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 Institute of Certified Public Accountants ("HKICPA"). 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.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

With effect from 1 January 2004, the Group has early adopted the following new HKFRSs:

HKFRS 3	Business Combinations
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in the accounting policy for goodwill and intangible assets. Until 31 December 2003, goodwill and intangible assets were:

– Amortised on a straight line basis over a maximum of 20 years; and

– Assessed for impairment if there are any such indications at each balance sheet date.

In accordance with the provisions of HKFRS 3, HKAS 36 and HKAS 38:

– The Group ceased amortisation of goodwill from 1 January 2004;

– Accumulated amortisation as at 31 December 2003 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and

– Intangible assets can have indefinite useful lives.

The accounting standards early adopted by the Group do not require retrospective application and HKFRS 3 requires simultaneous adoption with HKAS 36 and HKAS 38.

1. Principal accounting policies *(continued)*

(a) Basis of preparation *(continued)*

The adoption of HKFRS 3 resulted in:

In HKD Thousands	**2004**
Decrease in other operating expenses	**45,802**
Increase in share of profits of associated companies	**2,086**
Increase in profit attributable to shareholders	**49,658**
Increase in basic earnings per share	**HK1.28 cents**
Increase in diluted earnings per share	**HK1.17 cents**

The adoption of HKAS 38 resulted in:

In HKD Thousands	**2004**
Decrease in cost of sales	**1,365**
Increase in profit attributable to shareholders	**819**
Increase in basic earnings per share	**HK0.02 cent**
Increase in diluted earnings per share	**HK0.02 cent**

The Group has reassessed the useful lives of the intangible assets in accordance with the provision of HKAS 38 and considered the useful life of an intangible asset with a cost of HK$27,300,000 to be indefinite and therefore ceased amortisation from 1 January 2004. The carrying value of this intangible asset will be tested for impairment annually, as well as when there is indication of impairment. The intangible asset is a licence right for staging an international sports event in Mainland China. The licence right has no fixed termination date and management considered that economic benefits will be generated from the licence right for the foreseeable future. Amortisation charge for the year ended 31 December 2004 would have been HK$1,365,000 had HKAS 38 not been early adopted with effect from 1 January 2004.

There was no impact on the opening retained earnings as at 1 January 2004 from the adoption of HKFRS 3, HKAS 36 and HKAS 38.

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

1. **Principal accounting policies** *(continued)*

(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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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 the carrying value of goodwill.

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.

(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 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, goodwill and intangible assets recognised on acquisition, net of accumulated amortisation of intangible assets other than goodwill and impairment losses, if any. The fair value of these intangible assets is valued by external qualified valuers on acquisitions and amortised over their estimated useful lives.

1. Principal accounting policies *(continued)*

(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.

(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 – $33\frac{1}{3}$%
Outdoor media assets	5 – 20%
Office equipment, studio and broadcasting equipment, furniture, fixtures and motor vehicles	10 – $33\frac{1}{3}$%

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

Other intangible assets include concession rights, copyrights, licence rights and royalties, publishing rights, purchased programme and film rights, software and customer base. Cost of other intangible assets are initially recognised and measured at fair value. Other intangible assets with definite useful lives are amortised on a straight-line basis over the respective period of the operating right. Other intangible assets with indefinite useful lives are not subject to amortisation and are tested annually for impairment.

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

1. Principal accounting policies *(continued)*

(h) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associated company at the date of acquisition. Goodwill on acquisition of jointly controlled entities and associated companies is included in interests in jointly controlled entities and interests in associated companies, respectively. Goodwill is tested annually for impairment, as well as when there are indications of impairment, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. Each of these CGUs represents the Group's investment in each geographical segment by each business segment.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(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.

1. Principal accounting policies *(continued)*

(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 consolidated 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.

The Group's contributions to defined benefit plans are charged to the consolidated 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, Pre-IPO Share Option Plan ("Pre-IPO Share Option Plan") and Employee Share Option Scheme ("Old Option Scheme"), were adopted by the Company. Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23 July 2004, the Company adopted a new share option scheme ("New Option Scheme") and terminated the Old Option Scheme due to the withdrawal of the listing of the shares of the Company on the Growth Enterprise Market ("GEM") and commencement of dealings of the shares of the Company on the Main Board of Stock Exchange ("Main Board"). The adoption of the New Option Scheme and the termination of the Old Option Scheme took effect from 4 August 2004 (listing date of the shares of the Company on the Main Board). 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 of the Company.

Pursuant to a written resolution of the then sole shareholder of TOM Online Inc. ("TOM Online"), a subsidiary of the Company, passed on 12 February 2004, a Pre-IPO Share Option Plan and Share Option Scheme were adopted by TOM Online.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 of TOM Online.

(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.

1. Principal accounting policies *(continued)*

(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.

(q) Contingent liabilities and contingent assets

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.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(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.

1. Principal accounting policies *(continued)*

(s) Borrowing costs

Fees paid for the arrangement of convertible bonds and 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.

(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 and net of corporate 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, consideration payables by TOM Online and its subsidiaries (collectively refer to the "TOM Online Group") and pension obligations and exclude items such as corporate consideration payables, taxation and corporate borrowings. Capital expenditure comprises additions to fixed assets and other intangible assets.

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.

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 130 to 136.

Turnover and revenues recognised during the year are as follows:

In HKD Thousands	**2004**	2003
Turnover		
Provision of wireless internet services, online advertising, commercial enterprise solutions and internet access	**988,999**	592,443
Advertising sales of outdoor media assets and provision of outdoor media services	**369,287**	297,966
Magazine and book circulation, sales of publication advertising and other related products	**909,653**	771,441
Event organisation, advertising and sponsorship sales in relation to sports events and programmes	**295,275**	251,535
Advertising sales in relation to satellite television channel operations, provision of broadcasting post production services and sales of audio-visual products	**32,031**	175,849
	2,595,245	2,089,234
Interest income	**82,925**	14,097
Total revenues	**2,678,170**	2,103,331

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 internet 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, provision of broadcasting post production services 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.

2. Turnover, revenue and segment information *(continued)*
Primary reporting format – business segments *(continued)*

In HKD Thousands	Internet Group	Outdoor Media Group	Publishing Group	Sports Group	Television and Entertainment Group	Group
	Year ended 31 December 2004					
Turnover	**988,999**	**369,287**	**909,653**	**295,275**	**32,031**	**2,595,245**
Segment profit/(loss) before amortisation and depreciation	**352,700**	**82,926**	**99,766**	**43,071**	**(62,024)**	**516,439**
Amortisation and depreciation	**(52,592)**	**(24,450)**	**(14,927)**	**(475)**	**(23,272)**	**(115,716)**
Segment profit/(loss)	**300,108**	**58,476**	**84,839**	**42,596**	**(85,296)**	**400,723**
Unallocated costs						**(101,586)**
Operating profit						**299,137**
Finance costs						**(34,902)**
Profit on deemed disposal of a subsidiary	**979,476**	**–**	**–**	**–**	**–**	**979,476**
Provision for impairment of assets	**(26,149)**	**(12,141)**	**–**	**–**	**(46,838)**	**(85,128)**
Provision for contracts termination	**–**	**(25,600)**	**–**	**–**	**(108,715)**	**(134,315)**
Provision for other receivables	**–**	**(17,831)**	**–**	**–**	**(4,645)**	**(22,476)**
Listing expenses						**(19,812)**
Share of losses of jointly controlled entities	**(367)**	**–**	**–**	**–**	**–**	**(367)**
Share of profits of associated companies	**223**	**–**	**12,846**	**–**	**–**	**13,069**
Profit before taxation						**994,682**
Taxation						**(30,557)**
Profit after taxation						**964,125**
Minority interests						**(104,303)**
Profit attributable to shareholders						**859,822**

2. Turnover, revenue and segment information *(continued)*

Primary reporting format – business segments *(continued)*

	Year ended 31 December 2004					
In HKD Thousands	Internet Group	Outdoor Media Group	Publishing Group	Sports Group	Television and Entertainment Group	Group
Segment assets	**2,306,643**	**760,547**	**1,298,917**	**417,068**	**144,627**	**4,927,802**
Interests in jointly controlled entities	**14,650**	**–**	**–**	**–**	**–**	**14,650**
Interests in associated companies	**1,723**	**–**	**224,350**	**–**	**–**	**226,073**
Investment securities	**981,424**	**45,205**	**14,132**	**2,663**	**16,202**	**1,059,626**
Unallocated assets						**1,666,057**
Total assets						**7,894,208**
Segment liabilities	**1,151,703**	**108,920**	**433,237**	**130,754**	**23,490**	**1,848,104**
Unallocated liabilities						**2,854,763**
Minority interests						**709,655**
Total liabilities						**5,412,522**
Capital expenditure	**95,049**	**27,978**	**34,016**	**716**	**43,304**	**201,063**
Unallocated capital expenditure						**3,451**
						204,514

