

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, and Chapter 18 of the Listing Rules of GEM. The interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

2. Restatement of turnover and cost of sales

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 2003, 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. To facilitate better comparison of year-on-year results, both turnover and cost of sales for the three months and six months ended 30 June 2003 have been restated and increased by HK\$28,136,000 and HK\$45,026,000, respectively.

3. Segment information

An analysis of the Group's turnover and results for the period by business segments is as follows:

	Six months ended 30 June 2004					Group HK\$'000
	Internet Group HK\$'000	Outdoor Media Group HK\$'000	Publishing Group HK\$'000	Sports Group HK\$'000	Television and Entertainment Group HK\$'000	
Turnover	<u>458,732</u>	<u>159,460</u>	<u>441,452</u>	<u>127,333</u>	<u>11,398</u>	<u>1,198,375</u>
Segment profit/(loss) before amortisation and depreciation	181,778	38,582	55,929	19,274	(32,771)	262,792
Amortisation and depreciation	<u>(22,437)</u>	<u>(17,964)</u>	<u>(21,708)</u>	<u>(2,443)</u>	<u>(12,103)</u>	<u>(76,655)</u>
Segment profit/(loss)	<u>159,341</u>	<u>20,618</u>	<u>34,221</u>	<u>16,831</u>	<u>(44,874)</u>	186,137
Unallocated costs						<u>(40,658)</u>
Operating profit						145,479
Finance costs						(15,369)
Deemed disposal gain	873,367	-	-	-	-	873,367
Provision for impairment of assets	(23,752)	(12,141)	-	-	(46,838)	(82,731)
Provision for contracts termination	-	(25,600)	-	-	(108,715)	(134,315)
Provision for other receivables	-	(17,831)	-	-	(4,645)	(22,476)
Listing expenses for migration to the Main Board of Stock Exchange						(19,812)
Share of losses of jointly controlled entities	(346)	-	-	-	-	(346)
Share of profits of associated companies	87	-	766	-	-	853
Profit before taxation						744,650
Taxation						<u>(23,272)</u>
Profit after taxation						721,378
Minority interests						<u>(37,273)</u>
Profit attributable to shareholders						<u>684,105</u>

	Six months ended 30 June 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 (<i>As restated, Note 2</i>)	<u>263,544</u>	<u>141,455</u>	<u>360,237</u>	<u>60,349</u>	<u>86,383</u>	<u>911,968</u>
Segment profit before amortisation and depreciation	74,324	36,855	25,533	1,331	7,847	145,890
Amortisation and depreciation	<u>(29,885)</u>	<u>(21,206)</u>	<u>(19,599)</u>	<u>(1,859)</u>	<u>(10,883)</u>	<u>(83,432)</u>
Segment profit/(loss)	<u>44,439</u>	<u>15,649</u>	<u>5,934</u>	<u>(528)</u>	<u>(3,036)</u>	62,458
Unallocated costs						<u>(74,878)</u>
Operating loss						(12,420)
Finance costs						(9,611)
Share of losses of jointly controlled entities	(4,998)	-	-	-	-	(4,998)
Share of profits less losses of associated companies	(69)	-	801	-	-	<u>732</u>
Loss before taxation						(26,297)
Taxation						<u>(1,854)</u>
Loss after taxation						(28,151)
Minority interests						<u>(4,523)</u>
Loss attributable to shareholders						<u>(32,674)</u>

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

An analysis of the Group's turnover and results for the period by geographical segments is as follows:

	Turnover		Segment profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	50,616	37,346	(4,866)	(19,338)
Mainland China	738,089	539,507	199,850	125,003
Taiwan	409,670	335,115	67,808	40,225
	<u>1,198,375</u>	<u>911,968</u>	<u>262,792</u>	145,890
Amortisation and depreciation			(76,655)	(83,432)
Unallocated costs			<u>(40,658)</u>	<u>(74,878)</u>
Operating profit/(loss)			<u>145,479</u>	<u>(12,420)</u>

There are no significant sales between the geographical segments.

