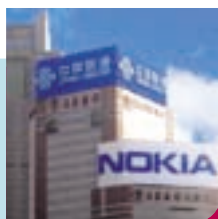


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Internet



Outdoor



Publishing



Sports



Television and  
Entertainment

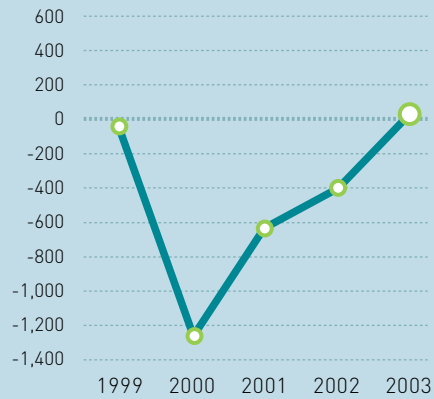
# Financial Highlights

For the Year Ended 31 December

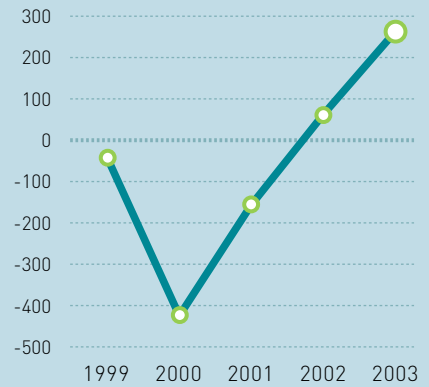
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Results</b>					
Turnover	2,089,234	1,624,126	626,624	89,223	3,240
Internet	592,443	255,800	143,890	54,865	3,240
Outdoor	297,966	247,895	117,477	–	–
Publishing	771,441	741,258	168,286	–	–
Sports	251,535	316,547	196,971	34,358	–
Television and Entertainment	175,849	62,626	–	–	–
EBITDA*	262,887	52,463	(183,616)	(424,680)	(47,573)
Operating profit / (loss)	92,349	(106,192)	(230,592)	(383,336)	(53,339)
Profit / (Loss) attributable to shareholders	12,598	(409,579)	(635,887)	(1,265,285)	(53,060)
<b>Balance sheet</b>					
Total assets	5,257,796	2,553,363	1,667,443	1,613,766	365,335
Total liabilities	3,638,421	2,281,092	1,088,440	826,709	389,050
Shareholders' funds / (deficits)	1,619,375	272,271	579,003	787,057	(23,715)

\* Excluding one-time expenses and non-cash provisions totaling HK\$230,998,000 for the year ended 31 December 2002 (2001: HK\$339,003,000 and 2000: HK\$866,928,000)

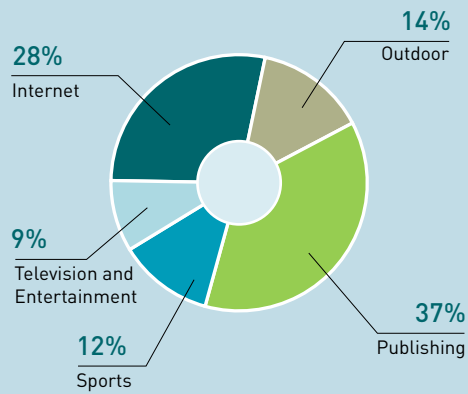
**Profit / (Loss) attributable to shareholders** | (HK\$ million)



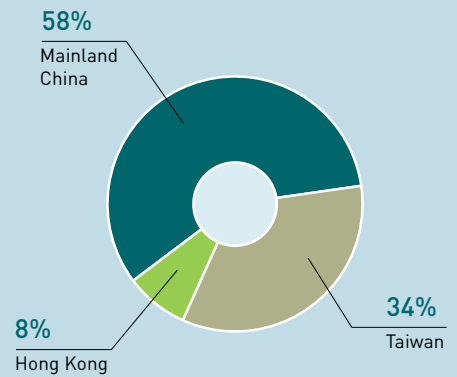
**EBITDA** | (HK\$ million)



**Turnover** | by Business Segment (2003)



**Turnover** | by Geographical Segment (2003)



## Corporate Profile

- Profit Attributable to Shareholders of **HK\$13 million**
- Operating Profit of **HK\$92 million**
- EBITDA of **HK\$263 million**
- Revenue of **HK\$2.1 billion**

### TOM Group Limited

is a leading Chinese-language media company in the Greater China region, with business interests across markets in Mainland China, Taiwan and Hong Kong. Its diversified operations span five media sectors: **Internet** (TOM Online Inc.), **Outdoor** (TOM Outdoor Media Group), **Publishing, Sports, Television and Entertainment**, each of which the Company has secured market leadership.

*Chinese  
Media*



## Internet Group

- Leading mobile Internet company
- Services include:
  - Wireless value-added services (VAS)
  - Online advertising
  - Commercial enterprise solutions
  - Online games
- Over 27 million wireless VAS subscribers



## Outdoor Media Group

- Largest outdoor billboard and unipole operator in Mainland China
- Nationwide network
- 5,000+ advertising panels across 30 cities
- Comprehensive nationwide advertising solutions:
  - Outdoor campaign management
  - Media planning and buying
  - Contract management
  - Media consultancy
  - Site monitoring
  - Cross-media centralized buying
  - Visual production



## Publishing Group

- Leading publishing group in Greater China
- Publishing over 60 magazines and more than 10,000 books
- 41 publishing brands
- First foreign entity with publishing distribution joint venture in Mainland China



## Sports Group

- Largest domestic sports marketing company in Mainland China
- Customizes sponsorship of teams and events
- International rights with execution capabilities and expertise in Mainland China



## Television and Entertainment Group

- CETV
  - 24-hour Putonghua channel delivering dynamic content to Chinese audience
  - First foreign channel with formal cable carriage rights in Mainland China
  - Distribution reaching 23 million households nationwide
- Video and audio production and distribution business
  - Over 45 million CDs, VCDs and DVDs produced and distributed nationwide



## Business Highlights

### Fund Raising

- A share placement was completed in July where 450,000,000 shares were placed at HK\$2.30 per share raising net proceeds of approximately HK\$996 million.
- A US\$150 million (approximately HK\$1.17 billion) 0.50 per cent Guaranteed Convertible Bond due 2008 was issued in November. The convertible bonds are rated BB+ by Standard & Poors.
- A syndicated loan facility of NT\$1.9 billion (approximately HK\$426 million) was raised by the four publishing subsidiaries. The financing facility comprised of a five-year loan facility and a five-year revolving credit facility.



### Business Expansions



- Acquisition of a 64.07% stake in CETV, a 24-hour Putonghua channel with cable carriage rights in China. Planning and preparation began and an overall channel revamp is targeted for the second half in 2004.
- Acquired 100% stake in LTWJi, a leading wireless interactive voice response (IVR) services provider in Mainland China. IVR services allow users to access pre-recorded information from their mobile phones and to interact with other users through chat and dating services.



- A joint venture agreement was entered into with Sanlian to establish Sanlian Shiji Wenhua Chuanbo Company Limited, a Sino-foreign co-operative joint venture that will handle full-scale publishing operations in Mainland China. The joint venture will be 49% held by TOM Group.
- A joint venture, China Open Sports Marketing Co. Ltd., was formed with Beijing Youth Daily to market and promote the China Open event, which is scheduled to be held in Beijing in September 2004.



# Corporate Information

## Board of Directors

### Chairman

Frank John Sixt

### Executive Directors

Sing Wang

Tong Mei Kuen, Tommei

### Non-Executive Directors

Chang Pui Vee, Debbie

Chow Woo Mo Fong, Susan

Ip Tak Chuen, Edmond

Holger Kluge

James Sha

Wang Lei Lei

### Independent Non-Executive Directors

Cheong Ying Chew, Henry

Lee Pui Ling, Angelina

Wu Hung Yuk, Anna

## Company Secretary

Mak Soek Fun, Angela

## Qualified Accountant

Tong Mei Kuen, Tommei

## Compliance Officer

Tong Mei Kuen, Tommei

## Audit Committee

Lee Pui Ling, Angelina (*Committee Chairman*)

Cheong Ying Chew, Henry

Wu Hung Yuk, Anna

Tong Mei Kuen, Tommei

## Authorized Representatives

Tong Mei Kuen, Tommei

Mak Soek Fun, Angela

## Auditors

PricewaterhouseCoopers

## Registered Office

P.O. Box 309

Ugland House

South Church Street, George Town

Grand Cayman

Cayman Islands

British West Indies

## Head Office and Principal Place of Business

48/F, The Center

99 Queen's Road Central

Central

Hong Kong

Tel : (852) 2121 7838

Fax : (852) 2186 7711

## Share Registrars

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17/F

Hopewell Centre

183 Queen's Road East

Hong Kong

## Principal Bankers

The Hongkong and Shanghai Banking

Corporation Limited

Citibank, Hong Kong

DBS Bank Limited

## Website Address

[www.tomgroup.com](http://www.tomgroup.com)

## Stock Code

8001

## Chairman's Statement



**Frank John Sixt**

Chairman, TOM Group Limited

Group Finance Director,  
Hutchison Whampoa Limited

The TOM Group is now an established diversified media enterprise covering most of the key media segments and markets in Greater China. I am pleased to announce our first year of profit attributable to shareholders. The Group first reported attributable profit in the second quarter of 2003 and performance continued to improve through the second half.

The year of 2003 was difficult and challenging, while at the same time very unique and rewarding for the Group. The Internet Group delivered a two-fold growth in revenue reaching HK\$592 million and recorded a segment profit of HK\$133 million, HK\$225 million ahead of 2002 performance. Growth in wireless value-added services was the main contributor, turning around the Internet operations from a loss-making position to becoming the most profitable division within the Group. The Internet Group has now transformed from the original Internet portal into a powerful distribution platform offering the full range of wireless multimedia products and services to our mobile customers throughout Mainland China. Through innovation of product offerings and pioneering business models, the Internet Group is now a top-tier service provider capturing top three positions in all wireless valued-added service categories. Post year-end 2003, the Internet Group was listed on Nasdaq in the United States and GEM in Hong Kong as TOM Online. I expect TOM Online to continue to make a strong contribution to the Group over the coming years as it continues to pursue its objective of being the leading Internet operator and telecommunications value-added service provider in Mainland China.

In the other divisions, Outdoor reported a growth in revenue to HK\$298 million, up from HK\$248 million last year, with an operating profit of HK\$27 million. Profit margins for the Outdoor Media Group were reduced due to a combination of the impact from SARS and internal restructuring and rationalization during the year. Non-performing assets were disposed of while new assets with growth potential were added. The Publishing Group delivered a resilient performance through a difficult SARS-affected publishing market environment in Taiwan. Revenue increased a modest 4% to HK\$771 million, while segment profit remained flat over the previous year at HK\$29 million, primarily as a result of a slight reduction in operating margin. During the period, the Publishing Group in Taiwan further strengthened its financial base through securing a NT\$1.9 billion syndicated loan facility, while the Group also received final approval for the setup of its full-scale publishing joint venture in Mainland China with the Sanlian Group.

In Sports, operating performance was severely affected in the first half of the year but the division delivered a strong turnaround performance in the last quarter. Revenue for the year declined to HK\$252 million from HK\$317 million in the prior year, however segment profit increased by 20% to HK\$73 million over the same period due to a return of many events that had been delayed and deferred as a result of the earlier onset of SARS during the year.

In July, the TOM Group announced the acquisition of a controlling interest in CETV, entering into a partnership with Time Warner. This marked the Group's strategic entry into the highly restricted and regulated but lucrative television sector of Mainland China. The operations are the cornerstone of the Group's Television and Entertainment Group and we aim to turnaround the current loss-making situation of the channel within not more than three years.

We have recently changed our name from TOM.COM LIMITED to TOM Group Limited. We believe our new identity more effectively represents the development, growth and scale that has been achieved and is more reflective of what the Group is today. The TOM Group is a diversified Chinese language media enterprise. Our objective remains to consolidate and build one of the leading media organizations in the Greater China region. I believe that in attaining profitability this year and along with the other achievements of the Group to date, all have positioned TOM well for continued growth.

Our achievements would not have been possible without the team spirit, dedication and hard work of management and all our employees. They have continued to demonstrate operational and financial discipline and, most of all, execution capability in turning around loss-making operations and integrating acquired businesses, building leadership positions in each segment of the Group's portfolio. I would like to express a note of thanks to the whole team making the TOM Group the success that it is today.



**Frank John Sixt**

Chairman

Hong Kong, 17 March 2004

## Management's Statement

“ TOM Group is now moving onto the next phase of growth. We have built a unique media platform in Asia encompassing Internet, Publishing, Outdoor, Sports, Television and Entertainment. All the necessary pieces are in place and we are beginning to see exciting results given our persistent hard work over the past four years. We are in the expansion mode and leveraging the existing platform as a springboard for growth.”

**Sing Wang**

“ 2003 has been an extremely exciting and challenging year for me. After joining, I have been fortunate working with a great team on the TOM Group's various initiatives, from successfully raising additional capital through both equity and debt, to enhancing the existing financial management system, and elevating our standards of corporate governance. Going forward, we will be focusing on the areas of better and more efficient deployment of capital and human resources, margin expansion and world-class corporate governance.”

**Tommei Tong**

“ The TOM Group platform has been built from both acquisitions and organic growth. A lot of hard work and dedication has been put in by our team to successfully integrate the acquisitions we have made. TOM Group will continue to look for areas to strengthen and complement the existing platform to further solidify our market leadership positions in the various sectors. I look forward to more interesting growth avenues which will be value enhancing and earnings accretive for TOM Group.”

**Robert Xie**





**Sing Wang**  
Chief Executive Officer &  
Executive Director




**Tommei Tong**  
Chief Financial Officer &  
Executive Director



**Robert Xie**  
Chief Investment Officer

# Management's Discussion & Analysis

## Operations Review — Internet Group



Wireless VAS contributed **73%** of the total Internet Group's revenue



# Internet

## Recorded revenue of HK\$592 million

In 2003, the Internet Group recorded revenue of HK\$592 million, more than doubling the revenue of HK\$256 million from the previous year. Segment profit before depreciation and amortisation grew to HK\$192 million and segment profit to HK\$133 million compared to losses of HK\$23 million and HK\$91 million respectively in 2002, a turnaround of HK\$214 million and HK\$225 million respectively. The key driver in the division's performance was the growth in wireless value-added services, the revenues of which contributed 73% of the total Internet Group's revenue in 2003.



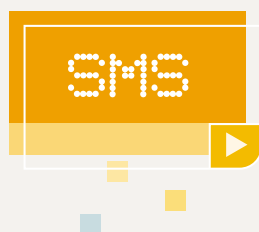
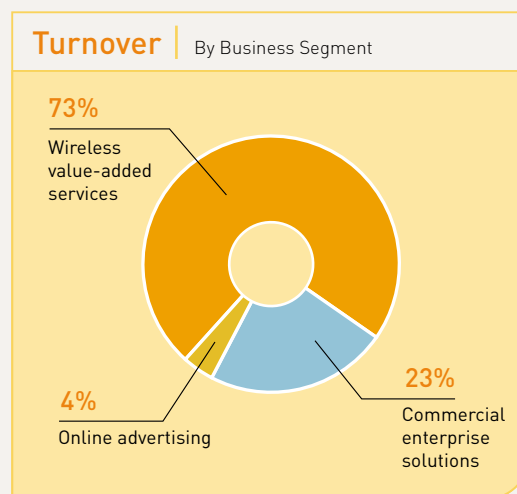
## Management's Discussion & Analysis

### Operations Review — Internet Group

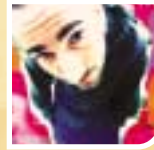
Short messaging services (SMS) continued to deliver strong growth. By the end of 2003, SMS registered users expanded to over 27 million, sending an average of 7 million short messages daily, compared to a registered user base of 10 million generating an average daily volume of 3.5 million messages at the end of 2002. Multimedia messaging services (MMS) registered users expanded to over one million, with 40,000 messages sent daily at the end of 2003.

In November, the Internet Group acquired LTWJi, a leading operator in wireless interactive voice response (IVR) services. LTWJi is one of the first five entrants into the IVR market, and has been a leader based on its first mover advantage and comprehensive range of services. Since launch, user base and minutes used grew rapidly, reaching approximately 1.2 million users and 19 million minutes used in the last quarter of 2003, from a user base of approximately 145,000 and 1.7 million minutes used in the first quarter of 2003. The Internet Group believes that LTWJi will further enrich the portfolio of its wireless offerings and will strengthen its position as a leading provider of value-added multimedia products and services.

The Internet Group has now become a top-tier service provider capturing top three positions in all wireless value-added service categories on China Mobile's platform: ranking number one in IVR for the month of January 2004, number three in SMS and number two in 2.5G services, namely MMS and WAP for the month of December 2003. The Internet Group was also the first amongst its peers to pioneer handset alliances with mobile phone manufacturers, embedding TOM service offerings into selected mobile phones and enabling users direct access to TOM's wireless content and services.



Efforts to continue to increase traffic on the portal and strengthen customer loyalty to the brand were initiated throughout the year. In April, free e-mail services were relaunched resulting in registered user base growing to 18 million by the end of the year. With heightened user awareness, portal traffic also increased, reaching average daily page views of 148 million in the same period. The Internet Group was able to leverage on the increased awareness and the portal registered a healthy increase in the number of online advertising clients and the average contract size. In December, TOM launched the first online game called Karma Online, a first-person-shooting online game unique in the Mainland China market today.



During the year, various marketing events were held to promote the tom.com portal brand, products and services throughout Mainland China.

First Quarter	SMS roadshow, brand building and promotion of wireless valued-added activities spanning 11 cities across Mainland China.	
Second Quarter	Free e-mail campus tour at universities across eight cities. Joint promotional tour with China Mobile and handset manufacturer Kejian.	
Third Quarter	Brand centric promotion, marketing events across 10 key cities reaching hundred millions of users.	
Fourth Quarter	IVR roadshow with China Mobile covering 10 cities in three months.	



# Management's Discussion & Analysis

## Operations Review — Outdoor Media Group

# Outdoor

### A 20% revenue growth to HK\$298 million

The Outdoor Media Group reported revenue of HK\$298 million, a 20% increase over revenues of HK\$248 million recorded in 2002. Segment profit before depreciation and amortisation and segment profit was HK\$67 million and HK\$27 million in 2003, compared to HK\$77 million and HK\$44 million respectively in 2002. The Outdoor Media Group's results and margins were affected by SARS, increased level of lower margin media buying activities and certain internal restructuring initiatives. Pricing during the year was somewhat steady with moderate impact during the period of the SARS outbreak.



Focus on building the

*Largest*

billboard  
and unipole network

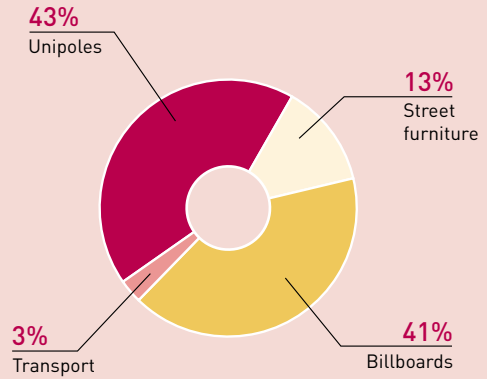


## Management's Discussion & Analysis

### Operations Review — Outdoor Media Group

The Outdoor Media Group has remained focused on its strategy to build the largest billboard and unipole network in Mainland China. With nationwide coverage in 30 key economic cities, it now has over 5,000 outdoor advertising panels. The average occupancy rate remained steady at around 78% throughout the year. New concession rights secured during the year included an additional 21,000 square meters of outdoor advertising space, comprising over 600 advertising panels with over 90% of the new asset space in the billboard and unipole category. These included key city center locations across 25 cities and major highways in and around the Sichuan and Yunnan provinces.

**TOM's outdoor asset portfolio**



Major advertising campaigns undertaken during the year included a nationwide contract with Amoisonic, a major domestic mobile phone manufacturer with outdoor advertising placed across 30 cities in Mainland China. In Shanghai, the Outdoor Media Group pioneered a new form of outdoor advertising, with a building-wrap wall signage advertisement for Intel. This was the first ever in Shanghai and has since become a major landmark.

The Outdoor Media Group was most affected by SARS during the second and third quarter of the year with many major advertisers holding back on advertising spend during the period. The fourth quarter saw a pick-up as advertisers returned to their planned advertising budgets.

