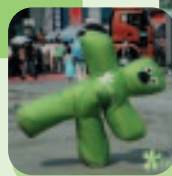




## TOM Online Inc.

(Incorporated in the Cayman Islands with limited liability)

# Tomorrow's Online Media ...Today



# Q3

## CHARACTERISTICS OF GEM

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

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

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

*As at the date this document, the directors of the Company are:*

*Executive Directors:*

*Mr. Wang Lei Lei  
Mr. Jay Chang  
Mr. Peter Schloss  
Ms. Elaine Feng  
Mr. Fan Tai  
Mr. Wu Yun*

*Non-executive Directors:*

*Mr. Frank Sixt (Chairman)  
Mr. Sing Wang (Vice Chairman)  
Ms. Tommei Tong*

*Alternate Director:*

*Mrs. Susan Chow (Alternate to Mr. Frank Sixt)*

*Independent non-executive Directors:*

*Mr. Gordon Kwong  
Mr. Ma Wei Hua  
Dr. Lo Ka Shui*

## FORWARD-LOOKING STATEMENTS

This document contains statements that may be viewed as “forward-looking statements” within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Such forward-looking statements are, by their nature, subject to significant risks and uncertainties that may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Such forward-looking statements include, without limitation, statements that are not historical fact relating to the financial performance and business operations of the Company in mainland China and in other markets, the continued growth of the telecommunications industry in China and in other markets, the development of the regulatory environment and the Company’s latest product offerings, and the Company’s ability to successfully execute its business strategies and plans.

Such forward-looking statements reflect the current views of the Company with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in our relationships with telecommunication operators in China and elsewhere, the effect of competition on the demand for the price of our services, changes in customer demand and usage preference for our products and services, changes in the regulatory policies by relevant government authorities, any changes in telecommunications and related technology and applications based on such technology, and changes in political, economic, legal and social conditions in China, India and other countries where the Company conducts business operations, including, without limitation, the Chinese government’s policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China’s telecommunications market. Please also see “Item 3 – Key Information – Risk Factors” section of the Company’s annual report on Form 20-F (File No. 000-50631) as filed with the United States Securities and Exchange Commission.

## DEFINITIONS

“ADSs”	American Depositary Shares issued by Citibank N.A., each representing ownership of 80 ordinary shares of the Company, which are quoted on NASDAQ
“Associates”	the same definition as described under the GEM Listing Rules
“Beijing Lei Ting”	Beijing Lei Ting Wan Jun Network Technology Limited
“China Mobile”	China Mobile Communications Corporation
“China Unicom”	China United Telecommunications Corporation
“Citigroup”	Citigroup Global Markets Asia Limited
“CKH”	Cheung Kong (Holdings) Limited
“Company”, “our Company”, “we”, “our” and “TOM Online”	TOM Online Inc.
“Cranwood”	Cranwood Company Limited
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK GAAP”	the generally accepted accounting principles in Hong Kong
“HWL”	Hutchison Whampoa Limited
“Indiagames”	Indiagames Limited
“LTWJi”	Beijing Lei Ting Wu Ji Network Technology Company Limited
“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited
“PRC” or “China”	the People’s Republic of China
“Pre-IPO Share Option Plan”	the Pre-IPO Share Option Plan adopted by the Company on February 12, 2004
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share Option Scheme”	the share option scheme adopted by the Company on February 12, 2004
“Skype”	Skype Technologies, S.A.

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TOM Group”	TOM Group Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“US GAAP”	the generally accepted accounting principles in the United States of America

## CHAIRMAN'S STATEMENT

I am pleased to announce the unaudited results of TOM Online Inc. (the “Company” or “TOM Online”) and its subsidiaries (collectively referred to as the “Group”) for the third quarter ended September 30, 2005.

### Financial Highlights

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During the quarter, the Company achieved record level of revenues and net income.

For the third quarter of 2005:

- Total revenues were US\$45.94 million (“mn”), an increase of 46.3% from the same period last year and up 7.4% from the last quarter.
- Wireless Internet revenues were US\$43.16 mn, representing a 52.7% increase over the same period last year and a 6.1% increase over the previous quarter. Wireless Internet revenues made up 93.9% of our total quarterly revenues.
- Net Income was US\$12.88 mn, an increase of 76.9% from the same period last year and up 25.8% from the last quarter.
- Fully diluted earnings per American Depository Share (“ADS”) were US\$24.5 cents or US\$0.31 cents per common share.
- Our balance of cash, short-term bank deposits and marketable securities was approximately US\$126.07 mn at the end of the third quarter 2005.

## 3rd Quarter 2005 – Financial Performance Review

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The Company's unaudited consolidated revenues for the three months ended September 30, 2005 were US\$45.94 mn, an increase of 46.3% over the same period in 2004 and an increase of 7.4% quarter on quarter ("QoQ").

Wireless Internet revenues were US\$43.16 mn, representing a 52.7% increase over the same period last year and a 6.1% increase over the previous quarter. Wireless Internet revenues made up 93.9% of our total quarterly revenues.

Online advertising revenues were US\$2.59 mn, representing a 41.0% increase QoQ, and up 7.2% year on year ("YoY"), as our newly focused online advertising sales activities have begun to show results.

Gross profit was US\$20.25 mn, representing an increase of 49.7% over the same period last year and a 13.9% increase QoQ. Gross margins improved markedly to 44.1%, from 41.6% in the previous quarter. Although this improvement in gross margins was helped somewhat by sequential growth in our online advertising business, the majority of this was due to a US\$1.26 mn gross profit benefit as we had under estimated revenue confirmation rates from China Mobile, primarily in our SMS business, in prior periods. This under estimation occurred as we expected revenue confirmation rates to have stayed low as China Mobile continues to transition its mobile data billing systems from a centralized model to individual provincial locations. However instead, confirmation rates continued to improve, exceeding our expectations and well above historical levels. Whilst we have recognized under accrued revenues in prior periods, the magnitude in 3Q05 was the most significant. We have since adjusted our revenue confirmation rate estimates to reflect higher levels going forward, based on these new trends. Excluding this US\$1.26 mn gross profit benefit, our gross margins would have been around 43.1%.