2. Turnover, revenue and segment information *(continued)*

Primary reporting format – business segments *(continued)*

In HKD Thousands	Internet Group	Outdoor Media Group	Publishing Group	Sports Group	Television and Entertainment Group	Group
	Year ended 31 December 2003					
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

2. Turnover, revenue and segment information *(continued)*

Primary reporting format – business segments *(continued)*

In HKD Thousands	Internet Group	Outdoor Media Group	Publishing Group	Sports Group	Television and Entertainment Group	Group
	Year ended 31 December 2003					
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)*

Secondary reporting format – geographical segments

In HKD Thousands	Turnover **2004**	Turnover 2003	Segment profit **2004**	Segment profit 2003
Hong Kong	**157,724**	173,593	**12,194**	36,598
Mainland China	**1,595,837**	1,204,013	**375,323**	270,998
Taiwan	**841,684**	711,628	**128,922**	93,900
	2,595,245	2,089,234	**516,439**	401,496
Amortisation and depreciation			**(115,716)**	(171,848)
Unallocated costs			**(101,586)**	(137,299)
Operating profit			**299,137**	92,349

In HKD Thousands	Total assets **2004**	Total assets 2003	Capital expenditure **2004**	Capital expenditure 2003
Hong Kong	**1,996,327**	2,288,560	**3,337**	34,263
Mainland China	**4,650,053**	1,891,392	**167,548**	80,762
Taiwan	**1,247,828**	1,077,844	**33,629**	14,049
Total	**7,894,208**	5,257,796	**204,514**	129,074

3. Operating profit

Operating profit is stated after charging the following:

In HKD Thousands	**2004**	2003
Depreciation (Note 15)	**82,776**	106,622
Amortisation		
– Goodwill (Note 17)	**–**	50,775
– Other intangible assets (Note 16)	**40,474**	31,802
– intangible assets included in interests in associated companies (Note 20)	**2,040**	–
Cost of inventories	**462,586**	537,003
Staff costs, including directors' emoluments (Note 13)	**484,635**	417,354
Operating leases		
– Land & buildings	**41,863**	41,753
– Other assets	**67,505**	46,698
Auditors' remuneration	**13,295**	5,000
Loss on disposal of fixed assets	**5,751**	10,043

4. Profit on deemed disposal of a subsidiary

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 ("NASDAQ"), United States of America and the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Global Offering") by the issuance of new ordinary shares. 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$875,775,000 arising from this deemed disposal.

On 10 March 2004, US$18,500,000 (approximately HK$144,300,000) worth of TOM Online shares were issued and allotted to Cranwood Company Limited ("Cranwood "), a substantial shareholder of the Company, at HK$1.5 per share to satisfy part of the consideration for the acquisition of the entire share capital of Puccini International Limited ("Puccini"). This share allotment by TOM Online resulted in a deemed disposal gain of HK$103,701,000.

The change in assets and liabilities to the Group in respect of the Global Offering and share allotment by TOM Online is set out in Note 35(d).

5. Provision for impairment of assets

Provision for impairment of assets represents provision for impairment of fixed assets of HK$29,432,000, other intangible assets of HK$2,397,000 and goodwill of HK$53,299,000. The impairment provision was mainly the result of certain internal restructuring initiatives in connection with the Group's operations. Among which, a provision of HK$46,838,000 has been made for impairment of goodwill arising from the acquisition of a subsidiary engaged in the audio and video products distribution business. 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 operation.

6. Provision for contracts termination

Provision for contracts termination included a one-time charge of HK$108,715,000 for the early termination of China Entertainment Television Broadcast Limited's analogue transponder agreement, in preparation for migration to digitalised transmission and distribution platform.

7. Listing expenses

On 4 August 2004, the listing shares of the Company have been migrated from GEM to the Main Board. The associated expenses for the migration amounted to HK$19,812,000.

8. Finance costs

In HKD Thousands	**2004**	2003
Interest and borrowing costs on bank loans	**9,289**	2,810
Interest and borrowing costs on convertible bonds	**20,385**	1,718
Interest on other loans, wholly repayable within five years	**5,228**	15,391
Total borrowing costs incurred	**34,902**	19,919

9. Taxation

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

In HKD Thousands	**2004**	2003
Hong Kong profits tax	**101**	26
Overseas taxation	**20,884**	20,270
Under/(over) provision in prior years	**1,233**	(1,661)
Deferred taxation (Note 29(c))	**6,314**	(6,236)
	28,532	12,399
Share of taxation attributable to associated companies	**2,025**	–
Taxation charges	**30,557**	12,399

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

9. Taxation *(continued)*

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

In HKD Thousands	**2004**	2003
Profit before taxation	**994,682**	67,866
Calculated at a taxation rate of 17.5% (2003: 17.5%)	**174,069**	11,877
Effect of different taxation rates in other countries	**(41,348)**	(66,799)
Income not subject to taxation	**(203,991)**	(21,919)
Expenses not deductible for taxation purposes	**45,262**	43,061
Utilisation of previously unrecognised temporary difference	**(6,931)**	–
Utilisation of previously unrecognised tax losses	**(30,860)**	(3,793)
Tax losses not recognised	**87,274**	43,049
Withholding taxes	**5,849**	8,584
Under/(over) provision in prior years	**1,233**	(1,661)
Taxation charge	**30,557**	12,399

10. Profit attributable to shareholders

The net loss of the Company is HK$105,161,000 (2003: HK$21,458,000) and is included in determining the profit attributable to the shareholders in the consolidated profit and loss account. The loss of the Company included a provision for impairment of interests in subsidiaries amounting to HK$53,379,000 (2003: HK$Nil) (Note 18).

11. Dividends

No dividends had been paid or declared by the Company during the year (2003: HK$Nil).

12. Earnings per share

(a) Basic

The calculation of the basic earnings per share is based on consolidated profit attributable to shareholders of HK$859,822,000 (2003: HK$12,598,000) and the weighted average of 3,886,250,185 (2003: 3,583,805,272) ordinary shares in issue during the year.

(b) Diluted

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the adjusted consolidated profit attributable to shareholders of HK$880,207,000, after adding back the borrowing costs of the convertible bonds, and the weighted average of 4,239,411,657 ordinary shares, after adjusting for the effects of all dilutive potential ordinary 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.

12. Earnings per share *(continued)*

(b) Diluted *(continued)*

The calculation of the diluted earnings per share for the year ended 31 December 2003 is based on the consolidated profit attributable to shareholders of HK$12,598,000 and the weighted average of 3,606,757,274 ordinary shares, after adjusting 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 for 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 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.

(c) Reconciliations

Number of shares	**2004**	2003
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,886,250,185**	3,583,805,272
Ordinary shares payable for acquisition of subsidiaries	**–**	19,744,843
Deemed issuance of ordinary shares for nil consideration	**353,161,472**	3,207,159
Weighted average number of ordinary shares used in calculating diluted earnings per share	**4,239,411,657**	3,606,757,274

13. Staff costs, including directors' emoluments

In HKD Thousands	**2004**	2003
Wages and salaries	**464,736**	401,819
Pension costs – defined contribution plans	**12,490**	7,283
Pension costs – defined benefit plans (Note 28(b))	**7,409**	8,252
	484,635	417,354

14. 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:

In HKD Thousands	**2004**	2003
Fees	**970**	585
Basic salaries, housing allowances, other allowances and benefits in kind	**7,202**	8,034
Discretionary bonuses	**29,095**	23,038
Contributions to retirement benefit schemes for directors (and past directors) of the Company	**503**	528
	37,770	32,185
Less: Fees paid to the Company	**(100)**	–
	37,670	32,185

In HKD Thousands	**2004**	2003
Current executive directors		
Mr. Sing Wang	**23,737**	20,637
Ms. Tong Mei Kuen, Tommei	**11,600**	7,996
Past executive directors		
Mr. Lee Kwok Ming, Don	**–**	641
Ms. Leung Quan Yue, Michelle	**–**	811
Independent non-executive directors and members of Audit Committee		
Mr. Cheong Ying Chew, Henry	**100**	100
Ms. Wu Hung Yuk, Anna	**100**	35
Mr. James Sha	**70**	50
Non-executive director and member of Audit Committee		
Mrs. Lee Pui Ling, Angelina	**100**	100
Non-executive directors		
Mr. Wang Lei Lei	**1,663**	1,565
Mr. Frank John Sixt	**100**	50
Ms. Chang Pui Vee, Debbie	**50**	50
Mrs. Chow Woo Mo Fong, Susan	**50**	50
Mr. Ip Tak Chuen, Edmond	**50**	50
Mr. Holger Kluge	**50**	50
	37,670	32,185

14. Directors' and senior management's emoluments *(continued)*

(a) Directors' emoluments *(continued)*

Mr. Sing Wang, Ms. Tong Mei Kuen, Tommei, Mr. Wang Lei Lei and Mr. Frank John Sixt, each received director's fee of HK$50,000 from TOM Online and Mr. Sing Wang and Ms. Tong Mei Kuen, Tommei returned that director's fee to the Company.