### Top 10 outdoor advertisers

- Red Pagoda
- Nokia
- Fujian Longyan
- Henan Auke
- Henan Tianguan Group
- Hong He Cigarette
- Dongfeng Kia
- CNOOC
- Amoisonic
- Dongfeng



### 10th Annual Outdoor Advertising Exhibition

TOM Outdoor Media Group participated in the 10th Annual Outdoor Advertising Exhibition at the Nanjing International Exhibition Center, along with more than 100 international and domestic enterprises. The cutting edge design exhibition booth, over 100 square meters in size, attracted a lot of attention from patrons and the press, successfully raising the TOM Outdoor Media Group profile. Apart from exhibiting creative outdoor advertising designs, TOM Outdoor Media Group's network and services were actively marketed and promoted to customers.



# Management's Discussion & Analysis

Operations Review — Publishing Group

8 new magazines were launched and  
1,697 new book titles were published







# Publishing



## Recorded revenue growth to HK\$771 million

The Publishing Group reported revenue of HK\$771 million in 2003, a modest 4% growth over HK\$741 million in 2002. Segment profit before depreciation and amortisation was HK\$71 million and segment profit was HK\$29 million compared to HK\$70 million and HK\$30 million respectively in 2002. With its market leadership position and comprehensive portfolio of leading publications, the Publishing Group was able to counter the impact of SARS. *MOOK*, the popular travel magazine, swiftly shifted to publishing a series of domestic Taiwan travel destinations instead of international destinations. Additional revenue contribution came from custom publishing service contracts for the Beijing Travel Tourism Board. Leading magazines such as *Business Weekly* and *PC Home* were able to capture a larger share of advertising income when advertising customers focused their advertising efforts on premium brand publications only during the SARS outbreak resulting in a 16% growth in advertising income for the year when compared to 2002.

## Management's Discussion & Analysis

### Operations Review — Publishing Group

During the year, the Publishing Group consistently strived to address the rapidly changing market dynamics. A number of award-winning titles were produced and eight new magazines were launched in 2003 — in the same period, 12 under-performing magazines ceased publishing. Of the 1,697 new book titles published, 12 books ranked among Kingstone's top five best sellers. Efforts focused on the cross fertilization of content across Taiwan, Mainland China and Hong Kong continued and by the end of the year, an additional 130 books have been licensed into Mainland China.

Restructuring of the original five individual business units of the Taiwan Publishing division into a single common holding platform was completed in July. The restructuring resulted in an overall attributable 83% shareholding to TOM. In the fourth quarter, these business units were physically relocated into a single office location in Taipei, further facilitating operational integration synergies in the area of office rental, back office support, paper procurement, printing and distribution channel management. July also saw Cité Publishing Holding securing a five-year syndicated loan facility amounting to NT\$1.9 billion (approximately HK\$426 million). This has allowed the Publishing Group to become more financially independent and self-funded as it continues in its pursuit of operational and growth initiatives.



#### Selected award-winning titles

Award	Title
<b>2003 Golden Tripod Award</b> <ul style="list-style-type: none"> <li>Business &amp; Economics</li> <li>IT &amp; Computer</li> </ul>	<i>Business Weekly</i> <i>PC Home</i>
<b>The China-Taiwan News Reporting Award</b>	<i>Business Weekly—The Battle of Diligence and Indolence</i>
<b>Vivian Wu Journalism Award</b>	<i>Business Weekly—The New Poor</i>
<b>Comics Association – The Best Youth Comics</b>	<i>The Civilian Leader</i>
<b>2003 Golden Tripod Award Most Recommended Books</b> <ul style="list-style-type: none"> <li>Humanities</li> <li>Literature</li> <li>Science</li> </ul>	<i>Across the Century: 20 Modern Fictions</i> <i>The Running Mother</i> <i>The Black Bear's Journal</i>



# 双瘋

## 聽狗在說話

How to Speak Dog

TOM's titles on Kingstone's top five best-seller lists		
Genre	Ranking	Title
Art	1	<i>Colour Pencil Drawings</i>
	5	<i>Getting Acquainted with Photography</i>
Children's Comics	4	<i>English Rose</i>
	5	<i>Are You Wearing a Suit, Grandpa?</i>
Comics	2	<i>To the Left, to the Right</i>
Fiction	1	<i>From the Beginning to Now</i>
	2	<i>11th Floor, Block B</i>
	3	<i>Night Rose</i>
	4	<i>This Is My Answer</i>
	5	<i>Love Story in Maokong</i>
Health & Beauty	5	<i>Venice Quest</i>
Medical	5	<i>Encyclopedia of Aromatherapy</i>



### International Wrist Watch Magazine Launch

In September 2003, Cité Publishers launched the Chinese edition of the internationally renowned magazine—*International Wrist Watch (IWW)*. A launch party was held in Taipei, with over 150 guests invited, including top officials from the China Wrist Watch Association, leading wrist watch industry participants and celebrities. The original publisher of *IWW*, Mr. Eugenio Zigliotto, flew in from Italy to give his support for the magazine. The *IWW* magazine is the world's first professionally-published elite magazine on wrist watches around the world.

# Management's Discussion & Analysis

## Operations Review — Sports Group

# Sports

### Segment profit grew to HK\$73 million

With SARS, many of the sports events scheduled in 2003 were either postponed or canceled. These events included the debut of the China Open, which has now been postponed to September 2004; the Women's World Cup, with FIFA deciding to host the event away from China; and a number of collegiate sports championships. The division faced the challenge of adverse market conditions by expanding into new areas of opportunities, such as organizing the "Thailand Open", the first ever ATP tennis event in Thailand. Revenue for 2003 was at HK\$252 million compared to HK\$317 million in 2002. However, the Sports Group has managed to grow the segment profit before depreciation and amortisation to HK\$77 million and segment profit to HK\$73 million in 2003 compared to HK\$62 million and HK\$61 million respectively in 2002.





Expansion into new areas of opportunities delivered a

*Strong Turnaround*  
performance

## Management's Discussion & Analysis

### Operations Review — Sports Group

September saw the Thailand Open held in Bangkok with overwhelming response in terms of sponsorships, player participation and audience attendance. In December, 12 exhibition matches featuring Paradorn Srichaphan and seven other international top tennis players were held in three cities across Thailand, attracting 18 sponsors and approximately 24,000 in spectator attendance. It is intended that both the Thailand Open and Paradorn Super Tour will become regular annual events.



New commercial rights obtained included the exclusive representation of the China National Table Tennis Team and the China National Women Volleyball Team, and rights to a "Ryder Cup" style team competition, featuring Europe's top golfers against Asia's rising talent, to be held in December of 2004. Other rights included the Philips Inter-collegiate Football League and the National Bowling Championship.



The first China Open will be held in Beijing in September 2004, already attracting tremendous interests from potential sponsors, players and the general public. The Sports Group formed a joint venture with Beijing Youth Daily to market and promote the China Open, effectively combining the local advertising and client network resources of Beijing Youth Daily with the sports marketing expertise of TOM. The Sports Group aims to build the China Open into one of the world's most important tennis tournaments, while at the same time creating a platform that offers marketers unique and compelling brand building opportunities in Mainland China.



### Thailand Open

The inaugural Thailand ATP tennis event "Thailand Open" was organized by the Sports Group in September 2003. Over 70 world top players, such as Juan Carlos Ferrero, Carlos Moya and Paradorn Srichaphan, played over 50 matches. Elite sponsors including Samsung, DHL, Thai Airways and Thailand Travel Tourism Board were secured for the event. The huge media coverage and sold out stadium of 75,000 spectators for the nine-day tournament was testament to the success of the event.

### Philips Inter-collegiate Football League



The 2003/2004 season commenced in Shanghai in November 2003. From all across Mainland China, 15 college teams comprising of 10 male teams and five female teams participated. The Inter-collegiate Football League was formed in 2000 and has now become the highest profile college sports event in Mainland China.

The Sports Group places continuous efforts to assist Philips in exploitation of its sponsorship rights and to increase penetration of its products in Mainland China's colleges.

### China Open Launch Press Conference

A China Open Launch press conference was held in Beijing in November 2003 with the appearance of former US Open champion Marat Safin and Asian No.1 Paradorn Srichaphan. The two tennis stars spent four days in the capital promoting the China Open event and meeting with senior Central Government officials, attracting tremendous exposure in local and foreign media.



# Management's Discussion & Analysis

## Operations Review — Television and Entertainment Group

# Television and Entertainment

### Strategic entry into the television sector in Mainland China

The Television and Entertainment Group reported revenue of HK\$176 million in 2003, compared to HK\$63 million in 2002. The increase was primarily attributable to the full year consolidation of the audio and video products distribution business compared to only one quarter of consolidated result in 2002. Segment profit before depreciation and amortisation declined from a positive HK\$1.7 million in 2002 to a slight loss of HK\$5 million in 2003. With the consolidation of CETV, which was acquired in the third quarter of the year, the Television and Entertainment Group reported a segment loss of HK\$32 million in 2003, increased from a segment loss of HK\$0.5 million in 2002.







CETV's reach extends over *23 million*  
households nationwide in Mainland China

## Management's Discussion & Analysis

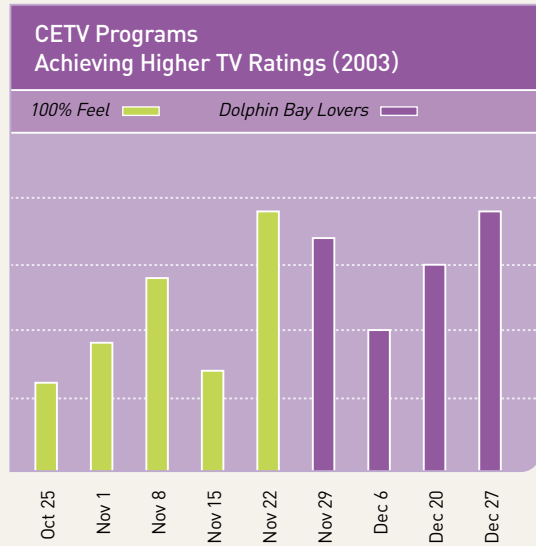
### Operations Review — Television and Entertainment Group

In September, the TOM Group completed the acquisition of a 64% interest in CETV, a 24-hour Putonghua satellite television channel dedicated to delivering general entertainment content to the Chinese audience. Its reach extends over 23 million households nationwide in Mainland China and was the first foreign broadcaster granted cable carriage landing rights in the Guangdong province. CETV is also carried on China's Central Platform, allowing it controlled nationwide access. The channel offers a mix of general entertainment programming, ranging from movies, dramas, variety and game shows, while also producing a certain amount through in-house productions.



The Television and Entertainment Group has now assumed Board and management control of CETV and is committed to turning around the operations and revamping the channel. A number of

important restructuring initiatives have been undertaken since taking charge of the channel. The transmission and part of the post-production function has already been migrated to the newly invested TOM Digital Media Center and is now fully digital in its internal operations; planning was started on the relocation of the current Hong Kong-based operations to a new office in Shenzhen along with the setup of new sales and marketing offices in Guangzhou and Beijing; recruitment and placement of key management executives; cross-promotional and other operational synergies effected with other units of the TOM Group.



The Television and Entertainment Group's initial efforts have yielded some encouraging results. One of CETV's prime time dramas, *Dolphin Bay Lovers*, and a special event *The 40<sup>th</sup> Golden Horse Award* received top ratings and were ranked within the top three among audiences in Guangzhou, Shenzhen and Shaoguan during their respective day-part segments. As at the end of 2003, CETV's ranking was ninth amongst all television channels in Guangzhou, a significant improvement from its number eighteen position in the prior year.



Ongoing efforts within operations include building a new sales and marketing organization, digitization of current transmission and distribution, and continued recruitment of local talent in Mainland China, ultimately with a view to increase the production volume of the channel's original programing. A major relaunch of CETV has been planned for the second half of 2004.

### Dolphin Bay Lovers On-the-Ground Event

An on-the-ground event "Entertainment Tonight - Meet Dolphin Bay Lovers" was held at one of the largest shopping centers in Guangzhou in December, featuring the hosts of CETV's top rated entertainment show *Entertainment Tonight* and the male and female leads from the popular drama *Dolphin Bay Lovers*. The event attracted thousands of fans and in the evening, a live chat was hosted on tom.com for the stars to talk to their fans.



### 40th Golden Horse Award

CETV obtained the exclusive Mainland China broadcasting right for the *Golden Horse Award*, for the third year in a row. This is one of the highlight events in the Asian entertainment industry and is hosted in Taiwan. To celebrate the 40th anniversary of the *Golden Horse Awards*, CETV produced a special program recapping highlights for the past 40 years of this annual award ceremony. A special website was launched for fans around the world to vote their best actors and actresses.



# Management's Discussion & Analysis

## Financial Review

The following discussion and analysis of the TOM Group's financial position and results of operations should be read in conjunction with the Audited Consolidated Results and the related notes.

The TOM Group reports its results in five business segments: Internet Group, Outdoor Media Group, Publishing Group, Sports Group, and Television and Entertainment Group.

### Revenue

The Group's revenue for the year ended 31 December 2003 amounted to HK\$2,089 million, a 29% increase from HK\$1,624 million in the previous year.

### Revenue Mix

The Publishing Group was the largest revenue contributor at 37%, with Internet Group contributing 28% and Outdoor Media Group, Sports Group and Television and Entertainment Group each contributing 14%, 12% and 9% respectively.

In line with TOM Group's geographical focus, revenue generated in Mainland China represented 58% of total revenue, while operations in Taiwan and Hong Kong contributed 34% and 8% respectively.

### Segmental Results

Internet Group's revenue more than doubled to HK\$592 million with a segment profit of HK\$133 million, compared to a revenue of HK\$256 million and a segment loss of HK\$91 million in 2002. The impressive result was led mainly by the tremendous success in the Internet Group's wireless value-added services. Operating result of the new acquisition in wireless IVR was consolidated for approximately one and a half month.

On 10 March and 11 March 2004, the shares of TOM Online were listed and traded on Nasdaq (in the form of American Depository Shares) in the United States of America and GEM respectively, by way of a global offering. TOM Online was a wholly-owned subsidiary of the Company immediately before the listings, whose primary business activities comprise the Company's PRC wireless value-added services, online advertising and commercial enterprise solutions.

Revenue of the Outdoor Media Group increased by 20% to HK\$298 million from the previous year's HK\$248 million, primarily due to the full year effect of acquisitions in the second and third quarter of 2002. However, segment profit of HK\$27 million decreased from 2002's HK\$44 million. This was attributable to the increased level of lower margin media buying and certain internal restructuring initiatives during the year.

For the Publishing Group, slight improvement in revenue was reported when compared to 2002. Revenue was HK\$771 million, segment profit was HK\$29 million in 2003 whereas revenue was HK\$741 million and segment profit was HK\$30 million in 2002.

With the cancellation of a number of sports events during the year due to SARS, the Sports Group reported revenue for 2003 at HK\$252 million compared to HK\$317 million in 2002. However, with an active refocus to other geographical area such as Thailand and the rapid recovery in the last quarter of the year, the Sports Group managed to grow segment profit to HK\$73 million in 2003 from HK\$61 million in 2002.

The Television and Entertainment Group reported a revenue of HK\$176 million in 2003, compared to HK\$63 million in 2002. The increase was primarily attributable to the full year consolidation of the audio and video product distribution business compared to a single-quarter of consolidated result in 2002. Segment loss was HK\$32 million compared to HK\$0.5 million last year. This included consolidation of the loss in CETV since mid September 2003.

### Operating Expenses

The increase in operating expenses in 2003 reflects the expansion in our businesses as we continued to build and grow in each of the sectors we operated in and the effect of full year consolidation of acquisitions made during 2002. Consolidation of the operating results of CETV since mid September 2003 also contributed to the increase. Costs re-engineering initiatives are being implemented, aiming to refine CETV's cost structure.

The Group's operating expenses as a percentage of revenue was reduced from 45% to 39%, reflecting our continuous efforts in cost rationalization. Headquarter related expenses decreased by 5%. Overall, a well-managed and competitive cost base has been established ready to promote further revenue growth.

### Operating Profit

The Group achieved an operating profit of HK\$92 million, significantly improved from an operating loss of HK\$106 million in 2002. The operating profit was a result of growth in higher margin revenue base and continued cost discipline. In addition, gross profit margin improved from 38% in 2002 to 42% in 2003.

### Profit Attributable to Shareholders

The TOM Group has achieved its first profit attributable to shareholders of HK\$13 million, compared to a loss of HK\$410 million in 2002. This significant improvement primarily stems from the outstanding performance of the Group's Internet business, which turned from a segment loss of HK\$91 million in 2002 to a segment profit of HK\$133 million.

### Group Capital Resources and Liquidity

The Group's total shareholders' funds increased to HK\$1,619 million as at 31 December 2003 compared to HK\$272 million in 2002.

During the year, a total of 106,395,859 ordinary shares were allotted and booked at prices ranging between HK\$2.1 and HK\$4.039 per share, which were the fair value calculated based on the average closing price quoted on the Stock Exchange for the calendar month immediately prior to the date of acquisition or the closing price quoted on the Stock Exchange at the date of acquisition, where applicable, as part of the considerations for the acquisition of subsidiaries.

## Management's Discussion & Analysis

### Financial Review

On 3 July 2003, the TOM Group entered into the placing and subscription agreements for placing and allotment of 450,000,000 shares of the Company at a price of HK\$2.3 per share for net proceeds of approximately HK\$996 million. The completion of placing and subscription took place on 7 July 2003 and 8 July 2003 respectively.

The TOM Group generally finances its operations and investing activities with funds raised through the equity and debt market, internally generated cash flows, bank loans, and loans from substantial shareholders of the Company.

On 10 July 2003, the TOM Group entered into a NT\$1.9 billion (approximately HK\$426 million) syndicated revolving credit and term loan agreement with five financial institutions. The loan agreement represents the Group's first long term bank financing which will contribute to the Group's overall funding requirements and financial strength. As of 31 December 2003, the TOM Group had not utilized the facility.

On 28 November 2003, the TOM Group issued US\$150 million (approximately HK\$1.17 billion) 0.50 per cent. Guaranteed Convertible Bonds which is due in 2008. The convertible bonds are convertible into ordinary shares of the Company at any time from 8 January 2004 to 14 November 2008 at an initial conversion price of HK\$3.315 per share, subject to adjustment. The convertible bonds are rated BB+ by Standard & Poors. The Group has taken advantage of the market window of opportunity for low cost financing, hence further strengthening the Group's financial position.

As at 31 December 2003, the TOM Group had bank and cash balances of HK\$885 million as compared to HK\$330 million as at 31 December 2002. During the year, the TOM Group generated net cash inflow of HK\$69 million from its operations and utilized HK\$125 million to finance its capital expenditures and investment projects. It is also the TOM Group's financial management policy to utilize cash, which does not have immediate use for the Group, to invest in liquid and high credit-rated listed debt securities for non-trading purposes to enhance the return on surplus cash. During the year, the TOM Group has invested in the listed debt securities of HK\$1,482 million.

As at 31 December 2003, the TOM Group had bank and other borrowings (including the loans from substantial shareholders and outstanding under convertible bonds) totaling HK\$2,056 million. The TOM Group's cash-to-borrowing ratio was 43% by the end of 2003, representing an increase of five percentage point from 2002.

As mentioned in section Segmental Results above, on 10 March and 11 March 2004, the shares of TOM Online, a wholly-owned subsidiary of the Company immediately before the listings, are listed and traded on Nasdaq (in the form of American Depository Shares) in the United States of America and GEM respectively, by way of a global offering. The Group's cash position, before exercise of over-allotment option, will be further improved by approximately HK\$1,326 million arising from the net proceeds from the global offering.

### Foreign Exchange Exposure

In general, it is the TOM Group's policy for each operating entity to borrow in local currencies, where necessary, to minimize currency risk.

### Charges on Group Assets

Certain TOM Group's assets are pledged to banks as security for general banking facilities granted to the TOM Group. As at 31 December 2003, the pledged assets of the TOM Group included bank deposits, cash and other assets totaling HK\$28 million.

### Contingent Liabilities

Contingent liabilities amounted to approximately HK\$9 million as at 31 December 2003.