Operating income was US\$11.49 mn, up 83.1% from the same period last year and 23.1% from the last quarter. Operating margins also improved to 25.0% in the third quarter compared to 21.8% from the last quarter as our operating expenses were basically flat QoQ and as our business scales.

For the third quarter, net interest income was US\$0.27 mn, down from previous levels due to an increase in interest expenses.



On July 21, 2005, the People's Bank of China announced a 2.1% revaluation of the RMB to US\$ (or from roughly a RMB8.28 exchange rate to roughly RMB8.11 per US\$), and a new system to set the value of the RMB against an unspecified basket of currencies. As our functional currency is RMB, we recorded a non-operating gain of US\$1.13 mn due to the appreciation of the RMB relative to our net non-RMB liabilities at the period end.

In the third quarter, we also recognized a net US\$0.11 mn in income tax credit. This was primarily due to the recording of a tax benefit in our Indiagames subsidiary related to prior period income tax over provisions.

3Q EBITDA ("Earnings before Interest, Taxes, Depreciation and Amortization") were US\$13.5 mn, an increase of 47.4% YoY and 19.7% QoQ. EBITDA margins were 29.4% for the third quarter up from 26.4% from the last quarter.

Net Income was US\$12.88 mn, an increase of 76.9% YoY and 25.8% QoQ. Net Income margins improved sequentially to 28% in the third quarter, up from 23.9% in the previous quarter.

US GAAP basic earnings per ADS were US\$24.5 cents for the quarter. US GAAP basic earnings per Hong Kong ordinary share were US\$0.31 cents for the quarter. Shares used in computing US GAAP basic earnings per ADS were 52.51 mn and shares used in computing US GAAP basic earnings per Hong Kong ordinary share were 4,200 mn.

US GAAP diluted earnings per ADS were US\$24.5 cents for the quarter. US GAAP diluted earnings per Hong Kong ordinary share were US\$0.31 cents for the quarter. Shares used in computing US GAAP diluted earnings per ADS were 52.54 mn shares and shares used in computing US GAAP diluted earnings per Hong Kong ordinary share were 4,203 mn.

Our balance of cash, short-term bank deposits and marketable securities was approximately US\$126.07 mn at the end of the third quarter 2005.

## Business Review

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### *Wireless Internet Services*

Total wireless Internet service revenues were US\$43.16 mn for the third quarter of 2005, an increase of 52.7% from the same period last year and a 6.1% increase QoQ. Wireless Internet revenues accounted for 93.9% of our total revenues in the third quarter.

During the quarter, we continued to develop our leadership in the mainland Chinese wireless Internet market and took initial steps to develop new business opportunities. Key activities in the quarter included:

- (a) During the quarter, we continued to develop our alliances with media partners in TV, radio and print to more effectively market our core wireless platform services such as 2.5G services and IVR.
- (b) In addition, we launched our “Wanleba” Internet music brand, where we leverage our portal to allow singers/songwriters to take advantage of our strong mobile distribution channels, helping to create a new music value chain based around the mobile phone.
- (c) Skype Joint Venture (“JV”) — On September 5, 2005, we announced that we had established a joint venture with Skype to develop next-generation communication services in the mainland China market together.
- (d) UMPAY Partnership (Mobile Payments) — On September 13, 2005, we announced that we will be the wireless and online payment portal company partner of UMPAY (whose shareholders include China Mobile and China UnionPay) and will work with UMPAY to offer more comprehensive mobile payment products to Chinese consumers and merchants.

## **SMS services**

SMS (“Short Messaging Service”) revenues in 3Q05 were US\$17.62 mn, up 14.3% QoQ and an increase of 25.7% from the same period last year. SMS revenues made up 40.8% of our total wireless Internet revenues for the quarter. Previously, we were cautious that factors for 2Q05’s strong performance were seasonal and might not be repeated in 3Q05. However, during the quarter, not only were our SMS revenues positively impacted by a continued improvement in confirmation rates due to a more stable MISC platform, but new user growth and take-up for our music related SMS services (such as our “Music Unlimited” SMS service) through TV and print channels contributed to continued solid sequential growth.

## **2.5G services**

MMS (“Multimedia Messaging Service”) revenues for 3Q05 were US\$3.08 mn, up 17.4% QoQ, but down 9.6% YoY. MMS revenues made up 7% of our total wireless Internet revenues in the quarter. We believe our MMS services have potential to continue their rebound due to the MISC platform migration earlier this year. However as discussed before, we continue to believe that MMS is a transitory product category and do not expect MMS to be a key business driver to our overall business in coming years.

WAP (“Wireless Application Protocol”) revenues for 3Q05 were US\$8.36 mn, up 7.1% QoQ and 77% YoY. WAP revenues made up 19.4% of our total wireless Internet revenues in the quarter. Although we continue to face headwinds in our WAP business due to the ongoing clean up of “silent users” as per mobile operator policy, we still managed reasonable QoQ growth. This was due to increased co-marketing activities with mobile operators who remain interested to promote WAP services and WAP penetration (or more importantly “browser-based” mobile Internet services) to Chinese consumers prior to 3G.

## ***Voice services***

IVR (“Interactive Voice Response”) revenues in 3Q05 were US\$10.51 mn, up 1.9% QoQ, and up 93.1% YoY. IVR revenues made up 24.4% of our total wireless Internet revenues in the quarter. During the quarter, we continued to develop our relationships with TV and radio partners to promote not only our music-related IVR services, but by leveraging the functionality of our IVR platform with TV partners, enable interactive programming. We believe these deepened relationships and new products have potential to grow IVR revenues in the near-term from current levels.

CRBT (“Colour Ringback Tones”) revenues in 3Q05 were US\$2.32 mn, down 28.7% QoQ. We did not have meaningful CRBT revenues in the same period last year to do a YoY comparison. CRBT revenues made up 5.4% of our total wireless Internet revenues in the quarter. We earn revenue on a per song basis which is periodically purchased by users whilst the mobile operators receive all CRBT service subscription fees. Our CRBT revenues declined QoQ as we partnered more closely during the third quarter with the mobile operators to offer free CRBT to mobile phone users in a bid to further promote and increase the popularity of CRBT services. This impacted our paid CRBT services, but we believe our close partnership with the mobile operators will stimulate market growth as well as help promote other wireless services we offer.