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.

Save as above, there has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 31 December 2004.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: three) individuals during the year are as follows:

In HKD Thousands	**2004**	2003
Basic salaries, housing allowances, other allowances and benefits in kind	**6,620**	6,284
Discretionary bonuses	**7,266**	4,503
Contributions to retirement benefit schemes	**327**	415
	14,213	11,202

The emoluments fell within the following bands:

Number of individuals	**2004**	2003
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**	1
HK$5,500,001 – HK$6,000,000	**1**	–

15. Fixed assets

Group

In HKD Thousands	Properties	Leasehold improvements	Computer equipment	Outdoor media assets	Other assets	Construction in progress	Total
Cost							
At 1 January 2004	12,915	52,173	406,335	127,711	70,716	6,235	676,085
Exchange adjustment	10	1,064	1,572	–	694	–	3,340
Additions	295	14,900	86,404	11,109	24,654	8,789	146,151
Acquisition of subsidiaries (Note 35(b))	–	283	1,426	11,073	402	–	13,184
Transfer between categories	–	1,082	1,454	8,784	242	(11,562)	–
Disposals	–	(18,689)	(17,653)	(8,262)	(10,752)	–	(55,356)
Deconsolidation of a subsidiary (Note 35(e))	–	(708)	(1,132)	–	(4,284)	–	(6,124)
At 31 December 2004	13,220	50,105	478,406	150,415	81,672	3,462	777,280
Accumulated depreciation and impairment losses							
At 1 January 2004	884	32,494	312,087	44,214	41,400	–	431,079
Exchange adjustment	–	271	1,074	–	689	–	2,034
Acquisition of subsidiaries (Note 35(b))	–	27	404	–	70	–	501
Depreciation charge for the year	613	8,720	52,131	11,081	10,231	–	82,776
Impairment charge for the year	–	–	20,943	8,489	–	–	29,432
Disposals	–	(15,921)	(17,441)	(5,538)	(9,798)	–	(48,698)
Deconsolidation of a subsidiary (Note 35(e))	–	(59)	(605)	–	(3,731)	–	(4,395)
At 31 December 2004	1,497	25,532	368,593	58,246	38,861	–	492,729
Net book value							
At 31 December 2004	11,723	24,573	109,813	92,169	42,811	3,462	284,551
At 31 December 2003	12,031	19,679	94,248	83,497	29,316	6,235	245,006

15. Fixed assets *(continued)*

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

In HKD Thousands	**2004**	2003
Outside Hong Kong, held on		
Leases of over 50 years	**11,579**	11,866
Leases of between 10 to 50 years	**144**	165
	11,723	12,031

16. Other non-current assets

	Group	
In HKD Thousands	**2004**	2003
Other intangible assets (Note)	**93,391**	89,204
Long-term receivable (Note 23)	**74,100**	101,400
Deferred expenses	**24,291**	34,539
Pension assets (Note 28(a))	**–**	440
Deferred tax assets (Note 29(a))	**16,783**	27,794
	208,565	253,377

16. Other non-current assets *(continued)*

Note:

	Group							
In HKD Thousands	**Concession rights**	**Copyrights**	**Licence rights and royalties**	**Publishing rights**	**Purchased programme and film rights**	**Software**	**Customer base**	**Total**
Cost								
At 1 January 2004	55,573	37,833	27,300	2,778	87,501	–	–	210,985
Exchange adjustment	–	–	–	163	–	–	–	163
Additions	5,052	–	8,147	14,075	21,407	9,682	–	58,363
Acquisition of subsidiaries (Note 35(b))	–	–	–	–	–	–	7,263	7,263
Deconsolidation of a subsidiary (Note 35(e))	–	(37,833)	–	–	–	–	–	(37,833)
At 31 December 2004	60,625	–	35,447	17,016	108,908	9,682	7,263	238,941
Accumulated amortisation and impairment losses								
At 1 January 2004	15,409	19,199	–	1,659	85,514	–	–	121,781
Exchange adjustment	–	–	–	97	–	–	–	97
Amortisation charge for the year	8,830	–	1,878	3,025	19,235	1,161	6,345	40,474
Impairment charge for the year	–	–	2,397	–	–	–	–	2,397
Deconsolidation of a subsidiary (Note 35(e))	–	(19,199)	–	–	–	–	–	(19,199)
At 31 December 2004	24,239	–	4,275	4,781	104,749	1,161	6,345	145,550
Net book value								
At 31 December 2004	36,386	–	31,172	12,235	4,159	8,521	918	93,391
At 31 December 2003	40,164	18,634	27,300	1,119	1,987	–	–	89,204

16. Other non-current assets *(continued)*

Key assumptions used for value-in-use calculation for impairment assessment on intangible assets with indefinite useful life:

Gross margin	57%
Growth rate	1%
Discount rate	10%

Please refer to Note 17 for detailed explanation of these key assumptions.

17. Goodwill

In HKD Thousands	**Group**
At 1 January 2004	1,088,466
Exchange adjustment	41
Additions	
Current year acquisitions (Note 35(b))	257,491
Prior year acquisition (Note 34(a))	1,029,534
Consideration adjustment for acquisition of subsidiaries	(42,208)
Impairment charge for the year	(53,299)
At 31 December 2004	2,280,025
At 31 December 2003	1,088,466

On 19 November 2003, the Group completed the acquisition of the 100% beneficial interest in Beijing Lei Ting Wu Ji Network Technology Limited ("Wu Ji Network") through the acquisition of Puccini. According to the sale and purchase agreement entered into between the Group and Cranwood, the consideration for the acquisition of Puccini should be equal to the valuation of Puccini and its subsidiaries (the "Puccini Group"), which was to be determined based on the audited consolidated net profit of the Puccini Group for the year ended 31 December 2004, subject to a maximum amount of US$150 million (approximately HK$1,170 million). As at 31 December 2003, the directors considered that it was impractical to estimate the acquisition consideration with reliability and as such did not record 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, of HK$12,005,000 was recorded as negative goodwill as at 31 December 2003.

As at 31 December 2004, the directors considered that the consideration for the acquisition of Puccini could be estimated with reliability, and have therefore recorded a cost of acquisition of HK$1,035,534,000. As a result, goodwill arising from the acquisition has been recorded at HK$1,017,529,000.

17. Goodwill *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs identified according to business and geographical segments.

A segment level of the goodwill allocation is presented below.

	2004				2003			
In HKD Thousands	**Mainland China**	**Hong Kong**	**Taiwan**	**Total**	Mainland China	Hong Kong	Taiwan	Total
Internet Group	**1,274,980**	**–**	**–**	**1,274,980**	(4,387)	–	–	(4,387)
Outdoor Media Group	**290,341**	**–**	**–**	**290,341**	334,929	–	–	334,929
Publishing Group	**–**	**27,493**	**517,356**	**544,849**	–	27,493	517,316	544,809
Sports Group	**25,988**	**60,883**	**–**	**86,871**	22,942	60,883	–	83,825
Television and Entertainment Group	**82,984**	**–**	**–**	**82,984**	129,290	–	–	129,290
	1,674,293	**88,376**	**517,356**	**2,280,025**	482,774	88,376	517,316	1,088,466

The recoverable amount of each cash generating unit ("CGU") in the Internet Group is determined based on fair value. Fair value is the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The valuation was performed by American Appraisal China Limited in November 2004. Before arriving at the valuation, the following principal factors were considered:

- the financial and operating results of the CGU;
- the nature of the CGU from inception;
- the financial condition of the CGU;
- the global economic outlook in general and the specific economic and competitive elements affecting its business, its industry and its market;
- the nature and prospects of mobile value added services industry;
- the stage of development of the CGU's operation;
- worldwide trends of the mobile data markets; and
- the business risks of the CGU.