### Employee Information

As at 31 December 2003, the TOM Group had 2,835 full-time employees. Employee costs, excluding Directors' emoluments, totaled HK\$385 million (2002: HK\$272 million). All of the TOM Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the TOM Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the TOM Group's salary and bonus system which is reviewed annually. A wide range of benefits including medical coverage and provident funds are also provided to employees. In addition, training and development programs are provided on an ongoing basis throughout the TOM Group. Social, sporting and recreational activities were arranged during the year for the employees on a Group-wide basis.

TOM also adopted a share option scheme under which, inter alia, the employees of the TOM Group may be granted share options to subscribe for shares in TOM for the purposes of recognizing the contributions made by the employees of the TOM Group and retaining the services of the employees who will continue to make valuable contributions to the TOM Group.

## Directors' Profile

### Frank John Sixt

aged 52, is the Chairman of the Company. He is Group Finance Director of Hutchison Whampoa Limited and the Chairman of TOM Online Inc. He is also an Executive Director of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited and a Director of Cheung Kong (Holdings) Limited, Hutchison Telecommunications (Australia) Limited, Husky Energy Inc. and Partner Communications Company Ltd. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and the Law Society of the Provinces of Quebec and Ontario, Canada.

### Sing Wang

aged 40, is the Chief Executive Officer and an Executive Director of the Company. He is also the Vice Chairman of TOM Online Inc. He is one of the most experienced private equity investors in Greater China. Prior to joining the Company, Mr. Wang worked at Goldman Sachs (Asia) L.L.C., where he was an Executive Director where his principal responsibilities were in the direct investment area. He was also a Manager at Wardley Direct Investment Management Ltd. (a subsidiary of the Hong Kong Bank Group) and a strategic consultant at McKinsey & Co. in Chicago. Mr. Wang also worked for the Chinese Academy of Sciences immediately after he graduated from Yunnan University. Mr. Wang graduated in 1982 from Yunnan University, PRC, with a Bachelor's degree in Science. In 1986 he received a Master of Science degree in Forestry and its Relation to Land Use and in 1989 with a Bachelor of Arts degree in Philosophy, Politics and Economics and an M.A. in 1996, all from Oxford University.

### Tong Mei Kuen, Tommei

aged 39, is the Chief Financial Officer and an Executive Director. She is also a Non-Executive Director of TOM Online Inc. Prior to joining the Company, 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.

### Cheong Ying Chew, Henry

aged 56, is an Independent Non-Executive Director of the Company. 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 Futures 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.

### Lee Pui Ling, Angelina

aged 55, is an Independent Non-Executive Director of the Company. She 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.

### Wu Hung Yuk, Anna

aged 53, is an Independent Non-Executive Director of the Company. She 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.



**Chang Pui Vee, Debbie**

aged 53, is a Non-Executive Director of the Company. She holds a Bachelor of Arts degree from Hunter College, New York City. She has been directing business development in the Mainland China for a number of years and is a Director of Orient Overseas Developments Ltd. and Beijing Oriental Plaza Company Ltd. Ms. Chang is a member of the People's Consultative Party of Beijing, Eastern City District.

**Chow Woo Mo Fong, Susan**

aged 50, is a Non-Executive Director of the Company. She is Deputy Group Managing Director of Hutchison Whampoa Limited and an Alternate Director to the Chairman of TOM Online Inc. She is also an Executive Director of Cheung Kong Infrastructure Holdings Limited, Hutchison Global Communications Holdings Limited and Hutchison Harbour Ring Limited and a Director of Hongkong Electric Holdings Limited and Partner Communications Company Ltd. She is a solicitor and holds a Bachelor's degree in Business Administration.

**Ip Tak Chuen, Edmond**

aged 51, is a Non-Executive Director of the Company. He has been an Executive Director of Cheung Kong (Holdings) Limited since 1993. He is also the Deputy Chairman of Cheung Kong Infrastructure Holdings Limited and an Executive Director of CK Life Sciences Int'l., (Holdings) Inc. He holds a Master of Science degree in Business Administration and a Bachelor of Arts degree in Economics.

**Holger Kluge**

aged 62, is a Non-Executive Director of the Company. He was formerly President of Personal and Commercial Bank, CIBC, one of the largest financial services institutions in North America. He is also a Director of Loring Ward International Inc., Husky Energy Inc., Hutchison Telecommunications (Australia) Limited and Hongkong Electric Holdings Ltd. He holds a Bachelor of Commerce degree and a Master's degree in Business Administration.

**James Sha**

aged 53, is a Non-Executive Director of the Company. He has held senior positions with a number of large Internet-related companies. Since November 1999, he has been a Managing Partner with Spring Creek Ventures, a partnership specializing in early stage venture investment and business consultation with Internet and infrastructure companies. He is currently serving on the board of directors of several start-up companies. His board memberships includes Appstream, Acela, Aduva, E21, LiveABC, Optoplex and Mediostream. He also served as the Chief Executive Officer for Sina.com. Prior to that, he was the Senior Vice President, Commerce Solutions, at Netscape Communications. He has also held senior positions with Actra Business Systems, Oracle's UNIX Product Division and the Advanced Systems Division of Wyse Technology. He holds a Master of Science degree in Electronic Engineering and Computer Science from the University of California, Berkeley, a Master of Business degree from Santa Clara University and a Bachelor of Science degree in Electronic Engineering from Taiwan University.

**Wang Lei Lei**

aged 30, is a Non-Executive Director of the Company. He is also the Chief Executive Officer and Executive Director of TOM Online Inc. Mr. Wang graduated in 1996 from the Electronic Engineering Department of Qinghua University with a Bachelor's degree in Electronic Technology and Information. Mr. Wang has a strong background in technology research and development. Prior to joining the Company, he served as President and General Manager of Beijing Yan Cheng Zhi Science Company Ltd.

# Report of the Directors

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31 December 2003.

## Change of company name

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 23 February 2004, the name of the Company was changed from "TOM.COM LIMITED" to "TOM Group Limited" and "TOM 集團有限公司" was adopted as the Chinese name of the Company with effect from 23 February 2004.

## Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, jointly controlled entities, associated companies and investment securities are set out on pages 118 to 125.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

## Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 60.

The directors do not recommend the payment of a dividend.

## Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 28 to the accounts.

## Fixed assets

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## Share capital and share options

Details of the movements in share capital and share options of the Company are set out in notes 26 and 27 to the accounts.

## Distributable reserves

Details of the distributable reserves of the Company as at 31 December 2003 are set out in note 28 to the accounts.

## Directors

The directors who held office during the year and up to the date of this report were:

Mr. Frank John Sixt \* (*Chairman*)

Mr. Sing Wang

Ms. Tong Mei Kuen, Tommei (*appointed on 1 April 2003*)

Mr. Cheong Ying Chew, Henry #

Mrs. Lee Pui Ling, Angelina #

Ms. Wu Hung Yuk, Anna # (*appointed on 25 August 2003*)

Ms. Chang Pui Vee, Debbie \*

Mrs. Chow Woo Mo Fong, Susan \*

Mr. Ip Tak Chuen, Edmond \*

Mr. Holger Kluge \*

Mr. James Sha \*

Mr. Wang Lei Lei \*

Mr. Lee Kwok Ming, Don (*resigned on 1 April 2003*)

Ms. Leung Quan Yue, Michelle (*resigned on 2 May 2003*)

\* non-executive directors

# independent non-executive directors

In accordance with Articles 99 and 116 of the Company's Articles of Association, all the existing directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The non-executive directors (including the independent non-executive directors) have no set term of office but retire from office at each annual general meeting of the Company at which they will be eligible for re-election.

### Directors' service contracts

Each of Mr. Sing Wang and Ms. Tong Mei Kuen, Tommei, being all the executive directors and Mr. Wang Lei Lei, being a non-executive director, has entered into a continuous service contract with the Group commencing from 1 June 2000 in the case of Mr. Sing Wang, 17 March 2003 in the case of Ms. Tong Mei Kuen, Tommei, and 1 January 2000 in the case of Mr. Wang Lei Lei (prior to his appointment as a non-executive director of the Company, he was and still continues to be an employee of the Group). The terms of each contract are continuous unless terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the directors has a service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### Directors' profile

The directors' profile is set out on pages 36 to 37.

### Share option schemes

Pursuant to the written resolutions of the shareholders of the Company dated 11 February 2000, two share option schemes namely, Pre-IPO Share Option Plan ("Pre-IPO Share Option Plan") and the employee share option scheme ("Employee Share Option Scheme") were adopted by the Company. By an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 24 April 2002, the Employee Share Option Scheme was amended by an addendum ("Share Option Scheme"), details of which were disclosed in the circular of the Company dated 8 April 2002 (the Pre-IPO Share Option Plan and the Share Option Scheme collectively are referred to as the "Schemes").

### Summary of the Schemes

#### (a) Purpose of the Schemes

The purpose of the Pre-IPO Share Option Plan is to recognise the contribution made by the executive directors and the employees of the Company prior to the listing of shares of the Company on GEM.

The purpose of the Share Option Scheme is to attract, retain and motivate talented employees to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the participants and to allow the participants to enjoy the results of the Company attained through their efforts and contribution.

#### (b) Participants of the Schemes

Pursuant to the Pre-IPO Share Option Plan, the Company may grant options to any full-time employee of the Company or of its subsidiaries or of HWL or any subsidiary of HWL to subscribe for shares of the Company. However, save for the options which have been granted on 11 February 2000, no further options may be granted upon the listing of the shares of the Company on GEM on 1 March 2000.

Pursuant to the Share Option Scheme, the Board may, at its discretion, invite any participant (including any employee and director of the Group and of any company in which the Group owns or controls 20% or more of its voting rights and/or issued share capital, business associate and trustee) to take up option to subscribe for shares of the Company. However, participants do not include any substantial shareholder of the Company and/or any of its Associates.

## Report of the Directors

### (c) *Total number of shares available for issue under the Schemes*

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue on 24 April 2002, being the date of refreshment of the 10 per cent. limit on the grant of options under the Share Option Scheme (i.e., 329,254,980 shares of the Company, which represents approximately 8.5% of the issued share capital of the Company as at 17 March 2004).

The maximum number of shares of the Company which may be issued upon exercise of outstanding options granted and yet to be exercised under the Schemes and any other share option schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

### (d) *Maximum entitlement of each participant*

The total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue.

### (e) *Time of exercise of options*

Pursuant to the Pre-IPO Share Option Plan, any option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not less than 3 years and not more than 10 years from the date of grant of the option.

Pursuant to the Share Option Scheme, any option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each grantee provided that the period within which the options must be exercised shall not be more than 10 years from the date of grant of the option.

### (f) *Payment on acceptance of option*

Pursuant to the Schemes, HK\$5 is payable by the grantee to the Company on acceptance of the option within 28 days from the date of grant of the option.

### (g) *Basis of determining the subscription price*

The subscription price per share under the Pre-IPO Share Option Plan is HK\$1.78, being the price per share at which the shares are offered for subscription by the public at the initial public offer of shares of the Company.

The subscription price per share under the Share Option Scheme shall be determined by the Board at its absolute discretion and notified to each grantee and shall be no less than the higher of:

- (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share of the Company.

**(h) Remaining life of the Schemes**

The Pre-IPO Share Option Plan has no remaining life as no further options may be granted but the provisions of such plan shall in all other respects remain in full force and effect and options which are granted during the life of such plan may continue to be exercisable in accordance with their terms of issue.

The Share Option Scheme will continue to be in full force and effect until 10 February 2010 (save that the Company, by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and the options which are granted during the life of the Share Option Scheme may continue to be exercised in accordance with their terms of issue.

The other principal terms of the Pre-IPO Share Option Plan and the Share Option Scheme are set out in the prospectus of the Company dated 18 February 2000 and the circular of the Company dated 8 April 2002, respectively.

**Outstanding share options**

As at 31 December 2003, options to subscribe for an aggregate of 202,475,000 shares of the Company 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**

As at 31 December 2003, options to subscribe for an aggregate of 16,196,000 shares of the Company were outstanding and these options relate to the options granted to 3 persons who were employees of the Company at the date of grant. Details of which as at 31 December 2003 were as follows:

Date of grant	Outstanding as at 1 January 2003	Exercised during the year	Number of share options		Outstanding as at 31 December 2003	Option period	Subscription price per share HK\$
			Lapsed during the year	Cancelled during the year			
11/2/2000	16,196,000	-	-	-	16,196,000 (Note)	11/2/2000 – 10/2/2010	1.78

Note: The options have vested in three tranches in the proportion of 20%:30%:50% on 11 February 2001, 11 February 2002 and 11 February 2003, respectively.

## Report of the Directors

### (b) Share Option Scheme

As at 31 December, 2003, options to subscribe for an aggregate of 186,279,000 shares of the Company which were granted to certain continuous contract employees of the Group (including the directors of the Group as disclosed in this report) were outstanding. Details of which as at 31 December 2003 were as follows:

Date of grant	Outstanding as at 1 January 2003	Number of share options				Outstanding as at 31 December 2003	Option period	Subscription price per share HK\$
		Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
23/3/2000	3,242,000	-	-	570,000	-	2,672,000 (Note 1)	23/3/2000 – 22/3/2010	11.30
31/5/2000	2,332,000	-	-	-	-	2,332,000 (Note 2)	31/5/2000 – 30/5/2010	4.685
26/6/2000	1,602,000	-	-	410,000	-	1,192,000 (Note 3)	26/6/2000 – 25/6/2010	5.89
30/6/2000	3,000,000	-	-	-	-	3,000,000 (Note 4)	30/6/2000 – 29/6/2010	5.27
8/8/2000	(i) 9,086,000 (ii) 10,898,000	-	-	(i) - (ii) 110,000	(i) 580,000 (ii) 1,262,000	(i) 8,506,000 (Note 5a)  (ii) 9,526,000 (Note 5b)	8/8/2000 – 7/8/2010	5.30
9/11/2000	1,120,000	-	-	-	1,120,000	-	9/11/2000 – 8/11/2010	5.30
15/11/2000	15,000,000	-	-	-	-	15,000,000 (Note 6)	15/11/2000 – 14/11/2010	5.30
7/2/2002	63,224,000	-	-	3,304,000	22,110,000	37,810,000 (Note 7)	7/2/2002 – 6/2/2012	3.76
9/10/2003	-	106,541,000	-	300,000	-	106,241,000 (Note 8)	9/10/2003 – 8/10/2013	2.505 (Note 9)
<b>Total:</b>	<b>109,504,000</b>	<b>106,541,000</b>	<b>-</b>	<b>4,694,000</b>	<b>25,072,000</b>	<b>186,279,000</b>		

#### Notes:

- The options will vest in two tranches in the proportion of 50%:50% on 23 March 2005 and 23 March 2006, respectively.
- The options have vested on 31 May 2001.
- The options will vest in two tranches in the proportion of 50%:50% on 26 June 2005 and 26 June 2006, respectively.
- The options have vested on 30 June 2001.
- (a) The options have vested on 8 August 2001.  
(b) The options have vested in two tranches in the proportion of 50%:50%. 70% of the first tranche of the options have vested on 8 August 2001, the remaining 30% of the first tranche have lapsed due to certain conditions not having been fulfilled. 70% of the second tranche of the options have vested on 8 August 2002, the remaining 30% of the second tranche have lapsed due to certain conditions not having been fulfilled.

6. The options have vested in three tranches in the proportion of 20%:30%:50% on 15 November 2001, 15 November 2002 and 15 November 2003, respectively.

7. The options will vest in three tranches in the proportion of 40%:30%:30% or 1/3:1/3:1/3.

For those grantees who have worked for the Group for over 1 year at the time of grant, the first tranche of the options has vested on 8 February 2002. The second and third tranches of the options will vest on the second and third anniversaries (as the case may be) of their respective joining dates with the Group.

For those grantees who have worked for the Group for less than 1 year at the time of grant, the first, second and third tranches of the options will vest on the first, second and third anniversaries of their respective joining dates with the Group, as the case may be.

8. (i) For certain grantees, all the options have vested on 10 October 2003.

(ii) For certain grantees, the options will vest in two tranches, the first tranche of the options has vested on 10 October 2003 and the second tranche of the options will vest on the anniversary of their respective joining dates with the Group in 2004.

(iii) For certain grantees, the options will vest in three to four tranches, the first tranche of the options has vested on 10 October 2003 and the remaining tranches of the options will vest on the anniversaries of their respective joining dates with the Group in 2004 and 2005 or 2004 to 2006, as the case may be.

(iv) For certain grantees, the options will vest in three tranches in the proportion of 1/3:1/3:1/3 on the anniversaries of their respective joining dates with the Group in 2004 to 2006.

9. The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.45.

## Valuation of share options

The options granted are not recognized in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of the share options granted during the year on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

## Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2003, the interests or short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Long positions in shares of the Company

Name of Directors	Capacity	Number of shares of the Company				Total	Approximate percentage of shareholding
		Personal interests	Family interests	Corporate interests	Other interests		
Sing Wang (Note 1)	Interest of a controlled corporation	-	-	5,898,000 (Note 2)	-	5,898,000	0.15%
Wang Lei Lei	Beneficial owner	300,000	-	-	-	300,000	0.01%

Notes:

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

## Report of the Directors

### (b) Rights to acquire shares of the Company

Pursuant to the Pre-IPO Share Option Plan and/or the Share Option Scheme, certain directors of the Company were granted share options to subscribe for the shares of the Company. Details of which as at 31 December 2003 were as follows:

Name of Directors	Date of grant	Outstanding as at 1 January 2003	Number of share options			Outstanding as at 31 December 2003	Option period	Subscription price per share HK\$
			Granted during the year	Exercised during the year	Cancelled during the year			
Sing Wang	30/6/2000	3,000,000	-	-	-	3,000,000 (Note 1)	30/6/2000 – 29/6/2010	5.27
	8/8/2000	2,138,000	-	-	-	2,138,000 (Note 2)	8/8/2000 – 7/8/2010	5.30
	7/2/2002	20,000,000	-	-	-	20,000,000 (Note 3)	7/2/2002 – 6/2/2012	3.76
	9/10/2003	-	38,000,000	-	-	38,000,000 (Note 4)	9/10/2003 – 8/10/2013	2.505
Tong Mei Kuen, Tommei	9/10/2003	-	15,000,000	-	-	15,000,000 (Note 5)	9/10/2003 – 8/10/2013	2.505
James Sha	15/11/2000	15,000,000	-	-	-	15,000,000 (Note 6)	15/11/2000 – 14/11/2010	5.30
Wang Lei Lei	11/2/2000	9,080,000	-	-	-	9,080,000 (Note 7)	11/2/2000 – 10/2/2010	1.78
	7/2/2002	850,000	-	-	850,000	-	7/2/2002 – 6/2/2012	3.76
	9/10/2003	-	6,850,000	-	-	6,850,000 (Note 8)	9/10/2003 – 8/10/2013	2.505

#### Notes:

- The options have vested on 30 June 2001.
- The options have vested on 8 August 2001.
- The options have vested in three tranches in the proportion of 40%:30%:30% on 8 February 2002, 1 June 2002 and 1 June 2003, respectively.
- The options will vest in four tranches. The first tranche of 20,000,000 options has vested on 10 October 2003, the second, third and fourth tranches will vest equally on 1 June 2004, 1 June 2005 and 1 June 2006, respectively.
- The options will vest in three tranches in the proportion of 1/3:1/3:1/3 on 17 March 2004, 17 March 2005 and 17 March 2006, respectively.
- The options have vested in three tranches in the proportion of 20%:30%:50% on 15 November 2001, 15 November 2002 and 15 November 2003, respectively.
- The options have vested in three tranches in the proportion of 20%:30%:50% on 11 February 2001, 11 February 2002 and 11 February 2003, respectively.
- The options will vest in four tranches. The first tranche of 850,000 options has vested on 10 October 2003 and the second tranche of 2,000,000 options has vested on 1 February 2004. The third and fourth tranches of 2,000,000 options each will vest on 1 February 2005 and 1 February 2006, respectively.

Save as disclosed above, during the year ended 31 December 2003, none of the directors of the Company was granted options to subscribe for shares of the Company, nor had exercised such rights.