## ***Other wireless Internet services***

In 3Q, other wireless Internet services revenues were US\$1.26 mn, primarily consisting of revenues from Indiagames. This represented QoQ growth of 0.6%. We do not have a YoY comparison as we only consolidated Indiagames’s revenues beginning in 1Q05. Indiagames QoQ performance was stable, due to that in its home market India, Indiagames’s largest mobile operator partner transitioned to a new mobile data billing platform negatively impacting this portion of Indiagames’s business. However this was offset by growth from other Indian mobile carriers and the USA and European markets. Indiagames continued to be a positive contributor to our overall net profits and we remain optimistic on the outlook for their mobile game development capabilities to contribute to our business in China.

## ***Portal and Online advertising***

Online advertising revenues were US\$2.59 mn in 3Q05, up 41.0% QoQ and up 7.2% YoY. As discussed previously, we recently took steps in the quarter to focus our sales and content activities on our core portal channels (e.g. sports, entertainment, music, etc.) with good preliminary results.

More importantly, with the launch of our “Wanleba” music channel/brand, we believe we continue to differentiate ourselves from many of our pure play wireless service provider competitors by providing user’s with a self-generated content publishing platform, that provides these users (singers/songwriters) access to our industry leading wireless distribution channels. Moreover as handset functionality improves, we intend to further develop our portal platforms to enable more user generated content services, including music, literature and video, which can be distributed to our large wireless Internet user base.

## **New Business Opportunities**

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### ***Skype JV***

On September 5, 2005, we announced that we had established a joint venture with Skype to develop next-generation communication services in the mainland China market. The initial stages of our JV will be to focus on the development of a more localized TOM-Skype client for the mainland market and to grow our user base. At the end of October 2005, we had over 5.2 mn registered TOM-Skype users, up from the 3.4 mn registered users we had at the time we announced the JV. In the coming quarters, we also hope to begin to develop premium services over the TOM-Skype platform.

## ***UMPAY alliance***

On September 13, 2005, we announced that we will be the wireless and online payment portal partner of UMPAY (whose shareholders include China Mobile and China UnionPay) and work with UMPAY to offer more comprehensive mobile payment products to Chinese consumers and merchants. We believe that this alliance is an important milestone for our Company as China's leading wireless Internet Company to provide not only mobile content, but mobile functions, namely payment services, to our end users. Whilst we do not foresee any meaningful revenues from this alliance in the near-term, we believe this is a significant new business opportunity for us, as we seek to link the more than 800.0 mn bank cards in circulation to the over 350.0 mn mobile phone users, to facilitate a more convenient method of payment in China.

## **Business Outlook**

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With a stabilized environment for the Company's wireless Internet business and continued enhancement of its online services, I believe the Company's prospects for the remainder of the year continue to be attractive and I expect continued growth in both revenues and net income on an annual basis.

I would like to thank the Board of Directors and all of the Company's employees for their hard work, support and dedication.

**Frank Sixt**  
*Chairman*

Hong Kong, November 10, 2005

## UNAUDITED CONSOLIDATED BALANCE SHEETS

	Audited December 31, 2004	Unaudited September 30, 2005
<i>Note</i>		
	<i>(in thousands of U.S. dollars)</i>	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	79,320	85,943
Short-term bank deposits	—	1,429
Accounts receivables, net	26,369	32,916
Restricted cash	—	300
Prepayments	4,116	5,776
Deposits and other receivables	2,343	2,392
Due from related parties	7 159	2,663
Inventories	113	63
	<hr/>	<hr/>
<b>Total current assets</b>	112,420	131,482
Available-for-sale securities	116,471	38,698
Restricted securities	—	59,503
Investment under cost method	1,494	1,494
Long-term prepayment and deposit	240	54
Property and equipment, net	11,927	13,832
Deferred tax assets	348	357
Goodwill, net	158,494	168,063
Intangibles, net	1,707	1,623
	<hr/>	<hr/>
<b>Total assets</b>	<u>403,101</u>	<u>415,106</u>

## UNAUDITED CONSOLIDATED BALANCE SHEETS *(continued)*

	Audited December 31, 2004	Unaudited September 30, 2005
<i>Note</i>		
	<i>(in thousands of U.S. dollars)</i>	
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	2,778	4,910
Other payables and accruals	10,834	16,987
Income tax payable	543	676
Deferred revenue	122	71
Consideration payable	133,613	-
Due to related parties	20,331	19,544
	<hr/>	<hr/>
<b>Total current liabilities</b>	168,221	42,188
Bank loan	5	-
	<hr/>	<hr/>
	-	56,653
	<hr/>	<hr/>
<b>Total liabilities</b>	168,221	98,841
Minority interests	456	2,944
	<hr/>	<hr/>
	168,677	101,785
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity:</b>		
Share capital	4,995	5,392
Paid-in capital	260,867	309,016
Statutory reserves	9,452	9,452
Accumulated other comprehensive losses	(670)	(2,605)
Accumulated deficit	(40,220)	(7,934)
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	234,424	313,321
	<hr/>	<hr/>
<b>Total liabilities, minority interests and shareholders' equity</b>	403,101	415,106
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these consolidated financial statements.



## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2005	2004	2005
	<i>(in thousands of U.S. dollars, except number of shares and per share amounts)</i>			
<b>Revenues:</b>				
Wireless Internet	28,262	<b>43,158</b>	80,932	<b>117,264</b>
Advertising	2,417	<b>2,590</b>	5,551	<b>6,012</b>
Commercial enterprise solutions	719	<b>193</b>	1,684	<b>723</b>
Internet access	—	—	68	—
Total revenues	31,398	<b>45,941</b>	88,235	<b>123,999</b>
<b>Cost of revenues:</b>				
Cost of services	(17,420)	<b>(25,689)</b>	(45,088)	<b>(72,069)</b>
Cost of goods sold	(446)	—	(510)	—
Total cost of revenues	(17,866)	<b>(25,689)</b>	(45,598)	<b>(72,069)</b>
<b>Gross profit</b>	<b>13,532</b>	<b>20,252</b>	<b>42,637</b>	<b>51,930</b>
<b>Operating expenses:</b>				
Selling and marketing expenses	(1,863)	<b>(1,762)</b>	(5,379)	<b>(4,947)</b>
General and administrative expenses	(3,428)	<b>(6,361)</b>	(8,280)	<b>(16,286)</b>
Product development expenses	(219)	<b>(428)</b>	(632)	<b>(1,044)</b>
Amortization of intangibles	(1,746)	<b>(208)</b>	(4,376)	<b>(767)</b>
Total operating expenses	(7,256)	<b>(8,759)</b>	(18,667)	<b>(23,044)</b>