4. Operating profit/(loss)

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

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	17,895	26,741	41,046	54,690
Amortisation				
– Goodwill	13,753	13,420	24,805	26,177
– Other non-current assets	7,323	8,592	15,140	12,853

5. Deemed disposal gain

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 NASDAQ in the United States and GEM in Hong Kong (the “Global Offering”). As a result of the Global Offering, the Company’s shareholding in TOM Online has been diluted to 71.86%, which resulted in a gain of HK\$873,367,000 arising from this deemed disposal.

The change in assets and liabilities to the Group in respect of the Global Offering is set out in Note 21(ii).

6. Provision for impairment of assets

This represents provision for impairment of fixed assets and goodwill as a result of certain internal restructuring initiatives in connection with the Group’s operations. Among which, a provision of approximately HK\$47 million has been made for impairment of goodwill arising from the acquisition of a subsidiary engaged in the audio and video products distribution business.

In addition, the subsidiary has been excluded from consolidation since 1 January 2004 as the Group has ceased to have the ability to control or significantly influence the subsidiary’s operations.

7. Provision for contracts termination

In preparation for digitalising CETV’s transmission and distribution platform later in the year, CETV entered into a digital service contract in March 2004. Included in the provision for contracts termination is a one-time charge of approximately HK\$109 million for the early termination of CETV’s analogue transponder agreement.

8. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	Three months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	1	–	101	–
Overseas taxation	18,786	8,765	27,277	11,680
Under/(over)-provision in prior years	769	(1,637)	769	(1,637)
Deferred taxation	(5,675)	(9,200)	(4,875)	(8,189)
	<u>13,881</u>	<u>(2,072)</u>	<u>23,272</u>	<u>1,854</u>

9. Dividend

No dividend had been paid or declared by the Company during the period (2003: Nil).

10. Earnings/(loss) per share*(a) Basic*

The calculation of the basic earnings/(loss) per share for the three months and six months ended 30 June 2004 is based on the respective unaudited consolidated profit attributable to shareholders of HK\$30,212,000 and HK\$684,105,000 (2003: HK\$10,183,000 and loss of HK\$32,674,000) and the weighted average of 3,887,207,564 and 3,882,734,691 (2003: 3,339,621,837 and 3,335,208,470) ordinary shares in issue during the respective periods.

(b) Diluted

No diluted earnings per share is presented for the three months ended 30 June 2004 as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of shares of the Company and the conversion of the convertible bonds would have an anti-dilutive effect during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2004 is based on the unaudited adjusted consolidated profit attributable to shareholders of HK\$694,329,000, after adding back the borrowing costs of the convertible bonds, and the weighted average of 4,237,629,238 ordinary shares, after adjusting for the effects of all dilutive potential shares, as if all the outstanding share options and convertible bonds issued by the Group had been exercised and converted into ordinary shares at the date of issuance.

The calculation of the diluted earnings per share for the three months ended 30 June 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$10,183,000 and the weighted average of 3,401,368,137 ordinary shares, after adjusting the effects of all dilutive potential ordinary shares, as if all the outstanding share options and consideration shares for acquisition of subsidiaries had been exercised and issued by the Company at the date of issuance.

The exercise of share options granted and the issuance of consideration shares by the Company would have an anti-dilutive effect on the loss per share for the six months ended 30 June 2003.

11. Fixed assets

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
At beginning of the period	245,006	250,868
Additions	40,242	91,747
Acquisition of subsidiaries	–	21,105
Disposals	(3,525)	(11,305)
Deconsolidation/disposal of a subsidiary (Note 21(i))	(1,729)	(1,038)
Depreciation charge	(41,046)	(106,622)
Impairment charge	(29,432)	–
Exchange adjustment	477	251
	<u>209,993</u>	<u>245,006</u>
At end of the period	<u>209,993</u>	<u>245,006</u>

12. Other non-current assets

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Concession rights (Note)	38,824	40,164
Copyrights (Note)	–	18,634
Licence rights and royalties (Note)	34,929	27,300
Publishing rights (Note)	13,107	1,119
Purchased programme and film rights (Note)	7,081	1,987
Software (Note)	6,430	–
Long-term receivable (Note 14)	97,500	101,400
Deferred expenses	31,001	34,539
Pension assets	440	440
Deferred tax assets	27,516	27,794
	<u>256,828</u>	<u>253,377</u>
	<u>256,828</u>	<u>253,377</u>