17. Goodwill *(continued)*

Due to the changing environment in which the CGUs are operating in, a number of assumptions have to be made in order to sufficiently support the concluded value of the CGUs. The major assumptions adopted were:

– there will be no major changes in the existing political, legal, and economic conditions in Mainland China;
– there will be no major changes in the current taxation law in Mainland China, that the rates of tax payable remain unchanged and that all applicable laws and regulations will remain in compliance;
– exchange rates and interest rates will not differ materially from those presently prevailing;
– the intellectual property of the CGUs will not be infringed upon in a manner which would materially affect the economic benefits attributable to the CGUs;
– the CGUs will retain and have competent management, key personnel, and technical staff to support its ongoing operation;
– the CGUs can keep abreast of the latest technological development and changing customer taste of contents in the industry such that its competitiveness and profitability can be sustained;
– the CGUs can maintain its standard of services, and will offer competitive pricing and services as compared to its competitors;
– industry trends and market conditions for related industries will not deviate significantly from economic forecasts; and
– the CGUs can renew their existing contracts with business partners upon the expiry of those contracts.

The recoverable amounts of all other CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business segments in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	Outdoor Media Group	Publishing Group		Sports Group		Television and entertainment Group
	Mainland China	**Hong Kong**	**Taiwan**	**Mainland China**	**Hong Kong**	**Mainland China**
Gross margin[1]	46%	29%	49%	16%	57%	30%
Growth rate[2]	1%	1%	1%	1%	1%	1%
Discount rate[3]	10%	10%	10%	10%	10%	10%

[1] Budgeted gross margin

[2] Weighted average growth rate used to extrapolate cash flows beyond the five- year budget period

[3] Pre-tax discount rate applied to the cash flow projections

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts and the discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

18. Interests in subsidiaries

In HKD Thousands	Company **2004**	2003
Investments at cost – unlisted shares	**234,001**	234,001
Amounts due from subsidiaries	**5,933,202**	6,340,491
Amounts due to subsidiaries	**(1,387,121)**	(1,185,510)
Less: provisions	**(2,240,453)**	(2,187,074)
	2,539,629	3,201,908

During the year ended 31 December 2004, the amount due from TOM Online Group bore interest at a rate of 1.65% over 3 months Hong Kong Interbank Offered Rate ("HIBOR") per annum, was unsecured and not repayable until 31 December 2004. Thereafter, the amount will be repayable on demand.

Save as above, the amounts due from and to other subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The list of the principal subsidiaries of the Group at 31 December 2004 is set out on pages 130 to 136.

19. Interests in jointly controlled entities

In HKD Thousands	Group **2004**	2003
Share of net assets – unlisted shares	**14,650**	15,018

The list of the principal jointly controlled entities of the Group at 31 December 2004 is set out on pages 130 to 136.

20. Interests in associated companies

In HKD Thousands	Group **2004**	2003
Share of net assets – unlisted shares	**34,780**	4,586
Goodwill	**128,177**	–
Intangible assets (Note)		
Cost	**65,156**	–
Accumulated amortisation	**(2,040)**	–
	63,116	–
	226,073	4,586

Note: The intangible assets arising from the acquisition mainly comprised of exclusive operation agreements, non-compete agreements and advertising customer base, which are recognised at fair value upon acquisition and are amortised on a straight-line basis over 5 to 20 years.

20. Interests in associated companies *(continued)*

Key assumptions used for value-in-use calculations for goodwill impairment assessment:

Gross margin	41%
Growth rate	1%
Discount rate	10%

Please refer to Note 17 for detailed explanation of these key assumptions. The list of the principal associated companies of the Group at 31 December 2004 is set out on pages 130 to 136.

21. Investment securities

	Group		Company	
In HKD Thousands	**2004**	2003	**2004**	2003
Listed debt securities outside Hong Kong, at fair value	**2,368,046**	1,474,632	**–**	–
Unlisted equity securities outside Hong Kong, at fair value	**57,728**	28,860	**–**	–
Loans and advances to investee companies	**93,425**	91,144	**896**	–
	2,519,199	1,594,636	**896**	–

The loans and advances to investee companies are unsecured, of which amounts totalling HK$30,069,000 (2003: 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.

22. Inventories

	Group	
In HKD Thousands	**2004**	2003
Merchandise	**17,564**	6,106
Finished goods	**90,413**	80,092
Raw materials	**646**	4,932
Work in progress	**14,494**	11,106
	123,117	102,236

23. Trade and other receivables

In HKD Thousands	Group **2004**	Group 2003	Company **2004**	Company 2003
Trade receivables (Note a)	**781,010**	662,626	**–**	–
Less: Amount due after one year (Note 16 and Note b)	**(74,100)**	(101,400)	**–**	–
Amount receivable within one year	**706,910**	561,226	**–**	–
Prepayments, deposits and other receivables (Note c)	**412,242**	508,682	**20,254**	29,313
	1,119,152	1,069,908	**20,254**	29,313

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 2004, the ageing analysis of the Group's trade receivables is as follows:

In HKD Thousands	Group **2004**	Group 2003
Current	**346,323**	364,306
31-60 days	**136,235**	125,121
61-90 days	**113,328**	82,197
Over 90 days	**185,124**	91,002
	781,010	662,626
Represented by:		
Receivables from related companies	**2,542**	87,735
Receivables from third parties	**778,468**	574,891
	781,010	662,626

Total trade receivable from related companies beneficially owned by substantial shareholders of the Company, Hutchison Whampoa Limited ("HWL"), Cheung Kong (Holdings) Limited ("CKH") and Cranwood, amounted to HK$1,634,000 (2003: HK$1,556,000). Trade receivable from minority shareholders of subsidiaries of the Group, an associated company and an investee company amounted to HK$908,000 (2003: HK$85,866,000), HK$Nil (2003: HK$244,000) and HK$Nil (2003: HK$69,000) respectively.

23. Trade and other receivables *(continued)*

(b) The balance represents trade receivable which is due between 2006 and 2008.

(c) The Group balances include amounts due from jointly controlled entities, associated companies and related companies of HK$1,709,000 (2003: HK$1,835,000), HK$481,000 (2003: HK$189,000) and HK$37,080,000 (2003: HK$44,130,000) respectively. The total balances due from related companies beneficially owned by the substantial shareholders of the Company, HWL, CKH and Cranwood amounted to HK$714,000 (2003: HK$476,000). The balances due from minority shareholders of subsidiaries of the Group amounted to HK$36,366,000 (2003: HK$43,654,000).

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.

24. Consideration payables

	Group		Company	
In HKD Thousands	**2004**	2003	**2004**	2003
Acquisition of subsidiaries (Note a)	**1,082,111**	183,771	**39,930**	183,771
Acquisition of an associated company (Note a)	**110,403**	–	**110,403**	–
Acquisition of an investment security (Note b)	**195,000**	195,000	**195,000**	195,000
	1,387,514	378,771	**345,333**	378,771
Represented by				
– current	**1,387,514**	367,211	**345,333**	367,211
– non-current	**–**	11,560	**–**	11,560
	1,387,514	378,771	**345,333**	378,771

Note:

(a) These represent consideration payables with respect to the acquisition of subsidiaries and an associated company and will be satisified by cash and/or the issuance of shares of the Company or TOM Online 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.

25. Trade and other payables

In HKD Thousands	Group 2004	Group 2003	Company 2004	Company 2003
Trade payables (Note a)	**297,433**	290,451	**–**	–
Less: Amounts due after one year (Note b and Note 27)	**(46,800)**	(46,800)	**–**	–
Amount payable within one year	**250,633**	243,651	**–**	–
Other payables and accruals (Note c)	**556,938**	659,584	**9,086**	8,993
	807,571	903,235	**9,086**	8,993

Note:

(a) As at 31 December 2004, the ageing analysis of the Group's trade payables is as follows:

In HKD Thousands	Group 2004	Group 2003
Current	**174,078**	156,576
31-60 days	**31,116**	43,324
61-90 days	**24,298**	26,188
Over 90 days	**67,941**	64,363
	297,433	290,451

(b) The balance represents trade payables which are due between 2006 and 2008.