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS *(continued)*

		Three months ended September 30,		Nine months ended September 30,	
	Note	2004	2005	2004	2005
<i>(in thousands of U.S. dollars, except number of shares and per share amounts)</i>					
<b>Income from operations</b>		6,276	<b>11,493</b>	23,970	<b>28,886</b>
Other income/(loss):					
Net interest income		1,044	274	1,956	2,089
Exchange gain	6	–	1,132	–	1,132
Gain on disposal of available-for-sale securities		–	–	–	450
Loss on issue of shares by a subsidiary		–	–	–	(69)
		7,320	<b>12,899</b>	25,926	<b>32,488</b>
Income before tax		7,320	<b>12,899</b>	25,926	<b>32,488</b>
Income tax benefit/(expenses)	2	55	<b>106</b>	48	(6)
		7,375	<b>13,005</b>	25,974	<b>32,482</b>
Income after tax		7,375	<b>13,005</b>	25,974	<b>32,482</b>
Minority interests		(92)	(123)	(266)	(196)
		7,283	<b>12,882</b>	25,708	<b>32,286</b>
<b>Net income attributable to shareholders</b>		7,283	<b>12,882</b>	25,708	<b>32,286</b>
<b>Earnings per ordinary share</b>					
– basic (cents):	3	0.19	<b>0.31</b>	0.73	<b>0.79</b>
<b>Earnings per ordinary share</b>					
– diluted (cents):	3	N/A	<b>0.31</b>	N/A	<b>0.79</b>
<b>Earnings per ADS</b>					
– basic (cents):	3	15.3	<b>24.5</b>	58.0	<b>63.4</b>
<b>Earnings per ADS</b>					
– diluted (cents):	3	N/A	<b>24.5</b>	N/A	<b>63.4</b>
<b>Weighted average number of shares used in computing Earnings Per Share:</b>					
Ordinary shares, basic	3	3,800,000,000	4,200,439,916	3,544,525,547	4,073,373,960
Ordinary shares, diluted	3	N/A	4,203,069,703	N/A	4,074,260,188
American Depositary Shares, basic	3	47,500,000	52,505,499	44,306,569	50,917,174
American Depositary Shares, diluted	3	N/A	52,538,371	N/A	50,928,252

The accompanying notes are an integral part of these consolidated financial statements.

## UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of shares	Share capital	Paid-in capital	Statutory reserves	Accumulated other comprehensive losses	Accumulated deficit	Total shareholders' equity
<i>(in thousands of U.S. dollars, except number of shares)</i>							
Balance as of							
January 1, 2004	2,800,000,000	3,590	75,551	1,552	(55)	(66,228)	14,410
Issuance of shares pursuant to							
Initial Public Offering	1,000,000,000	1,282	192,528	-	-	-	193,810
Share issuing expenses	-	-	(26,018)	-	-	-	(26,018)
Appropriation to statutory reserves	-	-	-	7,900	-	(7,900)	-
Unrealized loss on securities	-	-	-	-	(200)	-	(200)
Net income for the period	-	-	-	-	-	25,708	25,708
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance as of							
September 30, 2004	<u>3,800,000,000</u>	<u>4,872</u>	<u>242,061</u>	<u>9,452</u>	<u>(255)</u>	<u>(48,420)</u>	<u>207,710</u>
Balance as of							
January 1, 2005	3,896,200,000	4,995	260,867	9,452	(670)	(40,220)	234,424
Issue of earn-out shares	304,155,503	390	47,158	-	-	-	47,548
Issue of shares on exercise of options	5,190,000	7	991	-	-	-	998
Unrealized loss on securities	-	-	-	-	(2,436)	-	(2,436)
Exchange gain <i>(note 6)</i>	-	-	-	-	501	-	501
Net income for the period	-	-	-	-	-	32,286	32,286
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance as of							
September 30, 2005	<u>4,205,545,503</u>	<u>5,392</u>	<u>309,016</u>	<u>9,452</u>	<u>(2,605)</u>	<u>(7,934)</u>	<u>313,321</u>

The accompanying notes are an integral part of these consolidated financial statements.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended  
September 30,

2004 2005

(in thousands of U.S. dollars)

### Cash flow from operating activities:

Net income	25,708	32,286
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### Adjustments to reconcile net income to net cash provided by operating activities:

Amortization of intangibles	4,376	767
Amortization of investments' premium	190	290
Allowance for doubtful accounts	450	666
Depreciation	3,044	5,111
Deferred income tax	(55)	—
Minority interests	266	196
Exchange gain, net	—	(1,081)
Loss on disposal of property and equipment	—	81
Gain on disposal of available-for-sale securities	—	(450)
Loss on issue of shares by a subsidiary	—	69

### Change in assets and liabilities, net of effects from acquisitions:

Accounts receivable	(10,603)	(4,701)
Prepayments	(3,861)	(869)
Deposits and other receivables	(216)	(74)
Due from related parties	(52)	(43)
Inventories	(217)	51
Long-term prepayment and deposits	63	—
Accounts payable	(2)	1,563
Other payables and accruals	983	6,074
Income tax payable	(3)	(303)
Deferred revenue	(253)	(51)
Due to related parties	(10)	(764)

Net cash provided by operating activities	19,808	38,818
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## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(continued)*