### (c) Short positions in associated corporations

Mr. Wang Lei Lei has as of 12 June 2001 (as supplemented on 26 September 2003) granted an option to a subsidiary of the Company 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 the Company has the right at any time within a period of 10 years commencing from 26 September 2003 (which may be extended for another 10 years at the option of such subsidiary of the Company) 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 19 November 2003 granted an option to a subsidiary of the Company in respect of his 80% (RMB800,000) equity interest in LTWJi whereby such subsidiary of the Company has the right at any time within a period of 10 years commencing from 19 November 2003 (which may be extended for another 10 years at the option of such subsidiary of the Company) to acquire all of Mr. Wang Lei Lei's equity interest in LTWJi at an exercise price of RMB800,000.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2003, any interests or short positions in any shares, underlying shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

### Interests and short positions of shareholders

As at 31 December 2003, the persons or corporations (not being a director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	1,429,024,545 (L) (Notes 1 & 2)	36.85%
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)	36.85%
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)	36.85%
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)	36.85%

## Report of the Directors

Name of shareholders	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,429,024,545 (L) (Notes 1 & 2)	36.85%
Cheung Kong Investment Company Limited	Interest of controlled corporations	476,341,182 (L) (Note 1)	12.28%
Cheung Kong Holdings (China) Limited	Interest of controlled corporations	476,341,182 (L) (Note 1)	12.28%
Sunnylink Enterprises Limited	Interest of a controlled corporation	476,341,182 (L) (Note 1)	12.28%
Romefield Limited	Beneficial owner	476,341,182 (L) (Note 1)	12.28%
Hutchison Whampoa Limited	Interest of a controlled corporation	952,683,363 (L) (Note 2)	24.57%
Hutchison International Limited	Interest of a controlled corporation	952,683,363 (L) (Note 2)	24.57%
Easterhouse Limited	Beneficial owner	952,683,363 (L) (Note 2)	24.57%
Chau Hoi Shuen	Interest of controlled corporations	952,683,363 (L) (Note 3)	24.57%
Cranwood Company Limited	Beneficial owner & interest of controlled corporations	952,683,363 (L) (Note 3)	24.57%
Schumann International Limited	Beneficial owner	580,000,000 (L) (Note 3)	14.96%
Handel International Limited	Beneficial owner	348,000,000 (L) (Notes 3 & 4)	8.97%

(L) denotes long position

### Notes:

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

By virtue of the SFO, Cheung Kong Investment Company Limited, Cheung Kong Holdings (China) Limited and Sunnylink Enterprises Limited are all deemed to be interested in the 476,341,182 shares of the Company 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 the Company 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 shares of the Company and 952,683,363 shares of the Company 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 the Company and 348,000,000 shares of the Company held by Schumann International Limited and Handel International Limited respectively in addition to 24,683,363 shares of the Company held by itself.

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

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

Save as disclosed above, as at 31 December 2003, the directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## Connected transactions

Significant related party transactions entered by the Group during the year ended 31 December 2003, which do not constitute connected transactions under the GEM Listing Rules are disclosed in note 34 to the accounts.

### (1) Connected transactions

During the year, the Group has entered into the following notifiable connected transactions as defined under the GEM Listing Rules:

- (a) On 14 April 2003, TOM International, a wholly-owned subsidiary of the Company, has entered into a surrender agreement with Metro Broadcast Corporation Limited ("Metro"), an Associate of CKH and HWL, in respect of the surrender by Metro of Units 4705-4707, 47th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong to TOM International.
- (b) On 14 April 2003, Super Cultural Limited, a wholly-owned subsidiary of the Company, has entered into a termination agreement with Beijing ECLink Science and Technology Development Company Limited, under which the parties agreed to terminate the web content development and provision contract dated 17 January 2000 (as amended).
- (c) On 25 September 2003, Bright Horizon Enterprises Limited ("Bright Horizon", a subsidiary of the Company) has entered into a sale and purchase agreement with Cranwood, under which Bright Horizon agreed to acquire the entire issued share capital of Puccini International Limited, a company which is involved in the provision of IVR services through LTWJi, at a total consideration of up to a maximum of US\$150,000,000, which will be satisfied by cash and shares of TOM Online or the shares of the Company (as the case may be) ("Puccini Acquisition"). Details of the Puccini Acquisition were disclosed in the circular dated 3 November 2003 of the Company.

The directors of the Company (including the independent non-executive directors) confirmed that the above connected transactions were contracted on normal commercial terms in the ordinary and usual course of business of the Group and that the terms of agreements are fair and reasonable so far as the independent shareholders of the Company are concerned.

## Report of the Directors

### (2) Continuing connected transactions

As disclosed in the circular dated 18 July 2003 of the Company, the Group has entered into the following continuing connected transactions as defined under the GEM Listing Rules:

- (a) On 2 July 2003, TOM International has entered into an advertising services agreement with CKH, under which, TOM International shall provide, and/or to procure other members of the Group to provide the print, publishing, advertising and other services to the CKH Group at a fee to be calculated with reference to the market rate for a term commencing from 1 January 2003 and expiring on 31 December 2005, subject to the annual caps of HK\$2,000,000, HK\$2,100,000 and HK\$2,200,000 for the years 2003, 2004 and 2005 respectively. During the year, HK\$746,000 has been paid by the CKH Group to the Group for the aforesaid services.
- (b) On 2 July 2003, TOM International has entered into an advertising services agreement with Hutchison International Limited ("HIL", a wholly-owned subsidiary of HWL), under which, TOM International shall provide, and/or to procure other members of the Group to provide the print, publishing, advertising and other services to the HIL Group at a fee to be calculated with reference to the market rate for a term commencing from 1 January 2003 and expiring on 31 December 2005, subject to the annual caps of HK\$7,000,000, HK\$7,400,000 and HK\$7,800,000 for the years 2003, 2004 and 2005 respectively. During the year, HK\$1,594,000 has been paid by the HIL Group to the Group for the aforesaid services.
- (c) On 2 July 2003, TOM International has entered into a media services agreement with Hutchison Global Communications Limited ("HGC", a wholly-owned subsidiary of HIL), under which, HGC shall provide, and/or to procure other members of the HGC Group or (as the case may be) third parties to provide the telecommunications, Internet related and other media services to the Group at a fee to be calculated with reference to the market rate for a term commencing from 1 January 2003 and expiring on 31 December 2005. During the year, HK\$1,476,000 has been paid by the Group to HGC Group for the aforesaid services.
- (d) On 2 July 2003, TOM International has entered into a media services agreement with Hutchison Telecommunications (Hong Kong) Limited ("HTHK", a wholly-owned subsidiary of HIL), under which, HTHK shall procure other members of the HTHK Group or (as the case may be) third parties to provide the telecommunications, Internet related and other media services to the Group at a fee to be calculated with reference to the market rate for a term commencing from 1 January 2003 and expiring on 31 December 2005. During the year, HK\$650,000 has been paid by the Group to HTHK Group for the aforesaid services.

The media services agreements with HGC and HTHK referred to in paragraphs (c) and (d) above will be subject to the aggregate annual caps of HK\$3,800,000, HK\$4,500,000 and HK\$4,800,000 for the years 2003, 2004 and 2005 respectively.

- (e) On 2 July 2003, BSCL, a subsidiary of the Company, has entered into a tenancy agreement with Beijing Oriental (an Associate of CKH) in respect of the lease by Beijing Oriental of 8th Floor, Tower W3, The Towers, Beijing Oriental Plaza, No.1-31, Dong Chang An Jie, Dong Cheng District, Beijing, the PRC ("Beijing Oriental Plaza") to BSCL with an area of approximately 3,074 square metre for a term of 36 months from 15 June 2003 to 14 June 2006 at a monthly rental of US\$61,480.
- (f) On 2 July 2003, TOM (China), a subsidiary of the Company, has entered into a tenancy agreement with Beijing Oriental in respect of the lease by Beijing Oriental of Rooms 1-6, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza to TOM (China) with an area of approximately 1,658 square metre for a term of 36 months from 15 June 2003 to 14 June 2006 at a monthly rental of US\$33,160.
- (g) On 2 July 2003, TOM (China) has entered into a tenancy agreement with Beijing Oriental in respect of the lease by Beijing Oriental of Rooms 7-8, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza to TOM (China) with an area of approximately 654 square metre for a term of 36 months from 15 June 2003 to 14 June 2006 at a monthly rental of US\$13,080.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the aforesaid connected transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (d) have not exceeded the relevant caps referred to above or the stipulated rent.

The auditors of the Company have also confirmed that the aforesaid continuing connected transactions (a) have been approved by the board of directors of the Company; (b) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (c) have not exceeded their relevant caps, or in the case of the property rental, the stipulated rent.

In addition, on 19 November 2003, Puccini Network Technology (Beijing) Limited ("Puccini Beijing", a subsidiary of the Company) has entered into an exclusive technical and consultancy services agreement ("Technical and Consultancy Services Agreement") with LTWJi (an Associate of Mr. Wang Lei Lei, a director of the Company), under which Puccini Beijing agreed to provide certain technical and consultancy services to LTWJi at a fee to be calculated based on the actual air-time used by the customers of LTWJi multiplied by a rate which is equal to 50% of the air-time rate charged by LTWJi for the provision of the IVR services. The Technical and Consultancy Services Agreement will be valid for a term of 10 years from the date of execution thereof, which may be extended after the expiry of such 10-year term at the option of Puccini Beijing for a period to be agreed between Puccini Beijing and LTWJi. During the year, no service has been provided by Puccini Beijing to LTWJi. Accordingly, no service fee has been paid by LTWJi to Puccini Beijing during the year. The independent non-executive directors of the Company and the auditors of the Company have reviewed the aforesaid transactions and agreed to the above.

The Technical and Consultancy Services Agreement constituted a continuing connected transaction of the Group under Chapter 20 of the GEM Listing Rules. Waivers have been granted by the Stock Exchange from the requirements (i) under Rule 20.26(2) of the GEM Listing Rules that the transactions contemplated under the Technical and Consultancy Services Agreement be subject to a maximum aggregate annual caps; and (ii) under Rule 20.30 of the GEM Listing Rules that the transactions contemplated under the Technical and Consultancy Services Agreement be subject to annual independent shareholders' approval where the caps in any year is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company.

Following the completion of the spin-off of TOM Online on GEM on 11 March 2004, the following transactions constituted continuing connected transactions as defined under the GEM Listing Rules:

- (a) pursuant to the loan agreement dated 21 September 2003 entered into between the Company and Laurstinus Limited (a wholly-owned subsidiary of TOM Online) in respect of the provision of a loan by the Company in the amount of approximately HK\$12,800,000 to Laurstinus Limited.
- (b) pursuant to the loan agreement dated 21 September 2003 entered into between the Company and Lahiji Vale Limited (a wholly-owned subsidiary of TOM Online) in respect of the provision of a loan by the Company in the amount of approximately HK\$67,600,000 to Lahiji Vale Limited.
- (c) pursuant to the loan agreement dated 21 September 2003 entered into between the Company and Advanced Internet Services Limited (a wholly-owned subsidiary of TOM Online) in respect of the provision of a loan by the Company in the amount of approximately HK\$75,900,000 to Advanced Internet Services Limited.
- (d) pursuant to the media services agreement dated 26 September 2003 entered into between TOM International and TOM Online, TOM International agreed to provide and/or procure the provision of the print and publishing services, advertising services, public relations and sports event management and other organization services, content, and other marketing promotional services in relation to the television channel operated by CETV to TOM Online and its subsidiaries ("TOM Online Group") on a non-exclusive basis at a fee to be calculated with reference to the market rate, subject to the annual caps of HK\$3,000,000 from the date of listing of TOM Online to the end of 2004, HK\$4,000,000 for 2005 and HK\$5,000,000 for 2006. The aforesaid agreement will be effective until 31 December 2006.

## Report of the Directors

- (e) pursuant to the online media services agreement dated 26 September 2003 entered into between TOM International and TOM Online, TOM Online agreed to provide and/or procure the provision of the content, mobile communication, infotainment services or related telecommunications services, website development maintenance and hosting services, online advertising services and other related online services to the Group (other than TOM Online Group) on a non-exclusive basis at a fee to be calculated with reference to the market rate, subject to the annual caps of HK\$1,000,000 from the date of listing of TOM Online to the end of 2004, HK\$1,500,000 for 2005 and HK\$2,000,000 for 2006. The aforesaid agreement will be effective until 31 December 2006.

Subsequent to the year, the Group has also entered into the following continuing connected transactions as defined under the GEM Listing Rules:

- (a) pursuant to the supplemental tenancy agreement dated 13 February 2004 entered into between BSCL and Beijing Oriental in respect of the reduction of the monthly rental to US\$53,795 under the tenancy agreement dated 2 July 2003 for the lease of 8th Floor, Tower W3, The Towers, Beijing Oriental Plaza subject to the annual caps of US\$613,263 for 2004, US\$613,263 for 2005 and US\$355,047 for 2006.
- (b) pursuant to the supplemental tenancy agreement dated 13 February 2004 entered into between TOM (China) and Beijing Oriental in respect of the reduction of the monthly rental to US\$29,015 under the tenancy agreement dated 2 July 2003 for the lease of Rooms 1-6, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza subject to the annual caps of US\$330,771 for 2004, US\$330,771 for 2005 and US\$191,499 for 2006.
- (c) pursuant to the supplemental tenancy agreement dated 13 February 2004 entered into between TOM (China) and Beijing Oriental in respect of the reduction of the monthly rental to US\$11,445 under the tenancy agreement dated 2 July 2003 for the lease of Rooms 7-8, 9th Floor, Tower W3, The Towers, Beijing Oriental Plaza subject to the annual caps of US\$130,473 for 2004, US\$130,473 for 2005 and US\$75,537 for 2006.
- (d) pursuant to the tenancy agreement dated 13 February 2004 entered into between LTWJi and Beijing Oriental in respect of the lease of Rooms 7-8, 5th Floor, Tower W3, The Towers, Beijing Oriental Plaza at a monthly rental of US\$11,480 for a term of 31 months and 14 days commencing from 1 January 2004 to 14 August 2006, subject to the annual caps of US\$130,872 for 2004, US\$130,872 for 2005 and US\$103,320 for 2006.

### Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Management contracts

A service agreement dated 2 July 2003 has been entered into between the Group and HIL, under which, HIL agreed to provide certain administrative and operation-related consultancy services to the Group on a reimbursement of cost basis for a term commencing from 20 January 2003 to 31 December 2005.

Save as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Major customers and suppliers

During the year, the respective percentage of purchases attributable to the Group's 5 largest suppliers and the sales attributable to the Group's 5 largest customers combined was less than 30% of the total value of Group's purchases and sales.

None of the directors, their Associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

## Audit Committee

The Company 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. Tong Mei Kuen, Tommei and three independent non-executive directors, namely Mrs. Lee Pui Ling, Angelina, Mr. Cheong Ying Chew, Henry and Ms. Wu Hung Yuk, Anna. The audit committee has met 4 times during the year.

## Directors' interests in competing business

Set out below is information disclosed pursuant to rule 11.04 of the GEM Listing Rules:

Mr. Frank John Sixt and Mrs. Chow Woo Mo Fong, Susan, the Chairman and a non-executive director of the Company respectively, are executive directors of HWL and directors of certain of its Associates (collectively referred to as "HWL Group"). Mr. Frank John Sixt is also a non-executive director of CKH and director of certain of its Associates (collectively referred to as "CKH Group"). Mr. Ip Tak Chuen, Edmond, a non-executive director of the Company, 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 Chief Executive Officer of the Company, 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. Tong Mei Kuen, Tommei, an executive director and Chief Financial Officer of the Company, 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.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined under the GEM Listing Rules) 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 shown in the Company'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. 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:

## Report of the Directors

GEM Listing Rules	Modified percentage thresholds
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 this annual report (i.e. on or before 31 March 2004).

### Advances to entities

Based on the modified approach in determining the disclosure obligations under Chapter 17 of the GEM Listing Rules as mentioned above, as at 31 December 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
Shanghai Maya Online Broadband Network Company Limited ("Maya Online")	Investee company	11,271 (Note 1) 18,798 (Note 2) 70,902 (Note 3)	9,400 (Note 4)
Shanghai Maya Cultural Transmission Company Limited ("Maya Cultural")	Investee company	29,849 (Note 5)	–

#### Notes:

- 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.
- 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.
- These advances to Maya Online made between the period from 27 December 2000 to 31 December 2003 are unsecured, interest free and repayable on demand.
- 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.
- These advances to Maya Cultural made between the period from 5 February 2001 to 31 December 2003 are unsecured, interest free and repayable on demand.

In addition, as at 31 December 2003, details of the trade receivables of the Group due from the following customers (which amount exceeds 8% of the net assets of the Group as at 31 December 2002) were as follows:

Name of customers	Balance of trade receivables HK\$
Guandong FAB Enless Culture Company Limited and its related companies	79,942,541

#### Notes:

- The above trade receivables were resulted from sales to the above customers by the Group in its ordinary course of business and on normal commercial terms.
- The above trade receivables are unsecured and in accordance with terms specified in the contracts governing the relevant transactions (such as delivery periods, payment periods (the above trade receivables are expected to be settled on or before 30 April 2004), rights and obligations of the above customers in respect of its performance under the contracts). No collateral is required to be made by the above customer and no interest is charged on any of the trade receivables.



## Application of Rule 19.18 of the GEM Listing Rules to the Group

On 10 June 2002, the GEM Listing Committee confirmed that Rule 19.18 of the GEM Listing Rules is applicable to the Group and agreed to the adoption of "net assets" (i.e. add back "intangible assets" to "net tangible assets") by the Company pursuant to Rule 19.18 of the GEM Listing Rules. Accordingly, the net assets act as a parameter for the "asset ratio" and the "consideration ratio" ("Modified Ratio") in classification of the notifiable transactions under the Asset Test (as defined in the GEM Listing Rules) and the Consideration Test (as defined in the GEM Listing Rules) pursuant to Chapter 19 of the GEM Listing Rules.

As a condition, the percentage thresholds for classification of notifiable transactions under Chapter 19 of the GEM Listing Rules are adjusted downwards as follows:

Type of transaction	Percentage thresholds for classification of notifiable transaction under the Asset Test and the Consideration Test
Share transaction	Less than 5% and involving issue of shares
Discloseable transaction	5% or more but less than 15%
Major transaction	15% or more but less than 25%
Very substantial acquisition	25% or more

For the avoidance of doubt, the Profits Test (as defined in the GEM Listing Rules) and the Capital Test (as defined in the GEM Listing Rules) will remain applicable to the Group and the disclosure and the approval requirements would remain unchanged and would be in accordance with the requirements of each type of transaction specified under Chapter 19 of the GEM Listing Rules.

The application of the above will continue 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 the Company for the year ended 31 December 2002 ("Applicable Period").

As at 31 December 2002, the Group recorded a negative net tangible asset value. As the consolidated net tangible asset value of the Company as at 31 December 2002 was negative, any future acquisition and disposal (however minor) would constitute a very substantial acquisition or a major transaction (as the case may be), which would be subject to, among other things, shareholders' approval if the relevant provisions of Chapter 19 of the GEM Listing Rules were to be strictly applied upon expiry of the Applicable Period.

In view of the above, the Company made an application to the Stock Exchange for an extension of the adoption of the Modified Ratio for classification of the notifiable transactions under Chapter 19 of the GEM Listing Rules.

On 3 April 2003, the GEM Listing Committee granted an extension of the Applicable Period to the earlier of (1) an amendment to the GEM Listing Rules in this area; or (2) the publication or the due date of this annual report (i.e. on or before 31 March 2004).

During the year and up to the date of this report, the Group has entered into the following transactions which were classified as notifiable transactions under Chapter 19 of the GEM Listing Rules by using the Modified Ratio calculation and the application of Rule 19.18:

## Report of the Directors

Date of transaction	Highest percentage ratio of the four tests	Type of transaction	Description
14/2/2003	38.68% (Consideration Test)  <i>Note:</i> The assets to be acquired are regarded as listed assets since the subject companies are already the subsidiaries of the Company. Even though the percentage ratio under the Consideration Test is more than 25%, the transaction was classified as a major transaction under Rule 19.06(3) of the GEM Listing Rules.	Major	Offer by TOM Print Media Group Limited ("TOM Print Media") to acquire in aggregate a maximum of 582,250 shares in Cité Publishing Holding Limited ("Cité Publishing Holding") (representing 11.645% of the enlarged issued share capital of Cité Publishing Holding) to be allotted and issued to the HMG MI Shareholders at a maximum consideration of the allotment and issue of 39,491,198 shares of the Company (credited as fully paid) at a price of HK\$5.51 per share. Details of which were disclosed in the circular dated 9 April 2003 of the Company.
30/4/2003	14.62% (Consideration Test)	Discloseable	Acquisition by TOM International from 北京紅帆譽翔公用電話有限公司 and 北京三錦泰和科技發展有限公司 of an aggregate of 60% of the equity interest in Beijing Redsail Netlegend Data Network Technology Company Limited at a total consideration of RMB50,058,489 (approximately HK\$47,224,989). Details of which were disclosed in the circular dated 21 May 2003 of the Company.
2/7/2003	311.18% (Consideration Test)	Major	(1) Placing of 450,000,000 existing shares of the Company by Schumann International Limited ("Schumann") to Citigroup Global Markets Asia Limited at a placing price of HK\$2.3 per share.  (2) Subscription of 450,000,000 new shares of the Company by Schumann at a subscription price of HK\$2.3 per share.  Details of the above transactions were disclosed in the circular dated 11 August 2003 of the Company.