(c) The Group balances include amounts due to a jointly controlled entity and related companies of HK$2,906,000 (2003: HK$2,912,000) and HK$72,723,000 (2003: HK$60,110,000) respectively. The total balance due to related companies beneficially owned by the substantial shareholders of the Company, HWL, CKH and Cranwood, amounted to HK$11,776,000 (2003: HK$1,612,000). The balance due to minority shareholders of subsidiaries of the Group amounted to HK$60,947,000 (2003: HK$58,498,000).

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.

26. Short-term loans

In HKD Thousands	Group		Company	
	2004	2003	**2004**	2003
Bank loans				
Secured	**564**	1,692	**–**	–
Unsecured	**9,400**	31,070	**–**	–
	9,964	32,762	**–**	–
Loans from shareholders (Note)	**–**	850,000	**–**	850,000
	9,964	882,762	**–**	850,000

Note:

On 29 July 2004, the Group fully repaid the shareholders' loans of HK$850,000,000 by drawing down a secured bank loan of the same amount. The shareholders' loans were unsecured, and bore interest at the rate of 50 basis points over 3 months HIBOR per annum.

27. Other non-current liabilities

In HKD Thousands	Group	
	2004	2003
Long-term bank loans (Note a)	**1,182,547**	1,675
Convertible bonds (Note b)	**1,179,785**	1,170,753
Long-term payables (Note 25(b))	**46,800**	46,800
Pension obligations (Note 28(a))	**24,867**	20,243
	2,433,999	1,239,471

27. Other non-current liabilities *(continued)*

(a) Long-term bank loans

In HKD Thousands	Group **2004**	2003
Secured	**850,543**	575
Unsecured	**332,046**	1,710
	1,182,589	2,285
Less: current portion of long-term bank loans	**(42)**	(610)
	1,182,547	1,675
The bank loans are repayable as follows:		
Within one year	**42**	610
In the second year	**42**	610
In the third to fifth year	**1,182,171**	610
After the fifth year	**334**	455
	1,182,589	2,285

(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 of the Company (the "Shares"). 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 or redeemed.

28. 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's 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 Hutchison International Limited and KPMG Advisory Services Company Limited, respectively.

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

	Group	
In HKD Thousands	**2004**	2003
Present value of funded obligations	**45,130**	35,152
Fair value of plan assets	**(19,720)**	(15,937)
Deficits	**25,410**	19,215
Unrecognised actuarial (losses)/gains	**(1,585)**	588
Unrecognised prior service cost	**1,042**	–
Recognised in the balance sheet	**24,867**	19,803
Represented by:		
Pension assets (Note 16 and Note c)	**–**	(440)
Pension obligations (Note 27 and Note d)	**24,867**	20,243
	24,867	19,803

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

	Group	
In HKD Thousands	**2004**	2003
Current service cost	**7,431**	7,666
Interest cost	**1,391**	1,213
Expected return on plan assets	**(1,000)**	(762)
Net actuarial (gains)/losses recognised	**(413)**	135
Total, included in staff cost (Note 13)	**7,409**	8,252
Represented by:		
Pension assets (Note c)	**2,382**	2,856
Pension obligations (Note d)	**5,027**	5,396
	7,409	8,252

The actual return on plan assets recognised as an asset was HK$305,000 (2003: a liability of HK$803,000).

28. Pension assets and obligations *(continued)*

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

In HKD Thousands	Group **2004**	2003
At 1 January	**(440)**	(1,349)
Total expenses (Note b)	**2,382**	2,856
Contributions paid	**(1,470)**	(1,947)
Reclassified to pension obligations (Note d)	**(472)**	–
At 31 December	**–**	(440)

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

In HKD Thousands	Group **2004**	2003
At 1 January	**20,243**	18,566
Exchange adjustment	**1,143**	305
Total expenses (Note b)	**5,027**	5,396
Contributions paid	**(2,018)**	(4,024)
Reclassified from pension assets (Note c)	**472**	–
At 31 December	**24,867**	20,243

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

	Group **2004**	2003
Discount rate	**3.5% – 3.75%**	3.5% – 4.75%
Expected rate of return on plan assets	**3.5% – 8%**	3.5% – 8%
Expected rate of future salary increases	**2.5% – 3%**	2.5% – 3%

29. Deferred taxation

(a) Deferred tax assets

In HKD Thousands	Group **2004**	2003
At 1 January	**27,794**	12,650
Exchange adjustment	**1,145**	324
(Charged)/credited to consolidated profit and loss account (Note c)	**(12,156)**	14,820
At 31 December	**16,783**	27,794
Amount to be recovered after more than one year	**92**	300

(b) Deferred tax liabilities

In HKD Thousands	Group **2004**	2003
At 1 January	**17,882**	9,147
Exchange adjustment	**1,278**	151
(Credited)/charged to consolidated profit and loss account (Note c)	**(5,842)**	8,584
At 31 December	**13,318**	17,882
Amount to be payable after more than one year	**13,318**	17,882

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

In HKD Thousands	Group **2004**	2003
Deferred tax assets (Note a)	**12,156**	(14,820)
Deferred tax liabilities (Note b)	**(5,842)**	8,584
Deferred taxation charged/(credited) to consolidated profit and loss account (Note 9)	**6,314**	(6,236)

29. Deferred taxation

(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**	
In HKD Thousands	**2004**	2003	**2004**	2003	**2004**	2003
At 1 January	**2,240**	1,488	**25,554**	12,650	**27,794**	14,138
Exchanged justment	**132**	24	**1,013**	300	**1,145**	324
(Charged)/credited to consolidated profit and loss account	**(1,898)**	728	**(8,859)**	12,604	**(10,757)**	13,332
At 31 December	**474**	2,240	**17,708**	25,554	**18,182**	27,794

Deferred income tax assets are recognised for tax losses carry 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 2004 of HK$2,512,096,000 (2003: HK$2,230,268,000) to carry forward against future taxable income. Certain of the tax losses will expire in accordance with the prevailing tax laws and regulations in the countries in which the Group operates.

Deferred tax liabilities

	Group					
	Accelerated tax depreciation		**Others**		**Total**	
In HKD Thousands	**2004**	2003	**2004**	2003	**2004**	2003
At 1 January	**–**	1,488	**17,882**	9,147	**17,882**	10,635
Exchange adjustment	**–**	–	**1,278**	151	**1,278**	151
(Credited)/charged to consolidated profit and loss account	**41**	(1,488)	**(4,484)**	8,584	**(4,443)**	7,096
At 31 December	**41**	–	**14,676**	17,882	**14,717**	17,882

Deferred income tax liabilities as at 31 December 2004 of HK$127,690,000 (2003: HK$69,389,000) 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 2004 totalled HK$638,451,000 (2003: HK$346,945,000).

29. Deferred taxation *(continued)*

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

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:

In HKD Thousands	**2004**	2003
Deferred tax assets	**16,783**	27,794
Deferred tax liabilities	**(13,318)**	(17,882)
	3,465	9,912

30. Share capital

Company – Authorised

	Ordinary shares of HK$0.1 each	
	No. of shares	In HKD Thousands
At 31 December 2004 and 2003	5,000,000,000	500,000

Company – Issued and fully paid

	Ordinary shares of HK$0.1 each	
	No. of shares	In HKD Thousands
At 1 January 2003	3,321,865,958	332,187
Issuance of shares	556,395,859	55,640
At 31 December 2003	3,878,261,817	387,827
At 1 January 2004	3,878,261,817	387,827
Issuance of shares (Note)	11,735,333	1,174
At 31 December 2004	3,889,997,150	389,001

Note:

On 19 April and 24 September 2004, 11,151,548 and 583,785 ordinary shares were allotted and booked at prices of HK$1.42 and HK$1.616 per share, respectively, which were the fair value calculated based on the closing price quoted on the Stock Exchange at the date of acquisition, or pursuant to terms stipulated in the sales and purchase agreement, as part of the considerations for the acquisition of subsidiaries.

31. Share option schemes

(a) Details of share options granted by the Company:

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 and the Old Option Scheme were adopted by the Company.

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23 July 2004, the Company adopted a New Option Scheme and terminated the Old Option Scheme due to the withdrawal of the listing of the shares of the Company on GEM and commencement of dealings of the shares of the Company on the Main Board. The adoption of the New Option Scheme and the termination of the Old Option Scheme took effect from 4 August 2004 (listing date of the shares of the Company on the Main Board).