	<b>Nine months ended</b> <b>September 30,</b> 2004 <span style="float: right;">2005</span>	
	<i>(in thousands of U.S. dollars)</i>	
<b>Cash flow from investing activities:</b>		
Payments for purchase of property and equipment	(6,773)	<b>(6,449)</b>
Cash paid for short-term bank deposits	-	<b>(1,449)</b>
Cash paid for entrusted loan provided to a related party	-	<b>(2,461)</b>
Payment for purchase of intangibles	(1,663)	-
Investment in bonds	(118,883)	-
Long-term investment	(1,495)	-
Cash received on disposal of available-for-sale securities	-	<b>16,392</b>
Payments for acquisitions	(12,196)	<b>(99,937)</b>
	<hr/>	<hr/>
Net cash used in investing activities	(141,010)	<b>(93,904)</b>
<b>Cash flow from financing activities:</b>		
Issue of ordinary shares, net of issuing expenses	168,762	-
IPO share issuing expenses	-	<b>(803)</b>
Cash received from issue of shares by a subsidiary, net of issuing expenses	-	<b>3,985</b>
Bank loan, net of handling charges	-	<b>56,539</b>
Cash received from the exercise of share options	-	<b>998</b>
	<hr/>	<hr/>
Net cash provided by financing activities	168,762	<b>60,719</b>
<b>Net increase in cash and cash equivalents</b>	<b>47,560</b>	<b>5,633</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>22,636</b>	<b>79,320</b>
Foreign currency translation	-	<b>990</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents, end of period</b>	<b>70,196</b>	<b>85,943</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Supplemental disclosures of cash flow information</b>		
Cash (paid)/received during the period:		
Cash paid for income taxes	(3)	<b>(154)</b>
Interest received	2,526	<b>3,681</b>
Non-cash activities:		
Property and equipment transferred from TOM Group	7	-
Outstanding payment for listing expenses	970	-

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. **Basis of preparation and accounting policies**

TOM Online Inc. (the “Company” or “TOM Online”) and its subsidiaries are collectively referred to as the “Group”.

The accompanying unaudited consolidated financial statements have been prepared in accordance with US GAAP. A reconciliation summary of the principal differences between US GAAP and HK GAAP is presented under note 9.

The accounting policies and methods of computation used in the preparation of these consolidated financial statements are consistent with those used in the annual report for the year ended December 31, 2004.

### 2. **Taxation**

Under the current laws of the Cayman Islands, the Company is not subject to income taxes.

Pursuant to the PRC Income Tax Laws, the Group is generally subject to enterprise income tax (“EIT”) at a statutory rate of 33% and companies located within special economic zones are entitled to a 15% preferential rate. Certain companies were also granted a full exemption from EIT for the first three years of operation including the year of incorporation and a 50% reduction for the following three years.

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit in Hong Kong for the nine months ended September 30, 2005 (2004: Nil).

Taxes on income assessable in India have been calculated at the rates of tax prevailing in that country in which the Group operates its subsidiary, Indiagames, based on existing legislation, interpretations and practices in respect thereof.

### 3. Earnings per share

#### (a) *Basic earnings per share*

The calculation of basic earnings per share for the three months and nine months ended September 30, 2005, is based on:

- the respective unaudited consolidated net income attributable to shareholders of US\$12,882,000 and US\$32,286,000 (2004: US\$7,283,000 and US\$25,708,000);
- the weighted average number of 4,200,439,916 and 4,073,373,960 (2004: 3,800,000,000 and 3,544,525,547) ordinary shares outstanding during the periods; and
- 52,505,499 and 50,917,174 (2004: 47,500,000 and 44,306,569) American Depository Shares (ADS) outstanding during the periods.

#### (b) *Diluted earnings per share*

The calculation of diluted earnings per share for the three months and nine months ended September 30, 2005, is based on:

- the same net income data in 3 (a);
- the weighted average number of 4,203,069,703 and 4,074,260,188 (2004: N/A and N/A) ordinary shares, after adjusting for the effects of all dilutive potential shares during the periods; and
- 52,538,371 and 50,928,252 (2004: N/A and N/A) ADS outstanding during the periods.

At the end of September 2005, stock options were exercised by certain employees, as a result of which the Company issued new ordinary shares totaling 5,190,000 at an exercise price of HK\$1.50. The newly issued shares were included in the computation of basic earnings per share for the three months and nine months ended September 30, 2005, in the proportion of the period they became outstanding.

### 4. Dividends

There were no dividends declared, made or paid by the Group for the nine months ended September 30, 2005 (2004: Nil).

### 5. Bank loan

In April 2005, the Group secured a 4-year bank loan facility with the Bank of China (Hong Kong) Limited amounting to US\$57,000,000 bearing interest rate at 3 months LIBOR + 0.23%. Debt securities with total face value of US\$60,000,000 were pledged as collateral for the total value of the loan. On April 29, 2005, the Group drew down US\$35,000,000 to fund the payment of acquisitions. On July 28, 2005, the Company drew down the balance of the loan from the Bank of China amounting to US\$22,000,000.

## **6. RMB appreciation**

On July 21, 2005, the People's Bank of China announced a 2.1% revaluation of the RMB to US\$ (or from roughly a RMB8.28 exchange rate to roughly RMB8.11 per US\$), and a new system to set the value of the RMB against an unspecified basket of currencies. Our functional currency is RMB and a gain of US\$1,132,000 was recorded in the consolidated statements of operations due to the appreciation of RMB. This exchange gain was associated with our net non-RMB liability at the period end. Our available-for-sale investments are excluded from the quantification for the exchange difference to be captured in the consolidated statements of operations, due to the Group's accounting policy required the change in fair value of the available for sale investments (including the exchange difference) to be recorded in other comprehensive gain/loss account in the equity directly. While our reporting currency is the US\$, we recorded an exchange gain of approximately US\$501,000 separately in "Other comprehensive losses" upon the translation of our financial statements in our functional currency, RMB, into our reporting currency, US\$.

## **7. Entrusted loan**

On September 2, 2005, the Company through its variable interest entity, Beijing Lei Ting made a secured loan (by way of an entrusted loan) in the sum of US\$2,461,000 to Huayi Brothers Advertising Limited (a company in which TOM Group has a 27% interest). The loan bears interest at 7% per annum and matures on September 1, 2006. The loan is included in the amount due from related parties in the consolidated balance sheets.