Date of transaction	Highest percentage ratio of the four tests	Type of transaction	Description
2/7/2003	89.27% (Consideration Test)	Very substantial acquisition and major	<p>(1) Acquisition by TOM Television Group Limited ("TOM TV") of approximately 64.07% of the issued share capital of CETV from Turner Broadcasting System Asia Pacific, Inc. ("TBSAP") at a consideration of HK\$53,868,750, which has been satisfied by the allotment and issue of 21,250,000 shares of the Company.</p> <p>(2) Granting by TOM TV to TBSAP of an option to acquire from TOM TV all or part of the shares of CETV then held by TOM TV during a period commencing on and from the first day immediately following the expiry of the thirty month after the date of completion of the acquisition of CETV by TOM TV and ending on 30 July 2007.</p> <p>(3) Granting by TOM TV to TBSAP of an option to acquire from TOM TV all or part of the shares of CETV then held by TOM TV as at 1 July 2007, 1 July 2008, 1 July 2009 and 1 July 2010.</p> <p>Details of the above transactions were disclosed in the circular dated 26 August 2003 of the Company.</p>
21/7/2003	0.55% (Consideration Test)	Share	Subscription by Mr. Pan Sy Zuan ("Mr. Pan") of approximately 0.78% of the enlarged issued share capital of Cité Publishing Holding, the acquisition by Cité Publishing Holding of approximately 1.55% of the issued share capital of Home Media Group Limited and the acquisition by TOM Print Media of approximately 0.39% of the enlarged issued share capital of Cité Publishing Holding from Mr. Pan. Details of the above transactions were disclosed in the announcement dated 21 July 2003 of the Company.
25/9/2003	83.63% (Consideration Test)	Very substantial acquisition and connected	Acquisition by Bright Horizon of the entire issued share capital of Puccini International Limited from Cranwood at a total consideration of up to a maximum of US\$150,000,000, which will be satisfied by cash and shares of TOM Online or the shares of the Company (as the case may be). Details of which were disclosed in the circular dated 3 November 2003 of the Company.

## Report of the Directors

Date of transaction	Highest percentage ratio of the four tests	Type of transaction	Description
6/11/2003	96.61% (Assets Test)	Major	Issue by TOM Holdings Limited of convertible bonds in the aggregate amount of US\$150,000,000 due 2008. Details of which were disclosed in the circular dated 9 December 2003 of the Company.
13/2/2004	104.45% (Consideration Test)	Major	Proposed spin-off of TOM Online on GEM and Nasdaq. Details of which were disclosed in the circular dated 14 February 2004.

### Guaranteed profits

As disclosed in the section headed "Guaranteed Profit" in the annual report of the Company for the year ended 31 December 2002, the vendors of the YC Acquisition, Qilu Acquisition (as defined below) and Sano Acquisition (as defined below) have guaranteed to the Group certain amount of the profits of the YC Companies, Qilu Outdoor Media (as defined below) and Sano Media (as defined below) for the year ended 31 December 2002 respectively. The audited financial statements of the YC Companies, Qilu Outdoor Media and Sano Media for the year ended 31 December 2002 have been finalised in 2003 and all the guaranteed profits of the aforesaid companies have been met.

The Group had entered into the following transactions which included a provision whereby the relevant parties agreed to provide a guarantee to the Group in respect of the profits of the companies being acquired by the Group for the year ended 31 December 2003:

1. the acquisition by TOM Outdoor Media Group Limited ("TOM Outdoor Media", a wholly-owned subsidiary of the Company) of 60% of the equity interest in Shandong Qilu International Outdoor Media Company Limited ("Qilu Outdoor Media") ("Qilu Acquisition"). Details of the Qilu Acquisition were disclosed in the circular of the Company dated 21 February 2002 and the announcement of the Company dated 20 December 2002. Pursuant to the relevant agreement in respect of the Qilu Acquisition, Mr. Meng Xian Wei ("Mr. Meng") warranted that Qilu Outdoor Media will achieve a 15% annual increase in its after-tax profits for the year ended 31 December 2003, any shortfall will be deducted from Mr. Meng and/or Jinan Qilu Xinjiye Advertising Company Limited's share of any future dividend that may be declared by Qilu Outdoor Media;
2. the acquisition by TOM Outdoor Media of 60% of the equity interest in Liaoning New Star Guangming Media Assets Company Limited ("New Star Media") ("New Star Acquisition"). Details of the New Star Acquisition were disclosed in the circular of the Company dated 21 March 2002 and the announcement of the Company dated 20 December 2002. Pursuant to the relevant agreement in respect of the New Star Acquisition, Mr. Li Pei-an and Ms. Wang Bing-bing (collectively referred to as "NS Shareholders") warranted that New Star Media will achieve a 15% annual increase in its after-tax profits for the year ended 31 December 2003, any shortfall will be deducted from NS Shareholders and/or New Star Prosperity Advertising Company Limited's share of any future dividend that may be declared by New Star Media;
3. the acquisition by TOM Outdoor Media of 60% of the equity interest in Shenyang Sano Global Media Company Limited ("Sano Media") ("Sano Acquisition"). Details of the Sano Acquisition were disclosed in the circular of the Company dated 12 July 2002 and the announcement of the Company dated 20 December 2002. Pursuant to the relevant agreement in respect of the Sano Acquisition, Shenyang Sano Jinxiang Advertising Co., Ltd. ("Sano") and Mr. Wang Chengcheng ("Mr. Wang") warranted that Sano Media will attain the proforma audited after-tax profit of RMB14,620,000 for the year ended 31 December 2003. If the amount of the after-tax profit of Sano Media for the year ended 31 December 2003 is less than RMB14,620,000, then Sano and Mr. Wang will pay an amount equal to 60% of such shortfall to TOM Outdoor Media;

4. the acquisition by TOM Outdoor Media of 60% of the equity interest in Xiamen Bomei Lianhe Advertising Company Limited ("Bomei Advertising") ("Bomei Acquisition"). Details of the Bomei Acquisition were disclosed in the circular of the Company dated 17 July 2002 and the announcement of the Company dated 20 December 2002. Pursuant to the relevant agreement in respect of the Bomei Acquisition, each of Xiamen Bomei Advertising Company Limited ("Bomei"), Mr. Chen Maosheng ("Mr. Chen") and Ms. Chen Huiqian ("Ms. Chen") warranted that Bomei Advertising will attain the proforma accumulative audited after-tax profit of RMB11,446,600 for the year ended 31 December 2003. If the amount of the accumulative after-tax profit of Bomei Advertising for the year ended 31 December 2003 is less than RMB11,446,600, then Bomei, Mr. Chen and Ms. Chen will pay an amount equal to 60% of such shortfall to TOM Outdoor Media;
5. the acquisition by TOM Outdoor Media of 70% of the equity interest in Fujian Seeout Guangming Media Advertising Company Limited ("Seeout Media") ("Seeout Acquisition"). Details of the Seeout Acquisition were disclosed in the circular of the Company dated 17 July 2002 and the announcement of the Company dated 20 December 2002. Pursuant to the relevant agreement in respect of the Seeout Acquisition, each of Fujian Seeout Outdoor Advertising Company Limited ("Seeout"), Mr. Li Guoping ("Mr. Li") and Mr. Guo Xiaoyang ("Mr. Guo") warranted that Seeout Media will attain the proforma accumulative audited after-tax profit of RMB22,575,000 for the year ended 31 December 2003. If the amount of the accumulative after-tax profit of Seeout Media for the year ended 31 December 2003 is less than RMB22,575,000, then Seeout, Mr. Li and Mr. Guo will pay an amount equal to 70% of such shortfall to TOM Outdoor Media;
6. the acquisition by TOM Outdoor Media of 70% of the equity interest in Sichuan Southwest Outdoor Media Company Limited ("Southwest Outdoor Media") ("Southwest Acquisition"). Details of the Southwest Acquisition were disclosed in the circular dated 22 August 2002 and the announcement dated 15 January 2003 of the Company. Pursuant to the relevant agreement in respect of the Southwest Acquisition, each of Sichuan Southwest International Advertising Company and Chengdu Boguang Broadcasting Information Company Limited warranted that the amount of the after-tax profits as shown in the proforma audited profit and loss account of Southwest Outdoor Media for 12 months ended 30 June 2003 will not be less than RMB9,950,000 ("Warranted Profits"), otherwise the consideration for the Southwest Acquisition will be adjusted. As the Warranted Profits is met, no adjustment is required to be made to the consideration for the Southwest Acquisition;
7. the acquisition by TOM Outdoor Media of 50% of the equity interest in Henan New Tianming Advertising & Information Chuanbo Company Limited ("Tianming Advertising") ("Tianming Acquisition"). Details of the Tianming Acquisition were disclosed in the circular dated 3 April 2002 of the Company. Pursuant to the relevant agreement in respect of the Tianming Acquisition, Mr. Jiang Ming ("Mr. Jiang") warranted that Tianming Advertising will achieve a 15% annual increase in its audited after-tax profits for the year ended 31 December 2003, any shortfall will be indemnified by Mr. Jiang and/or Beijing Tianming International Investment Management Company Limited in cash;
8. the acquisition by TOM Outdoor Media of 70% of the equity interest in Qingdao Chunyu Advertising Chuanbo Company Limited ("Chunyu Advertising") ("Chunyu Acquisition"). Details of the Chunyu Acquisition were disclosed in the circular dated 10 January 2003 of the Company. Pursuant to the relevant agreement in respect of the Chunyu Acquisition, Mr. Ou-Yang Gang warranted that Chunyu Advertising will achieve a 15% annual increase in its after-tax profits for the year ended 31 December 2003, any shortfall will be deducted from Qingdao Chunyu Advertising and Décor Construction Company Limited' share of any future dividend that may be declared by Chunyu Advertising until the shortfall has been fully satisfied; and
9. the acquisition by Hitech Profits Limited ("Hitech", a wholly-owned subsidiary of the Company) of the entire equity interest in Kunming Fench Star Information Industry Limited ("Fench Star") through the acquisition of the entire issued share capital of World Focus Developments Limited and the option and pledge arrangements ("Fench Star Acquisition"). Details of the Fench Star Acquisition were disclosed in the circular dated 29 December 2000 and the announcement dated 2 March 2001 of the Company. Pursuant to the relevant agreements in respect of the Fench Star Acquisition, Dynamic Net Developments Limited warranted that the aggregate after-tax profits of Fench Star as shown in the audited income and cash flow statements of Fench Star for years ended 31 December 2001, 2002 and 2003 is greater than RMB100,000,000, otherwise Hitech may, at its sole discretion, require the dealer designated by Hitech to sell a sufficient number of Incentive Shares (as defined in the circular dated 29 December 2000 of the Company) at a designated time and remit the proceeds of such sale to Hitech so as to cover the shortfall.

## Report of the Directors

As the audited financial statements of all the above companies (other than Southwest Outdoor Media) for the year ended 31 December 2003 have not yet been finalised, the Group has not yet determined whether the above profit guarantees have been fulfilled. If there is any shortfall, the Company will issue separate announcement to disclose the same.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

### Subsequent events

Details of significant events which have been taken place subsequent to the balance sheet date are set out in note 35 to the accounts.

### Board practices and procedures

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year, except that the non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

### Purchase, sale or redemption of securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

### Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

**Frank John Sixt**  
Chairman

Hong Kong, 17 March 2004

# Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

## Auditors' Report to the Shareholders of TOM Group Limited (formerly known as TOM.COM LIMITED) (incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 60 to 125 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 17 March 2004

# Consolidated Profit & Loss Account

For the Year Ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>	2	<b>2,089,234</b>	1,624,126
Cost of sales		(1,202,730)	(1,008,400)
Interest income	2	14,097	5,867
Selling and marketing expenses		(191,394)	(170,205)
Administrative expenses		(216,552)	(235,174)
Other operating expenses		(400,306)	(322,406)
<b>Operating profit / (loss)</b>	3	<b>92,349</b>	(106,192)
Finance costs	4	(19,919)	(19,079)
Provision for impairment of goodwill		-	(197,108)
Share of losses of jointly controlled entities		(6,387)	(29,585)
Share of profits less losses of associated companies		1,823	20
<b>Profit / (loss) before taxation</b>		<b>67,866</b>	(351,944)
Taxation	5	(12,399)	(29,080)
<b>Profit / (loss) after taxation</b>		<b>55,467</b>	(381,024)
Minority interests		(42,869)	(28,555)
<b>Profit / (loss) attributable to shareholders</b>		<b>12,598</b>	(409,579)
<b>Earnings / (loss) per share</b>	8		
Basic		HK0.35 cent	HK(12.41) cents
Diluted		HK0.35 cent	N/A



# Consolidated Balance Sheet

As at 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	11	245,006	250,868
Other non-current assets	12	253,377	98,781
Goodwill	13	1,088,466	953,899
Interests in jointly controlled entities	15	15,018	35,510
Interests in associated companies	16	4,586	4,601
Investment securities	17	1,594,636	126,406
		<b>3,201,089</b>	<b>1,470,065</b>
<b>Current assets</b>			
Inventories	18	102,236	108,260
Trade and other receivables	19	1,069,908	645,145
Bank balances and cash		884,563	329,893
		<b>2,056,707</b>	<b>1,083,298</b>
<b>Current liabilities</b>			
Consideration payables – current	20	367,211	431,478
Trade and other payables	21	903,235	598,038
Taxation payable		52,607	68,417
Long-term bank loans – current	23(a)	610	561
Short-term loans	22	882,762	14,338
		<b>2,206,425</b>	<b>1,112,832</b>
<b>Net current liabilities</b>		<b>149,718</b>	<b>29,534</b>
<b>Total assets less current liabilities</b>		<b>3,051,371</b>	<b>1,440,531</b>
<b>Non-current liabilities</b>			
Consideration payables – non-current	20	11,560	130,670
Other non-current liabilities	23	1,239,471	874,659
Deferred tax liabilities	25(b)	17,882	9,147
		<b>1,268,913</b>	<b>1,014,476</b>
<b>Minority interests</b>		<b>163,083</b>	<b>153,784</b>
<b>Net assets</b>		<b>1,619,375</b>	<b>272,271</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	26	387,827	332,187
Reserves	28	1,237,633	(54,688)
Own shares held	29	(6,085)	(5,228)
<b>Shareholders' funds</b>		<b>1,619,375</b>	<b>272,271</b>

Sing Wang  
Director

Tong Mei Kuen, Tommei  
Director

# Balance Sheet

As at 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	14	3,201,908	2,421,694
<b>Current assets</b>			
Other receivables	19	29,313	20,961
Bank balances and cash		351,391	14,433
		<b>380,704</b>	35,394
<b>Current liabilities</b>			
Consideration payables – current	20	367,211	431,478
Other payables	21	8,993	5,487
Short-term loans	22	850,000	–
		<b>1,226,204</b>	436,965
<b>Net current liabilities</b>		<b>845,500</b>	401,571
<b>Total assets less current liabilities</b>		<b>2,356,408</b>	2,020,123
<b>Non-current liabilities</b>			
Consideration payables – non-current	20	11,560	130,670
Other non-current liabilities	23	–	850,000
		<b>11,560</b>	980,670
<b>Net assets</b>		<b>2,344,848</b>	1,039,453
<b>CAPITAL AND RESERVES</b>			
Share capital	26	387,827	332,187
Reserves	28	1,963,106	712,494
Own shares held	29	(6,085)	(5,228)
<b>Shareholders' funds</b>		<b>2,344,848</b>	1,039,453

Sing Wang  
Director

Tong Mei Kuen, Tommei  
Director

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2003

	2003 HK\$'000	2002 HK\$'000
At 1 January	272,271	579,003
Revaluation surplus on investment securities	5,611	–
Exchange translation differences	2,042	(255)
Net gains and losses not recognised in the profit and loss account	7,653	(255)
Profit/(loss) for the year	12,598	(409,579)
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	331,665	87,597
Placement of shares, net of issuing expenses	996,045	–
Exercise of share options, net of issuing expenses	–	19,642
Own shares held	(857)	(4,137)
At 31 December	<b>1,619,375</b>	272,271

# Consolidated Cash Flow Statement

For the Year Ended 31 December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Net cash inflow/(outflow) from operations</b>	30(a)	<b>69,375</b>	(75,203)
Interest paid		(17,397)	(19,205)
Hong Kong profits tax paid		(2,595)	(2,003)
Overseas taxation paid		(31,254)	(26,613)
Net cash from/(used in) operating activities		<b>18,129</b>	(123,024)
<b>Investing activities</b>			
Interest received		<b>13,455</b>	22,631
Capital expenditure		(96,916)	(166,698)
Sale of fixed assets		<b>1,262</b>	1,423
Settlement of consideration payable for acquisition of subsidiaries in prior years		(27,421)	(42,639)
Acquisition of subsidiaries	30(c)	(20,841)	(312,047)
Disposal/deconsolidation of a subsidiary	30(d)	<b>135</b>	(7,962)
Purchase of debt securities		(1,481,549)	-
Purchase and sale of other investments, net		-	(219)
Loans to related companies		-	(500)
Loan repayment from related companies		-	3,760
Dividends received		<b>4,988</b>	130
Net cash used in investing activities		<b>(1,606,887)</b>	(502,121)
Net cash used before financing activities		<b>(1,588,758)</b>	(625,145)
<b>Financing activities</b>			
Issuance of ordinary shares, net of issuing expenses	30(e)	<b>995,921</b>	19,292
New bank and other loans	30(e)	<b>103,062</b>	767,364
Loan repayments	30(e)	(85,162)	(63,737)
Proceeds from issuance of convertible bonds	30(e)	<b>1,170,000</b>	-
Expenses on issuance of convertible bonds and arrangement of syndicated loan facilities		(35,779)	-
Contribution from minority shareholders	30(e)	<b>1,786</b>	1,410
Dividends paid to minority shareholders		(6,400)	(3,176)
Net cash from financing activities		<b>2,143,428</b>	721,153
Increase in bank balances and cash		<b>554,670</b>	96,008
Bank balances and cash at 1 January		<b>329,893</b>	233,885
Bank balances and cash at 31 December		<b>884,563</b>	329,893

# Notes to the Accounts

## 1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

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 ("HKSA"). They have been prepared under the historical cost convention except that, as set out in note (e) below, certain investment securities are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 2.112 "Income Taxes" (revised) issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003. The adoption of this revised SSAP has no material effect on the Group's results.

Certain comparative figures have been reclassified to conform with the current year's presentation.

### (b) Consolidation

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

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

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

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

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

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

## Notes to the Accounts

### 1. Principal accounting policies (continued)

#### (c) Jointly controlled entities

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

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill on acquisition, net of accumulated amortisation and impairment losses, if any.

#### (d) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill on acquisition, net of accumulated amortisation and impairment losses, if any.

#### (e) Investment securities

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

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

## 1. Principal accounting policies (continued)

### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

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

### (g) Other non-current assets

Concession rights, copyrights, licence rights, publishing rights, and purchased programmes and film rights are stated at cost less accumulated amortisation and impairment losses, if any, and are amortised on a systematic basis over the respective period of the right, subject to a maximum period of 20 years, whichever is shorter.

Deferred expenses represent costs incurred for issuing convertible bonds and arrangement of syndicated loan facilities and are amortised on a straight-line basis over the respective period of the loan.

### (h) Goodwill

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

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

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

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

## Notes to the Accounts

### 1. Principal accounting policies (continued)

#### (h) Goodwill (continued)

Negative goodwill is presented in the same balance sheet classification as goodwill and is recognised in the profit and loss account over the remaining weighted average useful life of those assets.