Pursuant to the Pre-IPO Share Option Plan, the Company may grant options to any full-time employees 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 GEM 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 Old Option Scheme and the New 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 Old 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. No option has been granted pursuant to the New Option Scheme since its adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the New Option Scheme and any other share option schemes of the Company shall not exceed 388,941,336 shares, being 10% of the issued share capital of the Company at the date of approval of the New Option Scheme.

Movements in share options are as follows:

	2004		2003	
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**	**186,279,000**	16,196,000	109,504,000
Granted	**–**	**10,000,000**	–	106,541,000
Lapsed	**–**	**(3,306,000)**	–	(4,694,000)
Cancelled	**–**	**(10,216,000)**	–	(25,072,000)
Outstanding at 31 December	**16,196,000**	**182,757,000**	16,196,000	186,279,000

31. Share option schemes *(continued)*

(a) Details of share options granted by the Company *(continued):*

Details of share options granted under the Share Option Scheme during 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 31 December 2004 are:

Expiry date	**Subscription price per share**	**2004**	2003
10 February – 14 November 2010	HK$1.78 – HK$11.30	**55,108,000**	58,424,000
6 February 2012	HK$3.76	**30,000,000**	37,810,000
8 October 2013	HK$2.505	**103,845,000**	106,241,000
15 February 2014	HK$2.55	**10,000,000**	–
		198,953,000	202,475,000

(b) Details of TOM Online's Pre-IPO Share Option Plan and Share Option Scheme:

Pursuant to a written resolution of the then sole shareholder of TOM Online passed on 12 February 2004, a Pre-IPO Share Option Plan and Share Option Scheme were adopted by TOM Online.

Pursuant to the Pre-IPO Share Option Plan, the Board of TOM Online may grant share options to any part-time or full-time employees or directors (including any executive director and independent non-executive director) of TOM Group Limited and/or any company in TOM Online Group, and any advisor or consultant to TOM Online Group. However, save for the options which have been granted on 16 February 2004, no further options may be granted upon the listing of the shares of TOM Online on the GEM on 11 March 2004. The subscription price per share under the Pre-IPO Share Option Plan is HK$1.5. The options granted to a grantee will vest in 5 tranches in the proportion of 10%: 15%: 20%: 25%: 30%. The first and second tranches of the options have vested on 12 April 2004 and 16 February 2005 repectively. The third, fourth and fifth tranches of the options will vest on 16 February 2006, 16 February 2007 and 16 February 2008 repectively. The options granted to 2 grantees will vest in 4 tranches in the proportion of 15%: 25%: 30%: 30%. The first tranch of the options has vested on 16 February 2005 and the second, third and fourth tranches will vest on 16 February 2006, 16 February 2007 and 16 February 2008 respectively. For the rest of the grantees, the options will vest in 4 tranches in the proportion of 10%: 30%: 30%: 30%. The first and second tranches of the options have vested on 12 April 2004 and 16 February 2005 respectively, the third and fourth tranches of the options will vest on 16 February 2006 and 16 February 2007 respectively.

No option has been granted pursuant to the Share Option Scheme since its adoption.

31. Share option schemes *(continued)*

(b) Details of TOM Online's Pre-IPO Share Option Plan and Share Option Scheme *(continued)*:

Movement in share options are as follows:

Number of share options	**2004**
Date of grant and at 16 February 2004	**280,000,000**
Lapsed	**(17,574,960)**
Outstanding at 31 December 2004	**262,425,040**

Terms of the share options outstanding at 31 December 2004 are:

Expiry date	Subscription price per share	**2004**
15 February 2014	HK$1.50	**262,425,040**

32. Reserves

In HKD Thousands	Group Share premium account	Capital reserve	Capital redemption reserve	General reserve	Revaluation reserve	Exchange difference	Accumulated losses	Total
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
At 1 January 2004	3,605,986	(377)	776	15,579	5,610	1,206	(2,391,147)	1,237,633
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	15,605	–	–	–	–	–	–	15,605
Investment revaluation deficit	–	–	–	–	(10,710)	–	–	(10,710)
Profit for the year	–	–	–	–	–	–	859,822	859,822
Transfer to general reserve	–	–	–	64,184	–	–	(64,184)	–
Exchange difference	–	–	–	304	(84)	(3,800)	–	(3,580)
At 31 December 2004	3,621,591	(377)	776	80,067	(5,184)	(2,594)	(1,595,509)	2,098,770
Analysed by:								
Company and subsidiaries	3,621,591	(377)	776	80,067	(5,184)	(2,594)	(1,595,621)	2,098,658
Jointly controlled entities	–	–	–	–	–	–	(8,327)	(8,327)
Associated companies	–	–	–	–	–	–	8,439	8,439
At 31 December 2004	3,621,591	(377)	776	80,067	(5,184)	(2,594)	(1,595,509)	2,098,770

32. Reserves *(continued)*

In HKD Thousands	Share premium account	Contributed surplus	Company Capital redemption reserve	Accumulated losses	Total
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
At 1 January 2004	4,080,480	23,565	776	(2,141,715)	1,963,106
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	15,605	–	–	–	15,605
Loss for the year	–	–	–	(105,161)	(105,161)
At 31 December 2004	4,096,085	23,565	776	(2,246,876)	1,873,550

Note:

The Company's reserves available for distribution calculated under Companies Law of the Cayman Islands comprise the share premium account, contributed surplus and accumulated losses totalling HK$1,872,774,000 (2003: HK$1,962,330,000).

33. Own shares held

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

34. Business Combinations

(a) Acquisition of Puccini Group

On 19 November 2003, the Group completed the acquisition of the 100% beneficial interest in Wu Ji Network through the acquisition of the entire share capital of Puccini. Wu Ji Network is primarily engaged in the provision of Interactive Voice Response ("IVR") service in Mainland China. The acquisition helps the Group to grow its IVR business in Mainland China. The purchase consideration was contingent on the 2004 audited consolidated net profit of Puccini Group and subject to a maximum consideration of US$150 million (approximately HK$1,170 million). The purchase consideration was estimated with reliability as at 31 December 2004 at the amount of US$132 million (approximately HK$1,030 million). The purchase consideration is structured in the way that half of the total consideration is to be paid in cash and the remaining balance is to be satisified by the issue of TOM Online shares and US$18.5 milion (approximately HK$144.3 million) worth of TOM Online shares were issued at the Global Offering at an issue price of HK$1.5 each (Note 4). The remaining TOM Online shares will be issued at an issue price equal to the average closing price of TOM Online shares on GEM for the 30 trading days immediately prior to the issuance of the 2004 audited accounts of Puccini Group. Subject to regulatory requirements, Cranwood has agreed to provide the Group, upon request, within 10 business days following the payment of the consideration, an unsecured, 12-month loan at interest rate of 0.5% over London Inter-Bank Offered Rate in the amount of half of the cash consideration actually received by Cranwood.

The allocation of the cost of acquisition is as follows:

In HKD Thousands

Net assets acquired at fair value	
Fixed assets	3,247
Trade and other receivables	2,451
Bank balance and cash	32,203
Trade and other payables	(16,781)
Taxation payables	(3,115)
	18,005
Cost of acquisition	
Purchase consideration	1,030,334
Other directly attributable costs	5,200
	1,035,534
Goodwill	1,017,529

The acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The Group's shares of net assets as at 31 December 2004 and 2004 post acquisition profit arising from this acquisition amounted to HK$118,110,000 and HK$103,072,000.

34. Business Combinations *(continued)*

(b) Acquisition of Treasure Base Group

On 11 August 2004, the Group completed the acquisition of the 100% beneficial interest in Beijing LingXun Interactive Science Technology and Development Company Limited ("LingXun") through the acquisition of the entire share capital of Treasure Base Investments Limited ("Treasure Base" or collectively referred to as the "Treasure Base Group"). LingXun is primarily engaged in the provision of wireless internet services in Mainland China. The acquisition helps the Group to grow its wireless internet services business in Mainland China. The purchase consideration was and will be contingent on the 2004 and 2005 audited consolidated net profit of Treasure Base Group and subject to the maximum consideration of RMB550 million (approximately HK$517 million). As at 31 December 2004, the initial consideration in relation to the 2004 audited consolidated net profit was estimated with reliablility at the amount of RMB274 million (approximately HK$257.7 million). The contingent consideration in relation to the 2005 audited consolidated net profit is disclosed as a capital commitment in note 38(d).