Note:

	Concession rights HK\$'000	Copyrights HK\$'000	Licence rights and royalties HK\$'000	Publishing rights HK\$'000	Purchased programme and film rights HK\$'000	Software HK\$'000	30 June 2004 Total HK\$'000	31 December 2003 Total HK\$'000
At beginning of the period	40,164	18,634	27,300	1,119	1,987	-	89,204	84,782
Additions	2,961	-	8,147	13,240	13,798	6,768	44,914	37,327
Acquisition of subsidiaries	-	-	-	-	-	-	-	3,975
Disposal	-	-	-	-	-	-	-	(5,103)
Deconsolidation of a subsidiary (Note 21(i))	-	(18,634)	-	-	-	-	(18,634)	-
Amortisation charge	(4,301)	-	(518)	(1,279)	(8,704)	(338)	(15,140)	(31,802)
Exchange adjustment	-	-	-	27	-	-	27	25
At end of the period	<u>38,824</u>	<u>-</u>	<u>34,929</u>	<u>13,107</u>	<u>7,081</u>	<u>6,430</u>	<u>100,371</u>	<u>89,204</u>

13. Goodwill

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
At beginning of the period	1,088,466	953,899
Additions	-	135,603
Consideration adjustments for acquisition of subsidiaries	(44,917)	49,726
Amortisation charge	(24,805)	(50,775)
Impairment charge	(53,299)	-
Exchange adjustment	13	13
At end of the period	<u>965,458</u>	<u>1,088,466</u>
Represented by:		
Goodwill	977,463	1,100,471
Negative goodwill	(12,005)	(12,005)
	<u>965,458</u>	<u>1,088,466</u>

14. Trade and other receivables

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Trade receivables	667,844	662,626
Less: Amount due after one year (Note 12)	(97,500)	(101,400)
Amount receivable within one year	570,344	561,226
Prepayments, deposits and other receivables	400,453	508,682
	<u>970,797</u>	<u>1,069,908</u>

The ageing analysis of the Group's trade receivables at end of the period is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Current	373,214	364,306
31-60 days	116,265	125,121
61-90 days	84,808	82,197
Over 90 days	93,557	91,002
	<u>667,844</u>	<u>662,626</u>
Represented by:		
Receivables from related companies	4,639	87,735
Receivables from third parties	663,205	574,891
	<u>667,844</u>	<u>662,626</u>

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

15. Trade and other payables

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Trade payables	273,755	290,451
Less: Amount due after one year (<i>Note 16</i>)	<u>(35,100)</u>	<u>(46,800)</u>
Amount payable within one year	238,655	243,651
Other payables and accruals	<u>549,413</u>	<u>659,584</u>
	<u>788,068</u>	<u>903,235</u>

The ageing analysis of the Group's trade payables at end of the period is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Current	187,308	156,576
31-60 days	24,922	43,324
61-90 days	13,934	26,188
Over 90 days	<u>47,591</u>	<u>64,363</u>
	<u>273,755</u>	<u>290,451</u>

16. Other non-current liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Long-term bank loans	530	1,675
Convertible bonds	1,175,269	1,170,753
Long-term payables (<i>Note 15</i>)	35,100	46,800
Pension obligations	<u>21,670</u>	<u>20,243</u>
	<u>1,232,569</u>	<u>1,239,471</u>

17. Share capital

	30 June 2004		31 December 2003	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised				
Ordinary shares of HK\$0.1 each	<u>5,000,000,000</u>	<u>500,000</u>	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid				
At beginning of the period	3,878,261,817	387,827	3,321,865,958	332,187
Issuance of shares	<u>11,151,548</u>	<u>1,115</u>	<u>556,395,859</u>	<u>55,640</u>
At end of the period	<u>3,889,413,365</u>	<u>388,942</u>	<u>3,878,261,817</u>	<u>387,827</u>

On 19 April 2004, 11,151,548 ordinary shares were allotted and booked at HK\$1.42 per share, which was the fair value calculated based on the closing price quoted on the Stock Exchange at the date of acquisition as part of the considerations for the acquisition of a subsidiary.