#### (i) Asset impairment

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

#### (j) Operating leases

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

#### (k) Inventories

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

#### (l) Trade receivables

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

#### (m) Employee benefits

##### (i) Pension obligations

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

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

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



## 1. Principal accounting policies (continued)

### (m) Employee benefits (continued)

#### (i) Pension obligations (continued)

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

#### (ii) Equity compensation benefits

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

### (n) Convertible bonds

Convertible bonds are stated in the balance sheet at face value, plus the accrued redemption premium. The redemption premium is accrued on a straight-line basis over the period from the date of issuance to the date of maturity, redemption or conversion.

### (o) Deferred taxation

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

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

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

### (p) Provisions

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

# Notes to the Accounts

## 1. Principal accounting policies (continued)

### (q) Contingent liabilities

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

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

### (r) Revenue recognition

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

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

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

### (s) Borrowing costs

Fees paid for the arrangement of convertible bonds and syndicated loan facilities are deferred and amortised on a straight-line basis over the respective period of the loan.

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

### (t) Translation of foreign currencies

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

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

## 1. Principal accounting policies (continued)

### (u) Segment reporting

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

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

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

## Notes to the Accounts

### 2 Turnover, revenue and segment information

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out on pages 118 to 125.

Turnover and revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Provision of wireless value-added services, online advertising, commercial enterprise solutions, and Internet access (Note)	<b>592,443</b>	255,800
Advertising sales of outdoor media assets and provision of outdoor media services	<b>297,966</b>	247,895
Magazine and book circulation, sales of publication advertising and other related products	<b>771,441</b>	741,258
Event organisation, advertising and sponsorship sales in relation to sports events and programmes	<b>251,535</b>	316,547
Advertising sales in relation to satellite television channel operations and sales of audio-visual products	<b>175,849</b>	62,626
	<b>2,089,234</b>	1,624,126
Interest income	<b>14,097</b>	5,867
Total revenues	<b>2,103,331</b>	1,629,993

Note: The Group's wireless value-added services are delivered to users through the wireless data platforms of the mobile telecommunications operators pursuant to revenue sharing agreements. In prior years, the Group reported these wireless value-added services revenues net of the revenues shared with the mobile telecommunications operators. In the current year, the Directors are of the opinion that it is more appropriate to adopt the gross basis of recognition of wireless value-added services revenues commencing from 1 January 2003. This change in recognition basis has no overall effect on the Group's results. If wireless value-added services revenues for 2002 were shown on a gross basis, both turnover and costs of sales for the year ended 31 December 2002 would increase by approximately HK\$19,640,000, with no overall effect on the Group's results.

## 2 Turnover, revenue and segment information (continued)

### Primary reporting format – business segments

The Group is organised into five main business segments:

- Internet Group – provision of wireless value-added services, online advertising, commercial enterprise solutions, and Internet access.
- Outdoor Media Group – advertising sales of outdoor media assets and provision of outdoor media services.
- Publishing Group – magazine and book circulation, sales of publication advertising and other related products.
- Sports Group – event organisation, advertising and sponsorship sales in relation to sports events and programmes.
- Television and Entertainment Group – advertising sales in relation to satellite television channel operations and sales of audio-visual products.

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

### Secondary reporting format – geographical segments

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

Hong Kong – Internet Group, Publishing Group, Sports Group, and Television and Entertainment Group

Mainland China – Internet Group, Outdoor Media Group, Publishing Group, Sports Group, and Television and Entertainment Group

Taiwan – Publishing Group

There are no significant sales between the geographical segments.

## Notes to the Accounts

### 2 Turnover, revenue and segment information (continued)

#### Primary reporting format – business segments

	Year ended 31 December 2003					
	Internet Group HK\$'000	Outdoor Media Group HK\$'000	Publishing Group HK\$'000	Sports Group HK\$'000	Television and Entertainment Group HK\$'000	Group HK\$'000
Turnover	592,443	297,966	771,441	251,535	175,849	2,089,234
Segment profit/(loss) before amortisation and depreciation	191,590	67,197	70,890	76,747	(4,928)	401,496
Amortisation and depreciation	(58,140)	(40,434)	(41,928)	(3,776)	(27,570)	(171,848)
Segment profit/(loss)	133,450	26,763	28,962	72,971	(32,498)	229,648
Unallocated costs						(137,299)
Operating profit						92,349
Finance costs						(19,919)
Share of losses of jointly controlled entities	(6,387)	-	-	-	-	(6,387)
Share of profits of associated companies	29	-	1,794	-	-	1,823
Profit before taxation						67,866
Taxation						(12,399)
Profit after taxation						55,467
Minority interests						(42,869)
Profit attributable to shareholders						12,598
Segment assets	576,067	764,349	1,121,202	399,873	290,141	3,151,632
Interests in jointly controlled entities	15,018	-	-	-	-	15,018
Interests in associated companies	1,500	-	3,086	-	-	4,586
Investment securities	61,525	45,205	12,522	752	-	120,004
Unallocated assets						1,966,556
Total assets						5,257,796
Segment liabilities	220,788	102,975	332,655	157,632	118,747	932,797
Unallocated liabilities						2,542,541
Minority interests						163,083
Total liabilities						3,638,421
Capital expenditure	41,929	34,551	14,661	27,901	7,611	126,653
Unallocated capital expenditure						2,421
						129,074

## 2 Turnover, revenue and segment information (continued)

### Primary reporting format – business segments (continued)

	Year ended 31 December 2002					
	Internet Group HK\$'000	Outdoor Media Group HK\$'000	Publishing Group HK\$'000	Sports Group HK\$'000	Television and Entertainment Group HK\$'000	Group HK\$'000
Turnover	255,800	247,895	741,258	316,547	62,626	1,624,126
Segment profit/(loss) before amortisation and depreciation	(22,804)	77,285	70,484	62,343	1,669	188,977
Amortisation and depreciation	(68,438)	(33,236)	(40,779)	(1,446)	(2,163)	(146,062)
Segment profit/(loss)	(91,242)	44,049	29,705	60,897	(494)	42,915
Unallocated costs						(149,107)
Operating loss						(106,192)
Finance costs						(19,079)
Provision for impairment of goodwill	(100,100)	(67,008)	(30,000)	-	-	(197,108)
Share of losses of jointly controlled entities	(29,585)	-	-	-	-	(29,585)
Share of profits less losses of associated companies	(1,185)	-	1,205	-	-	20
Loss before taxation						(351,944)
Taxation						(29,080)
Loss after taxation						(381,024)
Minority interests						(28,555)
Loss attributable to shareholders						(409,579)
Segment assets	277,277	673,666	998,821	174,364	131,598	2,255,726
Interests in jointly controlled entities	35,510	-	-	-	-	35,510
Interests in associated companies	1,470	-	3,131	-	-	4,601
Investment securities	61,292	45,205	19,157	752	-	126,406
Unallocated assets						131,120
Total assets						2,553,363
Segment liabilities	75,019	99,861	292,895	44,067	46,397	558,239
Unallocated liabilities						1,569,069
Minority interests						153,784
Total liabilities						2,281,092
Capital expenditure	60,847	52,368	13,916	168	33,066	160,365
Unallocated capital expenditure						6,333
						166,698

## Notes to the Accounts

### 2 Turnover, revenue and segment information (continued)

#### Secondary reporting format – geographical segments

	Turnover		Segment profit/(loss)	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	173,593	137,068	36,598	300
Mainland China	1,204,013	796,685	270,998	99,744
Taiwan	711,628	690,373	93,900	88,933
	<b>2,089,234</b>	1,624,126	<b>401,496</b>	188,977
Amortisation and depreciation			(171,848)	(146,062)
Unallocated costs			(137,299)	(149,107)
Operating profit/(loss)			<b>92,349</b>	(106,192)

	Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	2,288,560	253,390	34,263	3,949
Mainland China	1,891,392	1,312,496	80,762	149,565
Taiwan	1,077,844	987,477	14,049	13,184
Total	<b>5,257,796</b>	2,553,363	<b>129,074</b>	166,698



### 3 Operating profit/(loss)

Operating profit / (loss) is stated after charging the following:

	2003 HK\$'000	2002 HK\$'000
Depreciation	106,622	104,851
Amortisation		
– Goodwill	50,775	49,514
– Other non-current assets	31,802	5,832
Staff costs (including directors' emoluments) (Note 9)	417,354	285,748
Cost of inventories	537,003	423,173
Operating leases		
– Land & buildings	41,753	42,692
– Other assets	46,698	35,626
Auditors' remuneration	5,000	4,900
Loss on disposal of fixed assets	10,043	1,390
Provision for contract termination	–	20,630
Provision for loan to a related company	–	13,260

### 4 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest and borrowing costs on bank loans	2,810	1,847
Interest and borrowing costs on convertible bonds	1,718	–
Interest on other loans, wholly repayable within five years	15,391	17,232
Total borrowing costs incurred	19,919	19,079

## Notes to the Accounts

### 5 Taxation

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

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	26	6,098
Overseas taxation	20,270	40,302
Over-provision in prior years	(1,661)	(11,081)
Deferred taxation (Note 25(c))	(6,236)	(6,239)
	<b>12,399</b>	29,080

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year.

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

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

	2003 HK\$'000	2002 HK\$'000
Profit / (loss) before taxation	67,866	(351,944)
Calculated at a taxation rate of 17.5% (2002: 16%)	11,877	(56,311)
Effect of different taxation rates in other countries	(66,799)	1,855
Income not subject to taxation	(21,919)	(3,274)
Expenses not deductible for taxation purposes	43,061	42,767
Utilisation of previously unrecognised tax losses	(3,793)	(137)
Tax losses not recognised	43,049	48,850
Withholding tax	8,584	6,411
Over-provision in prior years	(1,661)	(11,081)
Taxation charge	<b>12,399</b>	29,080

## 6 Loss attributable to shareholders

The net loss of the Company is HK\$21,458,000 (2002: HK\$216,326,000) and is included in determining the profit/(loss) attributable to the shareholders in the consolidated profit and loss account. The loss of the Company included a provision for impairment in interests in subsidiaries amounting to HK\$Nil (2002: HK\$197,108,000).

## 7 Dividends

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

## 8 Earnings/(loss) per share

### (a) Basic

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$12,598,000 (2002: loss of HK\$409,579,000) and the weighted average of 3,583,805,272 (2002: 3,301,115,146) ordinary shares in issue during the year.

### (b) Diluted

The calculation of diluted earnings per share for the year ended 31 December 2003 is based on the profit attributable to shareholders of HK\$12,598,000 and the weighted average of 3,606,757,274 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of issuance and the consideration shares to be issued by the Company for the acquisition of subsidiaries had been issued at the date of acquisition. Since all potential ordinary shares arising from the convertible bonds, if converted into ordinary shares, would increase profit attributable to shareholders per share as a result of the savings on the interest and redemption premium payable and amortisation of borrowing costs, the effects of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

The exercise of share options granted by the Company would have an anti-dilutive effect on the loss per share for the year ended 31 December 2002.

## Notes to the Accounts

### 8 Earnings / (loss) per share (continued)

#### (c) Reconciliations

	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>3,583,805,272</b>	3,301,115,146
Ordinary shares payable for acquisition of subsidiaries	<b>19,744,843</b>	N/A
Deemed issuance of ordinary shares for nil consideration upon exercise of the options granted under the Schemes	<b>3,207,159</b>	N/A
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>3,606,757,274</b>	N/A

### 9 Staff costs, including directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	<b>401,819</b>	274,778
Pension costs – defined contribution plans	<b>7,283</b>	5,808
Pension costs – defined benefit plans (Note 24(b))	<b>8,252</b>	5,162
	<b>417,354</b>	285,748

## 10 Directors' and senior management's emoluments

### (a) Directors' emoluments

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

	2003 HK\$'000	2002 HK\$'000
Fees	585	549
Basic salaries, housing allowances, other allowances and benefits in kind	8,034	8,427
Discretionary bonuses	23,038	3,789
Contributions to retirement benefit schemes for directors (and past directors) of the Company	528	581
	<b>32,185</b>	13,346

The current executive directors, Mr. Sing Wang received emoluments of HK\$20,636,818 (2002: HK\$7,080,000) and Ms. Tong Mei Kuen, Tommei of HK\$7,996,170 (2002: HK\$Nil) for the year ended 31 December 2003.

The past executive directors, Mr. Lee Kwok Ming, Don received emoluments during directorship of HK\$640,538 (2002: HK\$2,855,752) and Ms. Leung Quan Yue, Michelle of HK\$810,485 (2002: HK\$2,702,000) for the year ended 31 December 2003.

The independent non-executive directors who are also the members of the Audit Committee, Mrs. Lee Pui Ling, Angelina, Mr. Cheong Ying Chew, Henry and Ms. Wu Hung Yuk, Anna received director's fee of HK\$100,000 (2002: HK\$100,000), HK\$100,000 (2002: HK\$100,000) and HK\$35,342 (2002: HK\$Nil) respectively, for the year ended 31 December 2003.

Except for a non-executive director, Mr. Wang Lei Lei received director's fee and other emoluments of HK\$1,565,358 (2002: HK\$162,359) and a past non-executive director, Mr. Feng Qi received director's fee of HK\$Nil (2002: HK\$45,890), each of the non-executive directors, Mr. Frank John Sixt, Ms. Chang Pui Vee, Debbie, Mrs. Chow Woo Mo Fong, Susan, Mr. Ip Tak Chuen, Edmond, Mr. Holger Kluge and Mr. James Sha received director's fee of HK\$50,000 (2002: HK\$50,000) for the year ended 31 December 2003.

All independent non-executive directors and non-executive directors, save as disclosed, did not receive any other emoluments.

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

## Notes to the Accounts

### 10 Directors' and senior management's emoluments (continued)

#### (a) Directors' emoluments (continued)

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 31 December 2003.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	6,284	2,691
Benefit from share options exercised	–	5,434
Discretionary bonuses	4,503	1,136
Contributions to retirement benefit schemes	415	199
	<b>11,202</b>	<b>9,460</b>

The emoluments fell within the following bands:

	Number of individuals	
	2003	2002
Emolument bands		
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	1	–
HK\$5,500,001 – HK\$6,000,000	–	1

## 11 Fixed assets

	Group						Total HK\$'000
	Properties	Leasehold improve- ments	Computer equipment	Outdoor media assets	Other assets	Construction in progress	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Cost</b>							
At 1 January 2003	12,919	44,513	348,587	128,101	55,169	1,673	590,962
Exchange adjustment	(4)	123	351	(24)	266	-	712
Additions	-	10,864	49,697	14,264	7,964	8,958	91,747
Acquisition of subsidiaries (Note 30(b))	-	744	29,691	-	9,168	-	39,603
Transfer upon completion	-	-	33	4,353	-	(4,386)	-
Disposals	-	(3,562)	(5,366)	(18,983)	(1,735)	(10)	(29,656)
Disposal of a subsidiary (Note 30(d))	-	(509)	(16,658)	-	(116)	-	(17,283)
At 31 December 2003	12,915	52,173	406,335	127,711	70,716	6,235	676,085
<b>Accumulated depreciation and impairment losses</b>							
At 1 January 2003	392	26,126	243,290	40,237	30,049	-	340,094
Exchange adjustment	1	21	233	-	206	-	461
Acquisition of subsidiaries (Note 30(b))	-	108	14,158	-	4,232	-	18,498
Charge for the year	491	9,637	74,710	13,831	7,953	-	106,622
Disposals	-	(2,892)	(4,627)	(9,854)	(978)	-	(18,351)
Disposal of a subsidiary (Note 30(d))	-	(506)	(15,677)	-	(62)	-	(16,245)
At 31 December 2003	884	32,494	312,087	44,214	41,400	-	431,079
<b>Net book value</b>							
At 31 December 2003	12,031	19,679	94,248	83,497	29,316	6,235	245,006
At 31 December 2002	12,527	18,387	105,297	87,864	25,120	1,673	250,868

## Notes to the Accounts

### 11 Fixed assets (continued)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Outside Hong Kong, held on		
Leases of over 50 years	11,866	12,340
Leases of between 10 to 50 years	165	187
	<b>12,031</b>	12,527

### 12 Other non-current assets

	Group	
	2003 HK\$'000	2002 HK\$'000
Concession rights (Note)	40,164	43,348
Copyrights (Note)	18,634	39,523
Licence rights (Note)	27,300	–
Publishing rights (Note)	1,119	1,911
Purchased programmes and film rights (Note)	1,987	–
Long-term receivable (Note 19(b))	101,400	–
Deferred expenses	34,539	–
Pension assets (Note 24(a))	440	1,349
Deferred tax assets (Note 25(a))	27,794	12,650
	<b>253,377</b>	98,781



## 12 Other non-current assets (continued)

Note:

	Group					
	Concession rights HK\$'000	Copyrights HK\$'000	Licence rights HK\$'000	Publishing rights HK\$'000	Purchased programmes and film rights HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 January 2003	49,831	40,816	-	2,733	-	93,380
Exchange adjustment	-	-	-	45	-	45
Additions	7,537	567	27,300	-	1,923	37,327
Acquisition of subsidiaries (Note 30(b))	-	-	-	-	85,578	85,578
Disposals	(1,795)	(3,550)	-	-	-	(5,345)
At 31 December 2003	55,573	37,833	27,300	2,778	87,501	210,985
<b>Accumulated amortisation</b>						
At 1 January 2003	6,483	1,293	-	822	-	8,598
Exchange adjustment	-	-	-	20	-	20
Acquisition of subsidiaries (Note 30(b))	-	-	-	-	81,603	81,603
Amortisation charge for the year	9,168	17,906	-	817	3,911	31,802
Disposals	(242)	-	-	-	-	(242)
At 31 December 2003	15,409	19,199	-	1,659	85,514	121,781
<b>Net book value</b>						
At 31 December 2003	40,164	18,634	27,300	1,119	1,987	89,204
At 31 December 2002	43,348	39,523	-	1,911	-	84,782

## Notes to the Accounts

### 13 Goodwill

	<b>Group</b> HK\$'000
<b>Cost</b>	
At 1 January 2003	1,516,346
Exchange adjustment	21
Additions (Note 30(b))	135,603
Consideration adjustment for acquisition of a subsidiary	49,726
At 31 December 2003	1,701,696
<b>Accumulated amortisation and impairment losses</b>	
At 1 January 2003	562,447
Exchange adjustment	8
Amortisation charge for the year	50,775
At 31 December 2003	613,230
<b>Net book value</b>	
At 31 December 2003	1,088,466
At 31 December 2002	953,899

Represented by:

	2003 HK\$'000	2002 HK\$'000
Goodwill	1,100,471	953,899
Negative goodwill (note)	(12,005)	-
	<b>1,088,466</b>	953,899

### 13 Goodwill (continued)

Note:

On 19 November 2003, the Group completed the acquisition of 100% beneficial interest in Beijing Leitingwuji Network Technology Limited ("LTWJi") through the acquisition of the entire share capital of Puccini International Limited ("Puccini", and collectively referred to as the "Puccini Group"), subject to a maximum amount of US\$150 million (approximately HK\$1,170 million). According to the sale and purchase agreement entered into between the Group and Cranwood, the consideration for the acquisition of Puccini should equal the valuation of the Puccini Group, which is determined based on 7.7 times the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004; or in the event that the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004 is less than an amount equal to 1.2 times the audited consolidated net profit of the Puccini Group for the year ended 31 December 2003, an amount equal to 6 times the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004.

The Directors consider that it is impractical to estimate the acquisition consideration with reliability and as such have not recorded any consideration as cost of investment at 31 December 2003. The fair value of the Group's share of the Puccini Group's net assets as at the date of acquisition, net of the estimated acquisition expenses, has been recorded as negative goodwill. Once the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004 is concluded and the consideration for the acquisition of Puccini is determined, the goodwill will be adjusted accordingly.

### 14 Interests in subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Investments at cost – unlisted shares	234,001	1
Amounts due from subsidiaries	6,340,491	4,610,042
Amounts due to subsidiaries	(1,185,510)	(1,275)
Less: provisions	(2,187,074)	(2,187,074)
	<b>3,201,908</b>	2,421,694

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

The list of the principal subsidiaries of the Group at 31 December 2003 is set out on pages 118 to 125.

## Notes to the Accounts

### 15 Interests in jointly controlled entities

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets – unlisted shares	<b>15,018</b>	35,510

The list of the principal jointly controlled entities of the Group at 31 December 2003 is set out on pages 118 to 125.

### 16 Interests in associated companies

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets – unlisted shares	<b>4,586</b>	4,601

The list of the principal associated companies of the Group at 31 December 2003 is set out on pages 118 to 125.