The allocation of initial consideration is as follows:

In HKD Thousands

Net assets acquired at fair value	
Fixed assets	1,367
Other non-current assets	5,539
Trade and other receivables	10,770
Bank balance and cash	45,865
Trade and other payables	(12,334)
Taxation payables	(922)
	50,285
Cost of acquisition	
Initial purchase consideration	257,668
Other directly attributable costs	2,027
	259,695
Goodwill	209,410

The acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The Group's share of net assets as at 31 December 2004 and 2004 post acquisition profit arising from this acquisition amounted to HK$46,453,000 and HK$10,316,000.

34. Business Combinations *(continued)*

(c) Acquisition of Whole Win Group

On 19 November 2004, the Group completed the acquisition of the 100% beneficial interest in Startone (Beijing) Information Technology Company Limited ("Startone") through the acquisition of the entire share capital of Whole Win Investments Limited ("Whole Win" or collectively referred to as the "Whole Win Group"). Startone is primarily engaged in the provision of wireless application protocol ("WAP") services in Mainland China. The acquisition helps the Group to grow its WAP business in Mainland China. The purchase consideration was RMB60 million (approximately HK$56.4 million).

The allocation of the cost of acquisition is as follows:

In HKD Thousands

Net assets acquired at fair value	
Fixed assets	231
Other non-current assets	1,724
Trade and other receivables	7,297
Bank balance and cash	836
Trade and other payables	(205)
	9,883
Cost of acquisition	
Purchase consideration	56,400
Other directly attributable costs	450
	56,850
Goodwill	46,967

The acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The Group's share of net assets as at 31 December 2004 and 2004 post acquisition profit arising from this acquisition amounted to HK$7,469,000 and HK$367,000.

34. Business Combinations *(continued)*

(d) Acquisition of Jinzhao

On 15 December 2004, the Group entered into an agreement (the "Agreement") with certain independent third parties (the "Jinzhao partners") for the establishment of a domestic company ("Jinzhao") in Chongqing, Mainland China to be engaged in the outdoor media advertising business. The Group owns 51% of the beneficial interest in Jinzhao and contributed RMB3 million (approximately HK$2.9 million) as share capital and RMB9 million (approximately HK$8.6 million) as shareholder's loan for funding its capital expenditure and working capital requirements.

Subject to certain conditions as set out in the Agreement, the Jinzhao partners have been granted a Put Option and a Call Option. Pursuant to the Put Option, the Jinzhao partners have the right to sell all (but not part) of its equity interest in Jinzhao to the Group and pursuant to the Call Option, the Jinzhao partners have the right to acquire 51% of the beneficial interest in Jinzhao and the shareholder's loan from the Group.

The allocation of the cost of acquisition is as follows:

In HKD Thousands

Net assets acquired at fair value	
Fixed assets	11,085
Trade and other receivables	5,747
Trade and other payables	(11,192)
Minority interests	(2,764)
	2,876
Cost of acquisition	
Purchase consideration	2,876
Other directly attributable costs	583
	3,459
Goodwill	583

The acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The Group's share of net assets as at 31 December 2004 and 2004 post acquisition profit arising from this acquisition amounted to HK$3,970,000 and HK$1,094,000.

34. Business Combinations *(continued)*

(e) Acquisition of PCW

On 1 August 2004, the Group completed the acquisition of the 48.5% equity interest in China Popular Computer Week Management Company Limited ("PCW"). PCW is primarily engaged in the advertising sales and distribution of publication products in Mainland China. The acquisition helps the Group to develop its print media business in Mainland China. The purchase consideration was RMB208 million (approximately HK$195.2 million).

The allocation of the cost of acquisition is as follows:

In HKD Thousands

Net assets acquired at fair value	13,677
Intangible assets recognised upon acquisition	65,156
	78,833
Cost of acquisition	
Purchase consideration	195,156
Other directly attributable costs	11,854
	207,010
Goodwill	128,177

The acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The Group's interests in associated companies, including intangible assets and goodwill acquired, as at 31 December 2004 and 2004 post acquisition profit arising from this acquisition amounted to HK$216,319,000 and HK$9,309,000.

35. Notes to the consolidated cash flow statement

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

In HKD Thousands	**2004**	2003
Operating profit	**299,137**	92,349
Provision for impairment of investment securities	**1,363**	1,498
Amortisation and depreciation	**123,250**	189,199
Loss on disposal of fixed assets	**5,751**	10,043
Gain on disposal of a subsidiary (Note e)	**–**	(856)
Operating profit before working capital changes	**429,501**	292,233
Decrease/(increase) in long-term receivable	**27,300**	(101,400)
Decrease in pension assets	**440**	909
(Increase)/decrease in inventories	**(26,758)**	7,517
Increase in trade and other receivables	**(145,665)**	(388,497)
(Decrease)/increase in trade and other payables	**(199,540)**	222,056
Increase in long-term payables	**–**	46,800
Increase in pension obligations	**3,173**	1,372
Interest income	**(82,925)**	(14,097)
Exchange adjustment	**2,900**	2,482
Net cash inflow from operations	**8,426**	69,375

35. Notes to the consolidated cash flow statement *(continued)*

(b) Acquisition of subsidiaries

In HKD Thousands	**2004**	2003
Net assets acquired:		
Fixed assets (Note 15)	**12,683**	21,105
Other non-current assets (Note 16)	**7,263**	3,975
Inventories	**–**	43
Trade and other receivables	**23,814**	13,736
Bank balances and cash	**46,701**	52,123
Trade and other payables	**(23,731)**	(47,913)
Taxation payable	**(922)**	(3,115)
Minority interests	**(2,764)**	36,857
	63,044	76,811
Goodwill (Note 17)	**257,491**	135,603
	320,535	212,414
Satisfied by:		
Cash	**164,387**	72,964
Allotment of shares	**–**	125,345
Consideration payables	**156,148**	–
Interests in jointly controlled entities held prior to acquisitions	**–**	14,105
	320,535	212,414

The above included cash consideration, other directly attributable costs and goodwill of HK$531,000 (2003: HK$Nil) for an acquisition of which the directors considered immaterial for further disclosures.

The subsidiaries acquired during the year contributed HK$18,162,000 (2003: HK$3,315,000) to the Group's net operating cash flows and utilised HK$394,000 (2003: HK$496,000) for investing activities.

If the acquisitions had occurred on 1 January 2004, revenue and profit attributable to shareholders for the year would have been increased by HK$120,683,000 and HK$32,832,000, respectively.

35. 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:

In HKD Thousands	**2004**	2003
Cash consideration	**(164,387)**	(72,964)
Bank balances and cash acquired	**46,701**	52,123
Net cash outflow in respect of acquisition of subsidiaries	**(117,686)**	(20,841)

(d) Deemed disposal of a subsidiary

The change in assets and liabilities to the Group in respect of the Global Offering and share allotment by TOM Online for acquisition of a subsidiary is as follows:

In HKD Thousands	**2004**	2003
Increase in goodwill	**144,300**	–
Increase in bank balances and cash	**1,334,364**	–
Increase in trade and other payables	**(40,424)**	–
Increase in minority interests	**(458,764)**	–
Profit on deemed disposal of a subsidiary	**979,476**	–

35. Notes to the consolidated cash flow statement *(continued)*

(e) Deconsolidation/disposal of a subsidiary

In HKD Thousands	**2004**	2003
Net assets deconsolidated/disposed of:		
Fixed assets (Note 15)	**1,729**	1,038
Other non-current assets (Note 16)	**18,634**	–
Inventories	**11,171**	–
Trade and other receivables	**107,921**	2,199
Bank balances and cash	**219**	1,798
Trade and other payables	**(99,028)**	(2,615)
Taxation payable	**(5,658)**	–
Loans from minority shareholders	**–**	(4,350)
Minority interests	**(14,508)**	3,705
	20,480	1,775
Profit on disposal of a subsidiary (Note a)	**–**	856
	20,480	2,631
Satisfied by:		
Reclassification as investment securities	**20,480**	231
Consideration receivable	**–**	467
Cash	**–**	1,933
	20,480	2,631

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

In HKD Thousands	**2004**	2003
Cash consideration	**–**	1,933
Bank balances and cash deconsolidated/disposed	**(219)**	(1,798)
Net cash (outflow)/inflow in respect of deconsolidation/disposal of a subsidiary	**(219)**	135