18. Share option schemes

(i) Details of share options granted by the Company as at 30 June 2004 are as follows:

	Number of share options	
	Pre-IPO Share Option Plan	Share Option Scheme
As at 1 January 2004	16,196,000	186,279,000
Granted	–	10,000,000
Lapsed	–	(1,840,000)
Cancelled	–	(1,818,000)
	<u>16,196,000</u>	<u>(1,818,000)</u>
Outstanding at 30 June 2004	<u>16,196,000</u>	<u>192,621,000</u>

Details of share options granted under the Share Option Scheme during the six months ended 30 June 2004:

Number of options granted	10,000,000
Expiry date	15 February 2014
Subscription price per share	HK\$2.55

Terms of the share options outstanding at 30 June 2004 are:

Expiry date	Subscription price	
10 February – 14 November 2010	HK\$1.78 – HK\$11.30	56,626,000
6 February 2012	HK\$3.76	37,334,000
8 October 2013	HK\$2.505	104,857,000
15 February 2014	HK\$2.55	10,000,000
		<u>208,817,000</u>

(ii) Details of TOM Online's Pre-IPO share Option Plan as at 30 June 2004 are as follows:

Date of grant and as at 16 February 2004	280,000,000
Lapsed	<u>(2,616,669)</u>
Outstanding at 30 June 2004	<u>277,383,331</u>

Terms of the share options outstanding at 30 June 2004 are:

Expiry date	Subscription price	
15 February 2014	HK\$1.50	<u>277,383,331</u>

19. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Revaluation reserve HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	30 June 2004 Total HK\$'000	31 December 2003 Total HK\$'000
At beginning of the period	3,605,986	(377)	776	15,579	5,610	1,206	(2,391,147)	1,237,633	(54,688)
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	14,720	-	-	-	-	-	-	14,720	321,025
Placement of shares, net of issuing expenses	-	-	-	-	-	-	-	-	951,045
Investment revaluation (deficit)/surplus	-	-	-	-	(46,996)	-	-	(46,996)	5,611
Profit for the period	-	-	-	63,235	-	-	684,105	684,105	12,598
Transfer to general reserve	-	-	-	49	(44)	(227)	(63,235)	-	-
Exchange difference	-	-	-	-	-	-	-	(222)	2,042
At end of the period	<u>3,620,706</u>	<u>(377)</u>	<u>776</u>	<u>78,863</u>	<u>(41,430)</u>	<u>979</u>	<u>(1,770,277)</u>	<u>1,889,240</u>	<u>1,237,633</u>

20. Own shares held

Own shares held represent the cost of 2,928,564 (31 December 2003: 2,928,564) ordinary shares in the Company held by certain subsidiaries and are deducted in arriving at the shareholders' funds.

21. Deconsolidation and deemed disposal of subsidiaries

(i) Deconsolidation of a subsidiary

The assets and liabilities deconsolidated are as follows:

	HK\$'000
Fixed assets	1,729
Copyrights	18,634
Inventories	11,171
Trade and other receivables	107,921
Bank balances and cash	219
Trade and other payables	(99,028)
Taxation payable	(5,658)
Minority interests	(14,508)
Net assets deconsolidated and reclassified as investment securities	<u>20,480</u>

(ii) Deemed disposal of subsidiaries

The change in assets and liabilities to the Group in respect of the Global Offering are as follows:

	HK\$'000
Increase in bank balances and cash	1,334,364
Increase in trade and other payables	(43,775)
Increase in minority interests	(417,222)
Deemed disposal gain	<u>873,367</u>

22. Pledge of assets

At 30 June 2004, bank deposits and cash totalling approximately HK\$13,764,000 (31 December 2003: HK\$21,636,000) were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company and an investee company.

At 30 June 2004, concession rights and a property at net book value of HK\$3,096,000 (31 December 2003: HK\$5,614,000) and HK\$809,000 (31 December 2003: HK\$814,000) respectively were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company.

23. Contingent liabilities

At 30 June 2004, the Group had contingent liabilities amounting to approximately HK\$9,400,000 (31 December 2003: HK\$9,400,000) in respect of provision of fixed deposits as securities for bank loans granted to an investee company in which the Group has 50% equity interest.