### 17 Investment securities

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed debt securities outside Hong Kong, at market value	<b>1,474,632</b>	-
Unlisted equity securities outside Hong Kong, at fair value	<b>28,860</b>	35,265
Loans and advances to investee companies	<b>91,144</b>	91,141
	<b>1,594,636</b>	126,406

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

The list of the principal investment securities of the Group at 31 December 2003 is set out on pages 118 to 125.

## 18 Inventories

	Group	
	2003 HK\$'000	2002 HK\$'000
Merchandise	6,106	10,503
Finished goods	80,092	82,566
Raw materials	4,932	5,597
Work in progress	11,106	9,594
	<b>102,236</b>	108,260

## 19 Trade and other receivables

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (Note a)	662,626	380,954	-	-
Less: Amount due after one year (Note 12 and Note b)	(101,400)	-	-	-
Amount receivable within one year	561,226	380,954	-	-
Prepayments, deposits and other receivables (Note c)	508,682	264,191	29,313	20,961
	<b>1,069,908</b>	645,145	<b>29,313</b>	20,961

## Notes to the Accounts

### 19 Trade and other receivables (continued)

Note:

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

As at 31 December 2003, the ageing analysis of the Group's trade receivables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	364,306	201,788
31-60 days	125,121	75,721
61-90 days	82,197	37,548
Over 90 days	91,002	65,897
	<b>662,626</b>	380,954
Represented by:		
Receivables from related companies (Note)	87,735	41,752
Receivables from third parties	574,891	339,202
	<b>662,626</b>	380,954

Note:

Total trade receivable from related companies beneficially owned by substantial shareholders of the Company, Hutchison Whampoa Limited ("HWL") and Cheung Kong (Holdings) Limited ("CKH"), amounted to HK\$1,556,000 (2002: HK\$674,000). Trade receivable from minority shareholders of subsidiaries of the Group, shareholders of investee companies, an associated company and an investee company amounted to HK\$85,866,000 (2002: HK\$33,245,000), HK\$Nil (2002: HK\$7,833,000), HK\$244,000 (2002: HK\$Nil) and HK\$69,000 (2002: HK\$Nil) respectively.

- (b) The balance represents trade receivable which is due between 2005 and 2008.
- (c) The Group balances include amounts due from jointly controlled entities, associated companies and related companies of HK\$1,835,000 (2002: HK\$1,706,000), HK\$189,000 (2002: HK\$68,000) and HK\$51,963,000 (2002: HK\$43,174,000) respectively. The total balances due from related companies beneficially owned by the substantial shareholders of the Company, HWL and CKH, amounted to HK\$476,000 (2002: HK\$3,546,000). The balances due from minority shareholders of subsidiaries of the Group and shareholders of investee companies amounted to HK\$43,654,000 (2002: HK\$39,628,000) and HK\$7,833,000 (2002: HK\$Nil) respectively.

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

## 20. Consideration payables

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Acquisition of subsidiaries (Note a)	183,771	367,148
Acquisition of an investment security (Note b)	195,000	195,000
	<b>378,771</b>	562,148
Represented by:		
– current	367,211	431,478
– non-current	11,560	130,670
	<b>378,771</b>	562,148

Note:

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

## Notes to the Accounts

### 21 Trade and other payables

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables (Note a)	<b>290,451</b>	207,069	–	–
Less: Amount due after one year (Note b and Note 23)	<b>(46,800)</b>	–	–	–
Amount payable within one year	<b>243,651</b>	207,069	–	–
Other payables and accruals (Note c)	<b>659,584</b>	390,969	<b>8,993</b>	5,487
	<b>903,235</b>	598,038	<b>8,993</b>	5,487

Note:

- (a) As at 31 December 2003, the ageing analysis of the Group's trade payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	<b>156,576</b>	86,554
31-60 days	<b>43,324</b>	31,278
61-90 days	<b>26,188</b>	26,382
Over 90 days	<b>64,363</b>	62,855
	<b>290,451</b>	207,069

- (b) The balance represents trade payables which are due between 2005 and 2008.
- (c) The Group balances include amounts due to a jointly controlled entity and related companies of HK\$2,912,000 (2002: HK\$Nil) and HK\$60,110,000 (2002: HK\$56,672,000) respectively. The total balance due to related companies beneficially owned by the substantial shareholders of the Company, HWL, CKH and Cranwood Company Limited ("Cranwood"), amounted to HK\$1,612,000 (2002: HK\$6,414,000). The balance due to minority shareholders of subsidiaries of the Group amounted to HK\$58,498,000 (2002: HK\$50,258,000).

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



## 22 Short-term loans

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
Secured	1,692	3,164	-	-
Unsecured	31,070	9,400	-	-
	<b>32,762</b>	12,564	-	-
Other loans				
Secured	-	876	-	-
Unsecured	-	898	-	-
	-	1,774	-	-
Loans from shareholders (Note)	<b>850,000</b>	-	<b>850,000</b>	-
	<b>882,762</b>	14,338	<b>850,000</b>	-

### Note:

These represented unsecured loans from the substantial shareholders of the Company, HWL, CKH and Cranwood, in the amounts of HK\$340,000,000 (2002: HK\$340,000,000), HK\$170,000,000 (2002: HK\$170,000,000) and HK\$340,000,000 (2002: HK\$340,000,000) respectively. In accordance with the Facility Letters dated 10 December 2001 and Supplemental Facility Letters dated 12 March 2003, the Group was granted unsecured loan facilities of up to an aggregate of HK\$850,000,000 at interest rate of 50 basis points over 3 months Hong Kong Interbank Offered Rate per annum. The loans are repayable on or before 10 December 2004.

## Notes to the Accounts

### 23 Other non-current liabilities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long-term bank loans (Note a)	1,675	2,243	–	–
Convertible bonds (Note b)	1,170,753	–	–	–
Loans from shareholders (Note 22)	–	850,000	–	850,000
Loans from minority shareholders	–	3,850	–	–
Long-term payables (Note 21(b))	46,800	–	–	–
Pension obligations (Note 24(a))	20,243	18,566	–	–
	<b>1,239,471</b>	874,659	–	850,000

#### (a) Long-term bank loans

	Group	
	2003 HK\$'000	2002 HK\$'000
Secured	575	559
Unsecured	1,710	2,245
	<b>2,285</b>	2,804
Less: current portion of long-term bank loans	(610)	(561)
	<b>1,675</b>	2,243
The bank loans are repayable as follows:		
Within one year	610	561
In the second year	610	40
In the third to fifth year	610	1,804
After the fifth year	455	399
	<b>2,285</b>	2,804

## 23 Other long-term liabilities (continued)

### (b) Convertible bonds

On 28 November 2003, a wholly-owned subsidiary of the Company issued the convertible bonds (the "Convertible Bonds") in the aggregate principal amount of US\$150 million (approximately HK\$1,170 million), which are unconditionally and irrevocably guaranteed by, and convertible into ordinary shares of par value HK\$0.10 each (the "Shares") of the Company. The Convertible Bonds bear interest at the rate of 0.5% per annum on the principal amount of each Convertible Bond, payable semi-annually in arrear from 28 November 2003 up to but excluding 28 November 2008.

The Convertible Bonds are convertible at any time on and after 8 January 2004 up to the close of business on 14 November 2008 into the Shares at an initial conversion price of HK\$3.315 per share, subject to adjustment.

The subsidiary may, subject to certain conditions, on or at any time after 13 December 2006 and prior to 28 November 2008, redeem all, or from time to time, redeem some of the Convertible Bonds, at principal plus a fixed return of 1.25% per annum from 28 November 2003 to the redemption date.

Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed at 103.86% of the principal amount, plus any accrued interest on 28 November 2008.

During the year, no Convertible Bonds were converted nor redeemed.

## Notes to the Accounts

### 24 Pension assets and obligations

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

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Present value of funded obligations	35,152	29,805
Fair value of plan assets	(15,937)	(9,536)
Deficits	19,215	20,269
Unrecognised actuarial gains/(losses)	588	(3,052)
Recognised in the balance sheet	19,803	17,217
Represented by:		
Pension assets (Note 12 and Note c)	(440)	(1,349)
Pension obligations (Note 23 and Note d)	20,243	18,566
	19,803	17,217

## 24 Pension assets and obligations (continued)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Current service cost	7,666	5,860
Interest cost	1,213	984
Expected return on plan assets	(762)	(596)
Net actuarial losses recognised	135	48
Recognition of transitional liability	-	(1,134)
<b>Total, included in staff costs (Note 9)</b>	<b>8,252</b>	<b>5,162</b>
Represented by:		
Pension assets (Note c)	2,856	913
Pension obligations (Note d)	5,396	4,249
	<b>8,252</b>	<b>5,162</b>

The actual return on plan assets recognised as a liability were HK\$803,000 (2002: HK\$407,000).

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

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	(1,349)	-
Total expenses (Note b)	2,856	913
Contributions paid	(1,947)	(2,262)
<b>At 31 December</b>	<b>(440)</b>	<b>(1,349)</b>

## Notes to the Accounts

### 24 Pension assets and obligations (continued)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	18,566	10,653
Acquisition of subsidiaries	–	4,795
Total expenses (Note b)	5,396	4,249
Contributions paid	(3,719)	(1,131)
At 31 December	20,243	18,566

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Discount rate	3.5% – 4.75%	4% – 5%
Expected rate of return on plan assets	3.5% – 8%	3.25% – 8%
Expected rate of future salary increases	2.5% – 3%	3% – 5%

## 25 Deferred taxation

### (a) Deferred tax assets

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	12,650	–
Exchange adjustment	324	–
Credited to profit and loss account (Note c)	14,820	12,650
At 31 December	27,794	12,650
Amount to be recovered after more than one year	300	–

### (b) Deferred tax liabilities

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	9,147	2,721
Exchange adjustment	151	15
Charged to profit and loss account (Note c)	8,584	6,411
At 31 December	17,882	9,147
Amount to be payable after more than one year	17,882	9,147

## Notes to the Accounts

### 25 Deferred taxation

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Deferred tax assets (Note a)	(14,820)	(12,650)
Deferred tax liabilities (Note b)	8,584	6,411
Deferred taxation credited to profit and loss account (Note 5)	(6,236)	(6,239)

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

#### Deferred tax assets

	Group					
	Tax losses		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	1,488	8,952	12,650	-	14,138	8,952
Exchange adjustment	24	-	300	-	324	-
Credited /(charged) to profit and loss account	728	(7,464)	12,604	12,650	13,332	5,186
At 31 December	2,240	1,488	25,554	12,650	27,794	14,138

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses as at 31 December 2003 of HK\$2,230,268,000 (2002: HK\$1,224,543,000) to carry forward against future taxable income. The tax losses will expire according to the prevailing tax laws and regulations in the countries in which the Group operates.



## 25 Deferred taxation (continued)

## Deferred tax liabilities

	Group					
	Accelerated tax depreciation		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	1,488	8,952	9,147	2,721	10,635	11,673
Exchange adjustment (Credited)/charged to profit and loss account	-	-	151	15	151	15
	(1,488)	(7,464)	8,584	6,411	7,096	(1,053)
At 31 December	-	1,488	17,882	9,147	17,882	10,635

Deferred income tax liabilities as at 31 December 2003 of HK\$69,389,000 (2002: HK\$24,121,000) have not been established for the withholding and other taxation that would be payable on the undistributed earnings of certain subsidiaries since the Group has determined that the earnings of the subsidiaries will not be distributed in the foreseeable future. Such undistributed earnings as at 31 December 2003 totalled HK\$346,945,000 (2002: HK\$120,603,000).

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

	2003 HK\$'000	2002 HK\$'000
Deferred tax assets	27,794	12,650
Deferred tax liabilities	(17,882)	(9,147)
	9,912	3,503

## Notes to the Accounts

### 26 Share capital

#### Company – Authorised

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 31 December 2003 and 2002	5,000,000,000	500,000

#### Company – Issued and fully paid

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 January 2002	3,277,645,808	327,765
Issuance of shares	44,220,150	4,422
At 31 December 2002	3,321,865,958	332,187
At 1 January 2003	<b>3,321,865,958</b>	<b>332,187</b>
Issuance of shares (Note (a) and (b))	<b>556,395,859</b>	<b>55,640</b>
At 31 December 2003	<b>3,878,261,817</b>	<b>387,827</b>

Note:

- (a) On 30 January, 14 May, 30 May, 24 July, 31 July, 15 September, 16 September, 14 November and 28 November 2003, 13,101,798, 4,332,312, 6,736,576, 28,346,808, 1,319,998, 21,250,000, 9,736,888, 18,432,542 and 3,138,937 ordinary shares were allotted and booked at prices ranging between HK\$2.1 and HK\$4.039 per share, which were the fair value calculated based on the average closing price quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the calendar month immediately prior to the date of acquisition or the closing price quoted on the Stock Exchange at the date of acquisition, where applicable, as part of the considerations for the acquisition of subsidiaries, respectively.
- (b) On 8 July 2003, 450,000,000 shares were allotted and issued to independent third parties at a price of HK\$2.3 each pursuant to a placing and subscription agreement.

## 27 Share option schemes

Pursuant to the written resolutions of the shareholders of the Company dated 11 February 2000, two share option schemes namely, the Pre-IPO Share Option Plan (the "Pre-IPO Share Option Plan") and the Employee Share Option Scheme (as amended by an addendum on 24 April 2002) (the "Share Option Scheme") were adopted by the Company.

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

Pursuant to the Share Option Scheme, the Board may, at its discretion, invite any participant (including any employee and director of the Group and of any company in which the Group owns or controls 20% or more of its voting rights and/or issued share capital, business associate and trustee) to take up options to subscribe for shares in the Company. The options granted under the Share Option Scheme can be exercised at prices ranging from HK\$2.505 to HK\$11.3 per share at any time within the option period of ten years from the respective dates of grant, provided that the options have been vested. Generally, the options are vested in different tranches and may be exercised within the option period unless they are cancelled.

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

## Notes to the Accounts

### 27 Share option schemes (continued)

Movements in share options are as follows:

	2003		2002	
	Number of share options		Number of share options	
	Pre-IPO Share Option Plan	Share Option Scheme	Pre-IPO Share Option Plan	Share Option Scheme
Outstanding at 1 January	16,196,000	109,504,000	36,330,000	121,824,000
Granted	–	106,541,000	–	64,230,000
Exercised	–	–	(7,422,000)	–
Lapsed	–	(4,694,000)	(12,712,000)	(12,926,000)
Cancelled	–	(25,072,000)	–	(63,624,000)
Outstanding at 31 December	16,196,000	186,279,000	16,196,000	109,504,000

Details of share options granted under the Share Option Scheme during 2003:

Number of options granted 106,541,000

Expiry date 8 October 2013

Subscription price per share HK\$2.505

Terms of the share options outstanding at 31 December 2003 are:

Expiry date	Subscription price	2003	2002
10 February – 14 November 2010	HK\$1.78 – HK\$11.30	58,424,000	62,476,000
6 February 2012	HK\$3.76	37,810,000	63,224,000
8 October 2013	HK\$2.505	106,241,000	–
		202,475,000	125,700,000

## 28 Reserves

	Group						
	Share premium account	Capital reserve	Capital redemption reserve	General reserve	Exchange difference	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	2,231,099	(377)	776	139	(547)	(1,978,761)	252,329
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	84,280	-	-	-	-	-	84,280
Exercise of share options, net of issuing expenses	18,537	-	-	-	-	-	18,537
Loss for the year	-	-	-	-	-	(409,579)	(409,579)
Transfer to general reserve	-	-	-	204	-	(204)	-
Exchange difference	-	-	-	-	(255)	-	(255)
At 31 December 2002	2,333,916	(377)	776	343	(802)	(2,388,544)	(54,688)
Analysed by:							
Company and subsidiaries	2,333,916	(377)	776	343	(802)	(2,374,464)	(40,608)
Jointly controlled entities	-	-	-	-	-	(9,652)	(9,652)
Associated companies	-	-	-	-	-	(4,428)	(4,428)
At 31 December 2002	2,333,916	(377)	776	343	(802)	(2,388,544)	(54,688)

## Notes to the Accounts

## 28 Reserves (continued)

	Group							
	Share	Capital	Capital	General	Revaluation	Exchange	Accumulated	Total
	premium account HK\$'000	reserve HK\$'000	redemption reserve HK\$'000	reserve HK\$'000	reserve HK\$'000	difference HK\$'000	losses HK\$'000	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	321,025	-	-	-	-	-	-	321,025
Placement of shares, net of issuing expenses	951,045	-	-	-	-	-	-	951,045
Investment revaluation surplus	-	-	-	-	5,611	-	-	5,611
Profit for the year	-	-	-	-	-	-	12,598	12,598
Transfer to general reserve	-	-	-	15,201	-	-	(15,201)	-
Exchange difference	-	-	-	35	(1)	2,008	-	2,042
At 31 December 2003	3,605,986	(377)	776	15,579	5,610	1,206	(2,391,147)	1,237,633
Analysed by:								
Company and subsidiaries	3,605,986	(377)	776	15,579	5,610	1,206	(2,380,582)	1,248,198
Jointly controlled entities	-	-	-	-	-	-	(7,960)	(7,960)
Associated companies	-	-	-	-	-	-	(2,605)	(2,605)
At 31 December 2003	3,605,986	(377)	776	15,579	5,610	1,206	(2,391,147)	1,237,633

## 28 Reserves (continued)

	Company				
	Share premium account HK\$'000	Contribution surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	2,705,593	23,565	776	(1,903,931)	826,003
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	84,280	–	–	–	84,280
Exercise of share options, net of issuing expenses	18,537	–	–	–	18,537
Loss for the year	–	–	–	(216,326)	(216,326)
At 31 December 2002	2,808,410	23,565	776	(2,120,257)	712,494
At 1 January 2003	2,808,410	23,565	776	(2,120,257)	712,494
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	321,025	–	–	–	321,025
Placement of shares, net of issuing expenses	951,045	–	–	–	951,045
Loss for the year	–	–	–	(21,458)	(21,458)
At 31 December 2003	4,080,480	23,565	776	(2,141,715)	1,963,106

## Note:

The Company's reserves available for distribution calculated under the Companies Law of the Cayman Islands comprise the share premium account, contributed surplus and accumulated losses totalling HK\$1,962,330,000 (2002: HK\$711,718,000). In the opinion of the directors of the Company, the net reserves of the Company available for distribution to shareholders amounted to HK\$1,425,846,000 (2002: HK\$175,234,000).

## Notes to the Accounts

### 29 Own shares held

Own shares held represented the cost of 2,928,564 (2002: 2,681,373) ordinary shares in the Company held by certain subsidiaries and are deducted in arriving at the shareholders' funds.

### 30 Notes to the consolidated cash flow statement

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

	2003 HK\$'000	2002 HK\$'000
Operating profit/(loss)	92,349	(106,192)
Provision for impairment of investment securities	1,498	–
Provision for loan to a related company	–	13,260
Amortisation and depreciation	189,199	160,197
Loss on disposal of fixed assets	10,043	1,390
Gain on disposal of a subsidiary (Note 30(d))	(856)	–
Gain on disposal of other investments	–	(30)
<b>Operating profit before working capital changes</b>	<b>292,233</b>	<b>68,625</b>
Increase in long-term receivable	(101,400)	–
Decrease/(increase) in pension assets	909	(1,349)
Decrease in inventories	7,517	7,027
Increase in trade and other receivables	(388,497)	(129,447)
Increase/(decrease) in trade and other payables	222,056	(14,920)
Increase in long-term payables	46,800	–
Increase in pension obligations	1,372	3,218
Interest income	(14,097)	(5,867)
Exchange adjustment	2,482	(2,490)
<b>Net cash inflow/(outflow) from operations</b>	<b>69,375</b>	<b>(75,203)</b>



### 30 Notes to the consolidated cash flow statement (continued)

#### (b) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	21,105	66,207
Other non-current assets	3,975	32,136
Interests in associated companies	-	1,620
Investment securities	-	10,698
Inventories	43	21,766
Trade and other receivables	13,736	98,956
Bank balances and cash	52,123	124,027
Trade and other payables	(47,913)	(175,714)
Taxation payable	(3,115)	(12,131)
Loans from minority shareholders	-	(2,350)
Pension obligations	-	(4,795)
Minority interests	36,857	(57,398)
	<b>76,811</b>	103,022
Goodwill (Note 13)	<b>135,603</b>	749,049
	<b>212,414</b>	852,071
Satisfied by:		
Cash	72,964	436,074
Allotment of shares	125,345	58,091
Consideration payables	-	344,913
Interests in jointly controlled entities held prior to acquisitions	14,105	1,104
Investment securities held prior to acquisitions	-	11,889
	<b>212,414</b>	852,071

The subsidiaries acquired during the year contributed HK\$3,315,000 (2002: HK\$63,405,000) to the Group's net operating cash flows, paid HK\$Nil (2002: HK\$913,000) in respect of the net returns on investments and servicing of finance and utilised HK\$496,000 (2002: HK\$93,742,000) for investing activities.