## **8. Sanction by China Unicom**

In late July 2005, China Unicom notified several major Service Providers ("SPs"), including Beijing Lei Ting, of a temporary suspension of the settlement of service fees, because of complaints it received from mobile phone users pertaining to services rendered during the period from January 2005 to June 2005. According to the notice received by Beijing Lei Ting on July 28, 2005, China Unicom received complaints from users regarding the provisions of SMS, which may be in breach of certain conditions of the agreement with the mobile operator. At the time of this notice, the amount of receivable from China Unicom for the period from May 2005 to June 2005 was US\$2,407,000. In September 2005, in the course of China Unicom's investigation, Beijing Lei Ting received two sanction notices from China Unicom with a fine of US\$209,000. After payment of this fine, China Unicom has resumed payment of service fees to us. We do not expect any further fines or sanctions from this issue and we would continue to strengthen internal control on our wireless Internet services.



## 9. Summary of principal difference between US GAAP and HK GAAP

	Three months ended		Nine months ended	
	September 30, 2004	2005	September 30, 2004	2005
	<i>(in thousands of U.S. dollars)</i>			
<b>Net income attributable to shareholders under US GAAP</b>	7,283	12,882	25,708	32,286
Reconciliation adjustments, net of tax:				
Reversal of amortization of intangibles which were recognized as goodwill under HK GAAP	1,615	-	4,135	-
Stock compensation cost recognized under HK GAAP *	(1,802)	(1,194)	(4,552)	(3,813)
<b>Net income attributable to shareholders under HK GAAP</b>	<u>7,096</u>	<u>11,688</u>	<u>25,291</u>	<u>28,473</u>

\* Since January 1, 2005, the Group has adopted the Hong Kong Financial Reporting Standard 2 "Share-based Payment" ("HKFRS2"), which requires an entity to recognize share-based payment transactions in its financial statements, including transactions with its employees or other parties to be settled in cash, other assets, or equity instruments of the entity, with compensation expense for share options granted recognized at the date of grant and amortized over the vesting period. This new standard has been retrospectively applied and the comparative figures have been restated accordingly.

	December 31, 2004	September 30, 2005
	<i>(in thousands of U.S. dollars)</i>	
<b>Total assets under US GAAP</b>	403,101	415,106
Reconciliation adjustments, net of tax:		
- Reversal of amortization of intangibles	5,040	5,040
<b>Total assets under HK GAAP</b>	<u>408,141</u>	<u>420,146</u>

	December 31, 2004	September 30, 2005
	<i>(in thousands of U.S. dollars)</i>	
<b>Net assets under US GAAP</b>	234,424	313,321
Reconciliation adjustments, net of tax:		
- Reversal of amortization of intangibles	5,040	5,040
<b>Net assets under HK GAAP</b>	<u>239,464</u>	<u>318,361</u>

## MANAGEMENT GUIDANCE FOR THE FOURTH QUARTER OF 2005

The Company's management estimates that its total revenues for the fourth quarter will be between US\$46.75 mn and US\$47.75 mn.

## RECONCILIATION FROM US GAAP INCOME FROM OPERATIONS TO EBITDA

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2005	2004	2005
	<i>(in thousands of U.S. dollars)</i>			
Income from operations	6,276	<b>11,493</b>	23,970	<b>28,886</b>
Add back: Depreciation	1,139	<b>1,801</b>	3,044	<b>5,111</b>
Amortization	1,746	<b>208</b>	4,376	<b>767</b>
<b>EBITDA</b>	<u>9,161</u>	<u><b>13,502</b></u>	<u>31,390</u>	<u><b>34,764</b></u>

## NON-GAAP FINANCIAL MEASURES

To supplement the financial measures prepared in accordance with US GAAP, the Company uses non-GAAP financial measures for EBITDA, which is adjusted from results based on US GAAP, to exclude certain non-recurring adjustments, in analyzing its financial results. These non-GAAP measures are provided to enhance the user's overall understanding of the Company's current financial performance and its prospects for the future. Specifically, the Company believes the non-GAAP results provide useful information to both management and investors by excluding certain adjustments that did not or are not in the future expected to result in cash payments. In particular, the adjusted presentation may be useful for investors to assess the impact of recent and future acquisitions.

Although the Company has historically reported US GAAP results to investors, the Company believes the inclusion of non-GAAP financial measures provides further clarity in its financial reporting. These non-GAAP financial measures may be different from non-GAAP financial measures used by other companies, and should be considered in addition to results prepared in accordance with US GAAP, but should not be considered a substitute for or superior to US GAAP measures.

The non-GAAP financial measure included in this report has been reconciled to the nearest US GAAP measure.

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

As at September 30, 2005, the interests or short positions of the Directors 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 the Code of Conduct regarding Securities Transactions by Directors adopted by the Company ("Code of Conduct"), to be notified to the Company and the Stock Exchange, were as follows:

### A. The Company

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

Name of Directors	Capacity	Number of shares of the Company					Approximate percentage of shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	
Sing Wang <i>(Note)</i>	Interest of a controlled corporation	-	-	83,142	-	83,142	0.002%
Wang Lei Lei	Beneficial owner	5,000,000	-	-	-	5,000,000	0.119%
Lo Ka Shui	Founder of a discretionary trust	-	-	-	4,700,000	4,700,000	0.112%

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

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

Pursuant to the Pre-IPO Share Option Plan and/or Share Option Scheme, certain Directors were granted share options to subscribe for the shares of the Company, details of which as at September 30, 2005 were as follows:

Name of Directors	Date of grant	Number of share options outstanding as at September 30, 2005	Option period	Subscription price per share of the Company
				<i>HK\$</i>
Wang Lei Lei	16/2/2004	165,000,000	16/2/2004-15/2/2014	1.50
Jay Chang	11/5/2005	18,000,000	11/5/2005-10/5/2015	1.204
Peter Schloss	16/2/2004	10,000,000	16/2/2004-15/2/2014	1.50
Elaine Feng	16/2/2004	10,000,000	16/2/2004-15/2/2014	1.50
Fan Tai ( <i>Note</i> )	16/2/2004	8,718,000	16/2/2004-15/2/2014	1.50
Wu Yun	16/2/2004	7,500,000	16/2/2004-15/2/2014	1.50

*Note:* During the period, Mr. Fan Tai has exercised 1,282,000 share options.