24. Commitments

(a) Capital commitments

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Acquisition of fixed assets and other non-current assets		
– Contracted but not provided for	27,053	82,652
– Authorised but not contracted for	<u>214,505</u>	<u>1,715</u>
	<u><u>241,558</u></u>	<u><u>84,367</u></u>

(b) At 30 June 2004, the Group had commitments in respect of contributions to registered capital of certain investments in Mainland China amounted to approximately HK\$23,030,000 (31 December 2003: HK\$23,923,000).

(c) Other commitments

At 30 June 2004, 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 International Limited (“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 and its subsidiaries (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.

As the consideration for the acquisition of Puccini is contingent on the audited consolidated net profit of the Puccini Group for the year ending 31 December 2004, the Group has not recorded any consideration as cost of investments as of 30 June 2004, and therefore, no goodwill amortisation expenses in relation to the aforesaid acquisition has been charged to the consolidated profit and loss account for the three months and six months ended 30 June 2004.

In accordance with the sale and purchase agreement, the consideration for the acquisition of Puccini, when finalised, will be paid partly in cash and partly by way of issuance and allotment of 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 10 March 2004. The issuance of TOM Online Shares will result in a dilution of the Company's shareholding in TOM Online. The effect of the dilution will be accounted for when the TOM Online Shares are issued.

25. 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 14 and 24(c) to the interim accounts.

	Note	30 June 2004 HK\$'000	30 June 2003 HK\$'000
Sales to	(i)		
– HWL and its subsidiaries		2,251	368
– Metro Broadcast Corporation Limited (“Metro”), an associated company of HWL and CKH		–	690
– CKH and its subsidiaries		926	128
– a jointly controlled entity		2,838	4,308
– minority shareholders of subsidiaries and their subsidiaries		428	62,614
Cost of sales payable to	(ii)		
– minority shareholders of subsidiaries and their subsidiaries		12,633	19,332
– Cranwood and its related companies		309	–
Office rental receivable from Metro		–	472
Office and warehouse rental and service fees payable to	(iii)		
– an associated company of CKH		5,313	2,039
– a subsidiary of CKH		3,624	6,156
– minority shareholders of subsidiaries and their associates		663	814
Service fees payable to	(iv)		
– a subsidiary of HWL		2,003	2,003
Service fees payable to	(v)		
– HWL and its subsidiaries		921	921
– subsidiaries of minority shareholders		14,720	4,463
Interest expenses payable to	(vi)		
– a subsidiary of HWL		1,292	3,169
– a subsidiary of CKH		646	1,584
– Cranwood		1,292	3,169

Notes:

- (i) Sales to related companies are principally at terms no less favourable than those sales to third party customers of the Group.
- (ii) Cost of sales were payable to related companies at market rates.
- (iii) The rentals and service fees 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.
- (iv) The service fees were recharged by a subsidiary of HWL on cost reimbursement basis for the provision of administrative, information technology and consultancy services.
- (v) The service fees were payable to related companies for the provision of goods and services rendered at market rates.
- (vi) Interests for loans from shareholders were calculated at 50 basis points over 3 months Hong Kong Interbank Offered Rate per annum over the outstanding balances.

26. Subsequent events

- (a) On 29 July 2004, the Group fully repaid the shareholders' loans of HK\$850,000,000 by drawn down of a secured bank loan of the same amount.
- (b) On 5 July 2004, the Company, through its wholly-owned subsidiary, TOM.COM INTERNATIONAL LIMITED signed a co-operation framework agreement to acquire a 48.5% registered capital of China Popular Computer Week Management Company Limited ("CPCWM") and 0.97% of the enlarged share capital of Chongqing Zhongkepu Media Development Joint Stock Company Limited at cash consideration of RMB209,475,000 (equivalent to approximately HK\$196,912,000). Subsequent to the completion of the aforementioned acquisition and subscription, the Group will effectively hold approximately 49% beneficial interest in CPCWM.
- (c) On 4 August 2004, the Company's shares were migrated and listed on the Main Board of the Stock Exchange by way of introduction.