The financial position as at 31 December 2003 and post acquisition (loss)/profit in respect of subsidiaries acquired during the year amounted to HK\$62,645,000 (2002: HK\$152,887,000) and loss of HK\$14,142,000 (2002: profit of HK\$50,389,000) respectively.

## Notes to the Accounts

### 30 Notes to the consolidated cash flow statement (continued)

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(72,964)	(436,074)
Bank balances and cash acquired	52,123	124,027
Net cash outflow in respect of acquisition of subsidiaries	(20,841)	(312,047)

(d) Disposal / deconsolidation of a subsidiary

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

**30 Notes to the consolidated cash flow statement** (continued)

## (d) Disposal/ deconsolidation of a subsidiary (continued)

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	<b>1,933</b>	-
Bank balances and cash disposed/deconsolidated	<b>(1,798)</b>	(7,962)
Net cash inflow/(outflow) in respect of disposal/ deconsolidation of a subsidiary	<b>135</b>	(7,962)

## Notes to the Accounts

### 30 Notes to the consolidated cash flow statement (continued)

#### (e) Analysis of changes in financing during the year

	Share capital including premium and capital reserve HK\$'000	Bank loans HK\$'000	Loans from shareholders HK\$'000	Loans from minority shareholders HK\$'000	Other loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2002	2,557,396	46,952	100,000	1,866	15,904	84,158	2,806,276
Issuance of ordinary shares, net of issuing expenses	19,292	-	-	-	-	-	19,292
New bank and other loans	-	14,966	750,000	1,500	898	-	767,364
Loan repayments	-	(46,692)	-	(1,866)	(15,179)	-	(63,737)
Contribution from minority shareholders	-	-	-	-	-	1,410	1,410
Net cash from/(used in) financing activities	19,292	(31,726)	750,000	(366)	(14,281)	1,410	724,329
Shares issued for acquisition of subsidiaries	87,947	-	-	-	-	-	87,947
Minority's share of profits of subsidiaries	-	-	-	-	-	28,555	28,555
Acquisition of subsidiaries (Note 30(b))	-	-	-	2,350	-	57,398	59,748
Deconsolidation of a subsidiary (Note 30(d))	-	-	-	-	-	(11,126)	(11,126)
Elimination of own shares held	(4,137)	-	-	-	-	-	(4,137)
Dividends payable to minority shareholders	-	-	-	-	-	(7,076)	(7,076)
Exchange adjustment	-	142	-	-	151	465	758
	83,810	142	-	2,350	151	68,216	154,669
At 31 December 2002	2,660,498	15,368	850,000	3,850	1,774	153,784	3,685,274

## 30 Notes to the consolidated cash flow statement (continued)

## (e) Analysis of changes in financing during the year (continued)

	Share capital including premium and capital reserve HK\$'000	Bank loans HK\$'000	Convertible bonds HK\$'000	Loans from shareholders HK\$'000	Loans from minority shareholders HK\$'000	Other loans HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2003	2,660,498	15,368	-	850,000	3,850	1,774	153,784	3,685,274
Issuance of ordinary shares, net of issuing expenses	995,921	-	-	-	-	-	-	995,921
New bank and other loans	-	102,562	-	-	500	-	-	103,062
Loan repayments	-	(83,366)	-	-	-	(1,796)	-	(85,162)
Proceeds from issuance of convertible bonds	-	-	1,170,000	-	-	-	-	1,170,000
Contribution from minority shareholders	-	-	-	-	-	-	1,786	1,786
Net cash from/(used in) financing activities	995,921	19,196	1,170,000	-	500	(1,796)	1,786	2,185,607
Shares issued for acquisition of subsidiaries	331,789	-	-	-	-	-	-	331,789
Accrual of redemption premium	-	-	753	-	-	-	-	753
Minority's share of profits of subsidiaries	-	-	-	-	-	-	42,869	42,869
Minority interests in revaluation reserve	-	-	-	-	-	-	(453)	(453)
Minority interests in other reserve	-	-	-	-	-	-	(26)	(26)
Acquisition of subsidiaries (Note 30(b))	-	-	-	-	-	-	(36,857)	(36,857)
Disposal of a subsidiary (Note 30(d))	-	-	-	-	(4,350)	-	3,705	(645)
Elimination of own shares held	(857)	-	-	-	-	-	-	(857)
Dividends payable to minority shareholders	-	-	-	-	-	-	(2,500)	(2,500)
Exchange adjustment	-	483	-	-	-	22	775	1,280
	330,932	483	753	-	(4,350)	22	7,513	335,353
At 31 December 2003	3,987,351	35,047	1,170,753	850,000	-	-	163,083	6,206,234

## Notes to the Accounts

### 31 Pledge of assets

- (a) At 31 December 2003, bank deposits and cash totalling approximately HK\$21,636,000 (2002: HK\$10,981,000) were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company and an investee company.
- (b) At 31 December 2003, concession rights and a property at net book value of HK\$5,614,000 (2002: HK\$2,347,000) and HK\$814,000 (2002: HK\$844,000) respectively, were pledged to banks for securing banking facilities granted to the certain subsidiaries of the Company.

### 32 Contingent liabilities

- (a) As at 31 December 2003, the Group had contingent liabilities amounting to approximately HK\$9,400,000 (2002: HK\$9,400,000) in respect of the provision of fixed deposits as securities for bank loans granted to an investee company in which the Group has a 50% equity interest.
- (b) Save as disclosed in note 23(b), the Company did not have any contingent liability at 31 December 2003 (2002: HK\$Nil).

### 33 Commitments

- (a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Acquisition of new investments		
– Contracted but not provided for	–	52,006
Acquisition of fixed assets and other non-current assets		
– Contracted but not provided for	82,652	19,349
– Authorised but not contracted for	1,715	7,757
	<b>84,367</b>	<b>79,112</b>

### 33 Commitments (continued)

(b) As at 31 December 2003, the Group had commitments in respect of contributions to registered capital of certain investments in Mainland China amounted to approximately HK\$23,923,000 (2002: HK\$Nil).

(c) Other capital commitment

At 31 December 2003, the Group had other capital commitment in respect of the acquisition of 100% beneficial interest in LTWJi through the acquisition of the entire share capital of Puccini subject to a maximum amount of US\$150 million (approximately HK\$1,170 million). According to the sale and purchase agreement entered into between the Group and Cranwood, the consideration for the acquisition of Puccini should equal the valuation of the Puccini Group, which is determined based on 7.7 times the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004; or in the event that the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004 is less than an amount equal to 1.2 times of audited consolidated net profit of the Puccini Group for the year ended 31 December 2003, an amount equal to 6 times the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004. The other capital commitment will be 50% paid in cash and 50% paid by the issuance and allotment of TOM Online Inc. ("TOM Online") shares. An initial consideration of US\$18,500,000 worth of TOM Online shares as held in escrow were issued at the initial public offer price of TOM Online shares on 11 March 2004.

(d) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003		2002	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
Not later than one year	23,860	29,288	34,273	30,300
Later than one year and not later than five years	16,287	172,591	39,506	79,681
Later than five years	-	41,879	747	66,308
	<b>40,147</b>	<b>243,758</b>	74,526	176,289

(e) The Company did not have any commitment at 31 December 2003 (2002: HK\$Nil).

## Notes to the Accounts

### 34 Related party transactions

In the opinion of the directors of the Company, the following is a summary of significant related party transactions, in addition to those disclosed in notes 17, 19, 21, 22 and 33(c) to the accounts.

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Sales to	(i)		
– HWL and its subsidiaries		1,594	1,354
– a joint venture of HWL		–	32
– Metro Broadcast Corporation Limited (“Metro”), an associated company of HWL and CKH		750	547
– CKH and its subsidiaries		746	867
– a jointly controlled entity		8,313	1,676
– minority shareholders of subsidiaries and their subsidiaries		144,058	72,859
Cost of sales payable to	(ii)		
– minority shareholders of subsidiaries and their subsidiaries		26,637	51,296
Internet content supply, event air-time and advertising expenses payable to Metro		–	3,435
Office rental receivable from Metro	(iii)	770	1,580
Office and warehouse rental payable to	(iv)		
– an associated company of CKH		6,937	3,607
– a subsidiary of CKH		10,356	10,356
– minority shareholders of subsidiaries and their subsidiaries		1,920	921
Service fees payable to	(v)		
– a subsidiary of HWL		7,646	5,712
Service fees payable to	(vi)		
– HWL and its subsidiaries		2,403	3,414
– an investee company		–	6,821
– minority shareholders of subsidiaries and their subsidiaries		17,019	6,391
– a company owned by a past non-executive director		–	468
Interest income receivable from loans to	(vii)		
– an investee company		1,886	1,886
– a minority shareholder of a subsidiary		–	677
Interest expenses payable to	22		
– a subsidiary of HWL		5,796	6,145
– a subsidiary of CKH		2,898	3,073
– Cranwood		5,796	6,145



### 34 Related party transactions (continued)

Note:

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

### 35 Subsequent events

On 10 March and 11 March 2004, the shares of TOM Online, previously a wholly-owned subsidiary of the Company, were listed and traded on the National Market of National Automated Systems Dealership and Quotation, United States of America and the Growth Enterprise Market of the Stock Exchange (the "Global Offering"). As a result of the Global Offering, the Company's shareholding in TOM Online, before the exercise of the over-allotment option, has been diluted to 71.87%, which resulted in a gain arising from this deemed disposal (the "Deemed Disposal"). The directors have estimated that the gain arising from the Deemed Disposal amounted to approximately HK\$0.8 billion, which will be included as part of the 2004 first quarter consolidated results of the Group.

### 36 Approval of accounts

The accounts were approved by the board of directors on 17 March 2004.

## Principal Subsidiaries, Jointly Controlled Entities, Associated Companies and Investment Securities

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
tom.com enterprises limited	British Virgin Islands ("BVI"), limited liability company	Holds the domain name of www.tom.com	1 ordinary share of US\$1	100%
TOM.COM INTERNATIONAL LIMITED	Hong Kong, limited liability company	Operates tom.com portal and manages strategic investments of the Group in Hong Kong and Mainland China	10 ordinary shares of HK\$1 each	100%
TOM Holdings Limited	Cayman Islands ("CI"), limited liability company	Issuer of guaranteed convertible bonds	2 ordinary shares of US\$1 each	100%
<b>Internet Group</b>				
Advanced Internet Services Limited	Hong Kong, limited liability company	Investment holding in Mainland China	10,000,000 ordinary shares of US\$0.01 each	100%
Beijing GreaTom United Technology Company Limited, 20% acquired on 31 October 2003	Mainland China, limited liability company	Development of operating platform for broadband Internet value-added services in Mainland China	Registered capital RMB25,000,000	90%

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Internet Group</b>				
@ Beijing Lei Ting Wan Jun Network Technology Limited	Mainland China, limited liability company	Provision of Internet content services and wireless value-added services in Mainland China	Registered capital RMB11,000,000	100%
@ Beijing Leitingwuji Network Technology Limited, acquired on 19 November 2003	Mainland China, limited liability company	Provision of wireless interactive voice response services in Mainland China	Registered capital RMB1,000,000	100%
@ Beijing Redsail Netlegend Data Network Technology Company Limited, 60% acquired on 25 June 2003	Mainland China, limited liability company	Provision of interactive call center services in Mainland China	Registered capital RMB62,800,000	100%
Beijing Super Channel Network Limited	Mainland China, limited liability company	Development of software information system, computer network and website products in Mainland China	Registered capital US\$13,000,000	100%
Cernet Information Technology Company Limited	Mainland China, limited liability company	Provision of system integration and consultancy services in Mainland China	Registered capital RMB60,000,000	51%
* Cernet Online Company Limited	Mainland China, limited liability company	Acts as primary Internet services provider in Mainland China	Registered capital RMB10,000,000	37%

## Principal Subsidiaries, Jointly Controlled Entities, Associated Companies and Investment Securities

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Internet Group</b>				
* ChinaPlus (Beijing) Company Limited	Mainland China, limited liability company	Provision of interactive online marketing services in Mainland China and Taiwan	Registered capital US\$3,500,000	50%
ECLink Electronic Network Systems (Shenzhen) Company Limited	Mainland China, limited liability company	Software, electronics and computer network system development in Mainland China	Registered capital US\$3,000,000	100%
^ Shanghai Maya Online Broadband Network Company Limited	Mainland China, limited liability company	Operates a website and engages in content provision and development in Mainland China	Registered capital RMB50,000,000	50%
# She Communications Limited	Hong Kong, limited liability company	Operates a fashion website in Hong Kong	2 ordinary shares of HK\$10 each	33.3%
@ Shenzhen Freenet Information Technology Company Limited	Mainland China, limited liability company	Operates 163.net and e-mails service provider in Mainland China	Registered capital RMB23,000,000	100%
TOM.COM (China) Investment Limited	Mainland China, limited liability company	Investment holding in Mainland China	Registered capital US\$30,000,000	100%
TOM Online Inc. (formerly known as PC Rock Industry Limited)	CI, limited liability company	Investment holding in Mainland China	4,000,000,000 ordinary shares of HK\$0.01 each	100%

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Outdoor Media Group</b>				
⑩ Beijing TOM International Advertising Limited (formerly known as Beijing Lu Jing Ling Advertising Limited)	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB1,000,000	100%
⑩ Fujian Seeout Guangming Media Advertising Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB5,000,000	70%
⑩ Henan New Tianming Advertising and Information Chuanbo Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB6,000,000	50%
⑩ Kunming Fench Media Co. Ltd.	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB11,000,000	100%
⑩ Kunming Fench Star Information Industry Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB11,000,000	100%
⑩ Liaoning New Star Guangming Media Assets Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB10,000,000	60%
Perfect Team Limited	BVI, limited liability company	Advertising sales in Mainland China	4,000,000 ordinary shares of US\$1 each	65%
⑩ Qingdao Chunyu Advertising Chuanbo Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB1,500,000	70%

## Principal Subsidiaries, Jointly Controlled Entities, Associated Companies and Investment Securities

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Outdoor Media Group</b>				
⑩ Shandong Qilu International Outdoor Media Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB11,000,000	60%
^ Shanghai Maya Cultural Transmission Company Limited	Mainland China, limited liability company	Provision of advertising and marketing services in Mainland China	Registered capital RMB20,000,000	50%
⑩ Shenyang Sano Global Media Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB3,000,000	60%
⑩ Sichuan Southwest Outdoor Media Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB3,000,000	70%
TOM Outdoor Media Group Limited	BVI, limited liability company	Investment holding in Mainland China	1 ordinary share of US\$1	100%
⑩ Xiamen Bomei Lianhe Advertising Company Limited	Mainland China, limited liability company	Advertising sales in Mainland China	Registered capital RMB2,500,000	60%
<b>Publishing Group</b>				
Business Weekly Publishing Inc.	Taiwan, limited liability company	Publishing of magazines in Taiwan	169,120 ordinary shares of NT\$10 each	83.17%
Cité Publishing Holding Limited	BVI, limited liability company	Investment holding in Taiwan	4,999,563 ordinary shares of US\$0.01 each	83.19%
Cité Publishing Limited	Taiwan, limited liability company	Publishing of books in Taiwan	28,171,506 ordinary shares of NT\$10 each	83.17%

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Publishing Group</b>				
Home Media Group Limited	CI, limited liability company	Investment holding in Taiwan	986,922,602 ordinary shares of US\$0.00001 each	83.17%
Nong Nong Magazine Co. Ltd.	Taiwan, limited liability company	Publishing of magazines in Taiwan	2,500,000 ordinary shares of NT\$10 each	66.54%
PC Home Publications Inc.	Taiwan, limited liability company	Publishing of magazines which focus on information technology in Taiwan	18,310,000 ordinary shares of NT\$10 each	83.17%
Sharp Point Publishing Co. Ltd.	Taiwan, limited liability company	Publishing of youth magazines and books in Taiwan	10,296,000 ordinary shares of NT\$10 each	83.17%
TOM(Cup Magazine) Publishing Limited	Hong Kong, limited liability company	Publishing of magazines in Hong Kong	2 ordinary shares of HK\$1 each	100%
Yazhou Zhoukan Limited	Hong Kong, limited liability company	Publishing of regional news magazines in Asia	9,500 ordinary shares of HK\$1 each	50%
<b>Sports Group</b>				
Media Serv Asia Pacific Limited	BVI, limited liability company	Advertising and sponsorship sales in relation to sports events and programmes in Thailand	1 ordinary share of US\$1	60%

## Principal Subsidiaries, Jointly Controlled Entities, Associated Companies and Investment Securities

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Sports Group</b>				
Media Serv Limited	BVI, limited liability company	Advertising and sponsorship sales in relation to sports events and programmes in Hong Kong	200 ordinary shares of US\$1 each	60%
YCP Advertising Limited	Hong Kong, limited liability company	Sports advertising and event management in Mainland China and Hong Kong	10 ordinary shares of HK\$1 each	70%
@ 廣東羊城報業體育發展有限公司 10% acquired on 1 December 2003	Mainland China, limited liability company	Manages sponsorships and marketing of sports events and production of TV sports programmes in Mainland China	Registered capital RMB5,000,000	80%
@ 廣東羊城廣告有限公司 10% acquired on 3 December 2003	Mainland China, limited liability company	Advertising, corporate image design and sale of products in Mainland China	Registered capital RMB5,000,000	80%
<b>Television and Entertainment Group</b>				
China Entertainment Television Broadcast Limited, acquired on 15 September 2003	Hong Kong, limited liability company	Operations of satellite television channels and provision of content and television programme to various platforms including satellite television and syndication network	30,000 ordinary shares of HK\$0.3 each	64.07%



Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particular of issued/registered capital	Effective interest held
<b>Television and Entertainment Group</b>				
TOM Digital Media Center Limited	Hong Kong, limited liability company	Provision of television channel organisation and satellite television transmission services	2 ordinary shares of HK\$1 each	100%
@ 廣州市鴻翔音像製作有限公司	Mainland China, limited liability company	Sales of audio-visual products in Mainland China	Registered capital RMB800,000	50%

\* Jointly controlled entity

# Associated company

@ The equity interest is held by individual nominees on behalf of the Group

^ Investment security

The above table lists the principal subsidiaries, jointly controlled entities, associated companies and investment securities of the Group at 31 December 2003 which, in the opinion of the directors of the Company, principally affect the results and net assets of the Group. To give full details of subsidiaries, jointly controlled entities and associated companies would, in the opinion of the directors of the Company, result in particulars of excessive length.

Except for tom.com enterprises limited, TOM.COM INTERNATIONAL LIMITED, TOM Online Inc. and TOM Outdoor Media Group Limited which are directly held by the Company, the interests in the remaining subsidiaries, jointly controlled entities, associated companies and investment securities are held indirectly.

# Definitions

“Associates”	has the meaning ascribed to it in the GEM Listing Rules
“Beijing Oriental”	means Beijing Oriental Plaza Company Limited
“BSCL”	means Beijing Super Channel Network Limited
“Cranwood”	means Cranwood Company Limited
“CETV”	means China Entertainment Television Broadcast Limited
“CKH”	means Cheung Kong (Holdings) Limited
“GEM”	means the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	means the Rules Governing the Listing of Securities on the GEM
“Greater China”	means Mainland China, Hong Kong, Macau and Taiwan
“HWL”	means Hutchison Whampoa Limited
“LTWJi”	means Beijing Leitingwuji Network Technology Company Limited
“Mainland China”	means The People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Nasdaq”	means Nasdaq National Market
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“TOM” or the “Company”	means TOM Group Limited (formerly known as TOM.COM LIMITED)
“TOM(China)”	means TOM.COM (China) Investment Limited
“TOM Group” or the “Group”	means TOM and its subsidiaries
“TOM International”	means TOM.COM INTERNATIONAL LIMITED
“TOM Online”	means TOM Online Inc.



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