Save as disclosed above, during the nine months ended September 30, 2005, none of the Directors or their Associates was granted options to subscribe for shares of the Company, nor had exercised such rights.

## B. Associated corporations (within the meaning of the SFO)

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

Name of Directors	Capacity	Number of shares of TOM Group				Total	Approximate percentage of shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Sing Wang	Beneficial owner	10,000,000	-	-	-	10,000,000	0.26%
	Interest of a controlled corporation (Note 1)	-	-	5,898,000 (Note 2)	-	5,898,000	0.15%
Wang Lei Lei	Beneficial owner	300,000	-	-	-	300,000	0.01%

*Notes:*

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

**(b) Rights to acquire shares of TOM Group**

Pursuant to the pre-IPO share option plan and/or the share option scheme of TOM Group, certain Directors were granted share options to subscribe for the shares of TOM Group, details of which as at September 30, 2005 were as follows:

Name of Directors	Date of grant	Number of share options outstanding as at September 30, 2005	Option period	Subscription price per share of TOM Group
				<i>HK\$</i>
Sing Wang	30/6/2000	3,000,000	30/6/2000-29/6/2010	5.27
	8/8/2000	2,138,000	8/8/2000-7/8/2010	5.30
	7/2/2002	20,000,000	7/2/2002-6/2/2012	3.76
	9/10/2003	38,000,000	9/10/2003-8/10/2013	2.505
Wang Lei Lei	11/2/2000	9,080,000	11/2/2000-10/2/2010	1.78
	9/10/2003	6,850,000	9/10/2003-8/10/2013	2.505
Wu Yun	9/10/2003	200,000	9/10/2003-8/10/2013	2.505
Tommei Tong	9/10/2003	15,000,000	9/10/2003-8/10/2013	2.505

**(c) Short positions in associated corporations**

Mr. Wang Lei Lei has as of June 12, 2001 (as supplemented on September 26, 2003) granted an option to a wholly-owned subsidiary of the Company in respect of his 20% (RMB4,000,000) equity interest in Beijing Lei Ting whereby such wholly-owned subsidiary of the Company has the right at any time within a period of 10 years commencing from September 26, 2003 (which may be extended for another 10 years at the option of such wholly-owned subsidiary of the Company) to acquire all of Mr. Wang Lei Lei's equity interest in Beijing Lei Ting at an exercise price of RMB4,000,000.

Mr. Fan Tai has also as of December 13, 2004 granted an option to a wholly-owned subsidiary of the Company in respect of his 20% (RMB2,000,000) equity interest in LTWJi whereby such wholly-owned subsidiary of the Company has the right at any time within a period of 10 years commencing from December 13, 2004 (which may be extended for another 10 years at the option of such wholly-owned subsidiary of the Company) to acquire all of Mr. Fan Tai's equity interest in LTWJi at an exercise price of RMB2,000,000.

Save as disclosed above, none of the Directors or their Associates had, as at September 30, 2005, any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its 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 the Code of Conduct, to be notified to the Company and the Stock Exchange.



## OUTSTANDING SHARE OPTIONS

As at September 30, 2005, options to subscribe for an aggregate of 267,049,592 shares of the Company which were granted to certain continuous contract employees of the Group (including the Directors as disclosed above) and ex-employees of the Group pursuant to the Pre-IPO Share Option Plan and Share Option Scheme were outstanding, details of which were as follows:

Date of grant	No. of share options	No. of employees	Subscription price per share of the Company	Option period* (commencing from date of grant and terminating ten years thereafter)
			<i>HK\$</i>	
16/2/2004	249,049,592	403	1.50	16/2/2004-15/2/2014
11/5/2005	18,000,000	1	1.204	11/5/2005-10/5/2015

\* Those options that have been vested may be exercised within the option period, unless they have been cancelled. Generally, the options are vested in different tranches subject to conditions set out in the offer letters.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at September 30, 2005, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares and 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	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	2,814,290,244 (L) (Note 2)	66.92%
Li Ka-Shing Unity Trustee Corporation Limited <i>(as trustee of The Li Ka-Shing Unity Discretionary Trust)</i>	Trustee & beneficiary of a trust	2,814,290,244 (L) (Note 2)	66.92%
Li Ka-Shing Unity Trustcorp Limited <i>(as trustee of another discretionary trust)</i>	Trustee & beneficiary of a trust	2,814,290,244 (L) (Note 2)	66.92%
Li Ka-Shing Unity Trustee Company Limited <i>(as trustee of The Li Ka-Shing Unity Trust)</i>	Trustee	2,814,290,244 (L) (Note 2)	66.92%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,814,290,244 (L) (Notes 1 and 2)	66.92%
Chau Hoi Shuen	Interest of controlled corporations	412,788,453 (L) (Note 3)	9.82%
Cranwood Company Limited	Beneficial owner & interest of controlled corporations	210,018,118 (L) (Note 3)	4.99%
TOM Group Limited	Beneficial owner	2,800,000,000 (L)	66.58%

(L) denotes long position

*Notes:*

- (1) Easterhouse Limited is a wholly-owned subsidiary of Hutchison International Limited, which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited. Certain subsidiaries of Cheung Kong (Holdings) Limited in turn together hold one-third or more of the issued capital of Hutchison Whampoa Limited.

Romefield Limited is a wholly-owned subsidiary of Sunnyslink 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.

Easterhouse Limited and Romefield Limited together hold more than one-third of the issued share capital of TOM Group Limited, and therefore Cheung Kong (Holdings) Limited is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of TOM Group Limited. By virtue of the SFO, Cheung Kong (Holdings) Limited is deemed to be interested in the 9,526,833 shares of the Company, 4,763,411 shares of the Company and 2,800,000,000 shares of the Company held by Easterhouse Limited, Romefield Limited and TOM Group Limited respectively.

- (2) 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.

By virtue of the SFO, Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, Li Ka-Shing Unity Trustee Corporation Limited, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Company Limited and Cheung Kong (Holdings) Limited are all deemed to be interested in the 9,526,833 shares of the Company, 4,763,411 shares of the Company and 2,800,000,000 shares of the Company held by Easterhouse Limited, Romefield Limited and TOM Group Limited respectively.