35. Notes to the consolidated cash flow statement *(continued)*

(f) Analysis of changes in financing during the year

In HKD Thousands	**Share capital including premium and capital reserve**	**Bank loans**	**Convertible bonds**	**Loans from shareholders**	**Loans from minority shareholders**	**Other loans**	**Minority interests**	**Total**
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 b)	–	–	–	–	–	–	(36,857)	(36,857)
Disposal of a subsidiary (Note e)	–	–	–	–	(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

35. Notes to the consolidated cash flow statement *(continued)*

(f) Analysis of changes in financing during the year (continued)

In HKD Thousands	Share capital including premium and capital reserve	Bank loans	Convertible bonds	Loans from shareholders	Minority interests	Total
At 1 January 2004	3,987,351	35,047	1,170,753	850,000	163,083	6,206,234
New bank and other loans	–	1,234,707	–	–	–	1,234,707
Loan repayments	–	(83,936)	–	(850,000)	–	(933,936)
Contribution from minority shareholders	–	–	–	–	1,932	1,932
Net cash from/(used in) financing activities	–	1,150,771	–	(850,000)	1,932	302,703
Shares issued for acquisition of subsidiaries	16,779	–	–	–	–	16,779
Accrual of redemption premium	–	–	9,032	–	–	9,032
Minority's share of profits of subsidiaries	–	–	–	–	104,303	104,303
Minority interests in TOM Online's share capital and share premium	–	–	–	–	458,767	458,767
Minority interests in revaluation reserve	–	–	–	–	(1,069)	(1,069)
Minority interests in other reserve	–	–	–	–	20	20
Acquisition of subsidiaries (Note b)	–	–	–	–	2,764	2,764
Deconsolidation of a subsidiary (Note e)	–	–	–	–	(14,508)	(14,508)
Dividends payable to minority shareholders	–	–	–	–	(8,820)	(8,820)
Exchange adjustment	–	6,735	–	–	3,183	9,918
	16,779	6,735	9,032	–	544,640	577,186
At 31 December 2004	4,004,130	1,192,553	1,179,785	–	709,655	7,086,123

36. Pledge of assets

(a) As at 31 December 2004, debt securities of market value of approximately HK$941,653,000 (2003: HK$Nil) were pledged to a bank for securing a bank loan of HK$850,000,000.

(b) As at 31 December 2004, bank deposits and cash totalling approximately HK$11,691,000 (2003: HK$21,636,000) were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company and an investee company.

(c) As at 31 December 2004, concession rights and property at net book value of HK$3,096,000 (2003: HK$5,614,000) and HK$801,000 (2003: HK$814,000), respectively were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company.

37. Contingent liabilities

(a) As at 31 December 2004, the Group had contingent liabilities amounting to approximately HK$9,400,000 (2003: 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) Same as disclosed in note 27(b), the Company did not have any contingent liability at 31 December 2004 (2003: HK$Nil).

38. Commitments

(a) Capital commitments

	Group	
In HKD Thousands	**2004**	2003
Acquisition of new investments		
– Contracted but not provided for	**177,307**	–
Acquisition of fixed assets and other intangible assets		
– Contracted but not provided for	**18,051**	82,652
– Authorised but not contracted for	**310,971**	1,715
	506,329	84,367

(b) As at 31 December 2004, the Group had commitments in respect of contributions to registered capital of certain investments in Mainland China amounted to approximately HK$11,214,000 (2003: HK$23,923,000) and provision of interest free shareholder's loan to an investment in Mainland China of HK$4,315,000 (2003: HK$Nil).

(c) As at 31 December 2004, the Group had commitment in respect of subscription of a guaranteed convertible bond ("the bond") of US$5 million (approximately HK$39 million) upon the completion of the acquisition of 27% issued share capital of Huayi Brothers International Limited ("Huayi Brothers"). The bond will be issued by Huayi Brothers and jointly guaranteed by two of the shareholders of Huayi Brothers. The bond will bear interest at 6% per annum and will mature in 2007. Upon full conversion, the bond will be converted into 8% of the enlarged issued share capital of Huayi Brothers and the Group's interest in Huayi Brothers will increase from 27% upon the completion of the acquisition to 35%.

38. Commitments *(continued)*

(d) Other commitment

As at 31 December 2004, the Group had other commitment in respect of the acquisition of the 100% beneficial interest in Treasure Base Group. According to the sale and purchase agreement, the initial consideration recognised totalled RMB274 million (approximately HK$257.7 million), which was 4.5 times of the 2004 audited net profit of Treasure Base Group, and the earn-out consideration will be resolved in terms of (i) if the 2005 audited combined after-tax profit is less than RMB40 million (approximately HK$37.6 million), an amount equal to the 2005 audited combined after-tax profit; or (ii) if the 2005 audited combined after-tax profit is equal to or more than RMB40 million (approximately HK$37.6 million) but less than (or equal to) RMB75 million (approximately HK$70.5 million), 1.5 times the amount of the 2005 audited combined after-tax profit; or (iii) if the 2005 audited combined after-tax profit is more than RMB75 million (approximately HK$70.5 million), 1.75 times the amount of the 2005 audited combined after-tax profit. The consideration is subject to a maximum of RMB550 million (approximately HK$517.0 million), and therefore the Group's maximum commitment in respect of this acquisition as at 31 December 2004 amounted to RMB276 million (approximately HK$259.3 million).

(e) Commitments under operating leases

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004		2003	
In HKD Thousands	**Land and buildings**	**Other assets**	Land and buildings	Other assets
Not later than one year	**27,596**	**50,139**	23,860	29,288
Later than one year and not later than five years	**15,249**	**143,428**	16,287	172,591
Later than five years	**–**	**19,894**	–	41,879
	42,845	**213,461**	40,147	243,758

(f) The Company did not have any commitments at 31 December 2004 (2003: HK$Nil).

39. 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 4, 23, 25 and 26 to the accounts.

		Group	
In HKD Thousands	Notes	**2004**	2003
Sales to	(i)		
– HWL and its subsidiaries		**4,820**	1,594
– Metro Broadcast Corporation Limited ("Metro"), an associated company of HWL and CKH		**–**	750
– CKH and its subsidiaries		**1,208**	746
– a jointly controlled entity		**5,135**	8,313
– minority shareholders of subsidiaries and their subsidiaries		**2,031**	144,058
Cost of sales payable to	(ii)		
– minority shareholders of subsidiaries and their subsidiaries		**38,707**	26,637
– Cranwood and its subsidiaries		**341**	–
Office rental receivable from Metro		**–**	770
Office and warehouse rental payable to	(iii)		
– an associated company of CKH		**9,404**	6,937
– a subsidiary of CKH		**5,694**	10,356
– minority shareholders of subsidiaries and their subsidiaries		**1,359**	1,920
Service fees payable to	(iv)		
– a subsidiary of HWL		**14,595**	7,646
Service fees payable to	(v)		
– HWL and its subsidiaries		**1,820**	2,403
– minority shareholders of subsidiaries and their subsidiaries		**19,024**	17,019
Interest expenses payable to			
– a subsidiary of HWL	26	**1,594**	5,796
– a subsidiary of CKH	26	**798**	2,898
– Cranwood	26	**1,594**	5,796
– minority shareholders of subsidiaries and their subsidiaries		**99**	–

39. 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 related companies at market rates.

(iii) 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.

(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.

40. Subsequent events

In December 2004, TOM Online announced, through its wholly-owned subsidiary, TOM Online Games Limited, the acquisition of approximately 80.6% of the enlarged issued share capital of Indiagames Limited ("Indiagames"), a limited liability company incorporated in India, which is engaged in mobile games publishing business. The total consideration for the acquisition amounts to US$17,732,000 (approximately HK$138 million), which comprises US$13,732,000 (approximately HK$107 million) for the acquisition of approximately 76.29% of the existing issued and paid-up capital of Indiagames and US$4,000,000 (approximately HK$31 million) for a subscription of 112,683 new shares of Indiagames. The acquisition will be funded by TOM Online's internal resources and will be subject to customary closing conditions. The consideration for the acquisition of 76.29% of equity interests was paid in February 2005 and the acquisition was completed on 24 February 2005. The subscription of 112,683 new shares will be completed on or before 31 March 2005.

41. Approval of accounts

The accounts were approved by the board of directors on 23 March 2005.