- (3) Schumann International Limited and Handel International Limited are companies controlled by Cranwood Company Limited. Devine Gem Management Limited is a company controlled by Ms. Chau Hoi Shuen. 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 5,800,000 shares of the Company and 3,174,117 shares of the Company held by Schumann International Limited and Handel International Limited respectively in addition to 201,044,001 shares of the Company held by itself.

By virtue of the SFO, Ms. Chau Hoi Shuen is deemed to be interested in 201,044,001 shares of the Company, 5,800,000 shares of the Company, 3,174,117 shares of the Company and 202,770,335 shares of the Company held by Cranwood Company Limited, Schumann International Limited, Handel International Limited and Devine Gem Management Limited respectively.

Save as disclosed above, as at September 30, 2005, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## COMPETING INTERESTS

### (a) Directors

Mr. Frank Sixt and Mrs. Susan Chow, the Chairman of the Company and the alternate Director to Mr. Frank Sixt respectively, are executive directors of HWL, Cheung Kong Infrastructure Holdings Limited (“CKI”) and Hutchison Global Communications Holdings Limited (“HGCH”, which was privatized on July 15, 2005), and directors of certain of their respective Associates (collectively referred to as “HWL Group”, “CKI Group” and “HGCH Group” respectively). They are also non-executive directors of Hutchison Telecommunications International Limited and directors of certain of its Associates (collectively referred to as “HTIL Group”). In addition, Mr. Frank Sixt is a non-executive director of CKH and director of certain of its Associates (collectively referred to as “CKH Group”). HWL Group is engaged in e-commerce and general information portals. Both the CKH Group and the CKI Group are engaged in information technology, e-commerce and new technology. HGCH Group has four core businesses: fixed network services, data centre operations, powerline-broadband service and IT solutions. HTIL Group is engaged in providing mobile and fixed-line telecommunications services, including broadband data services, multimedia services and mobile and fixed-line Internet services and Intranet services. The Directors believe that there is a risk that such businesses may compete with those of the Group.

Mr. Sing Wang, a non-executive Director, holds 4.55% of the equity interest in 北京雅寶在線拍賣有限公司 whose main business consists of the operation of the operation of ChinaEC.com (formerly known as yabuy.com), an online auction website in the PRC as well as its subsidiary. He also holds 7.5% of the equity interest in Analysys International Limited, which is a Beijing based IT research company. The Directors believe that there is a risk that such businesses may compete with those of the Group.

Mr. Gordon Kwong, an independent non-executive Director, owns approximately 2.2% interest in ChinaHR.com Corp, which is a company in the PRC that engages in online job search. He is also an independent non-executive director of Quam Limited, which is an internet company that mainly deals with financial services. The Directors believe that there is a risk that such businesses may compete with those of the Group.

## **(b) Management shareholders**

TOM Group, an initial management shareholder of the Company, and its subsidiaries are engaged in diversified businesses, which include, inter alia, the provision of certain online services ancillary to their business divisions.

Cranwood, an initial management shareholder of the Company, has a wholly-owned subsidiary, Beijing ChinaCare e-Med Limited (“ChinaCare”) whose main business consists of healthcare related information technology, information and consulting services. Cranwood has undertaken, inter alia, to Bright Horizon Enterprises Limited (“Bright Horizon”, a wholly-owned subsidiary of the Company) that ChinaCare will not provide content to any person other than the Company and its subsidiaries. ChinaCare had entered into a content provision agreement with LTWJi. The Directors are of the view that the provision of content by ChinaCare to LTWJi under the agreement is complementary to, and not in competition with the IVR business of LTWJi.

With the consent of Bright Horizon, ChinaCare has contracted to provide healthcare content services relating to fixed line interactive-voice recognition services and SMS players. It has not entered into any contractual arrangement with the competitors of the Company in the IVR business.

Cranwood wholly owns the entire equity interest in Mindworks Limited whose main business consists of publishing and provision of mobile content products. With respect to its business of the provision of mobile content products, although Mindworks Limited has contracted to develop and provide use of website and contents thereof for mobile telephone operation in Hong Kong, it has not entered into any contractual arrangement with the Company or its subsidiaries in connection with such business.

One of Cranwood’s wholly owned subsidiaries has a minority interest in a company which is engaged in internet mobile businesses which may compete with the business 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) or their respective Associates have any interests in a business, which competes or may compete with the business of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) in February 2004, in accordance with the GEM Listing Rules, which reviews the internal accounting procedures and considers and reports to the board of directors of the Company with respect to other auditing and accounting matters, including selection of independent auditors, the scope of annual audits, fees to be paid to the independent auditors and the performance of the independent auditors. The Audit Committee comprises three independent non-executive Directors, namely Mr. Gordon Kwong, Mr. Ma Wei Hua and Dr. Lo Ka Shui. Mr. Gordon Kwong is the chairman of the Audit Committee.

The unaudited consolidated results of the Group for the nine months ended September 30, 2005 have been reviewed by the Audit Committee.

## SPONSORS’ INTERESTS

As updated and notified by the Company’s joint sponsors, Citigroup and Morgan Stanley, their interests in the share capital of the Company as at September 30, 2005 are summarised below:

Citigroup’s employees (excluding directors)	–	none
Citigroup’s directors	–	none
Citigroup and its associates	–	17,772,960 shares (represents ordinary shares and ordinary shares equivalents relating to ADSs)
Morgan Stanley’s employees (excluding directors)	–	1,161,000 shares (represents ordinary shares and ordinary shares equivalents relating to ADSs)
Morgan Stanley’s directors	–	none
Morgan Stanley and its associates	–	1,657,840 shares (represents ordinary shares and ordinary shares equivalents relating to ADSs)

Pursuant to the sponsorship agreement dated March 1, 2004 entered into between the Company, Citigroup and Morgan Stanley, Citigroup and Morgan Stanley have been appointed as the joint sponsors of the Company as required under the GEM Listing Rules at a fee from March 11, 2004 to December 31, 2006.

As at September 30, 2005, other than disclosed above, neither Citigroup and Morgan Stanley nor their respective directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company, including options or rights to subscribe for such securities, other than the shares held by Citigroup and/or Morgan Stanley's respective brokerage and asset management operations on behalf of customers.

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

During the nine months ended September 30, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.