NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements of the Group.

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new Hong Kong Financial Reporting Standards ("HKFRS") and HKASs (collectively referred to as new "HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those HKFRSs and interpretations issued and effective as at the time of preparing this information. The HKFRSs and interpretation that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) Early adoption of HKFRS 3, HKAS 36 and HKAS 38 in 2004

In preparing the consolidated financial statements for the year ended 31 December 2004, the Group has early adopted the following new standards with effective from 1 January 2004:

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

The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in a change in accounting policy for goodwill and intangible assets. When preparing the interim financial statements of the Group for the six months ended 30 June 2004, goodwill and intangible assets were:

– amortised on a straight-line basis over a maximum period 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;
– goodwill is tested annually for impairment as well as when there is indication of impairment; and
– intangible assets can have indefinite useful lives.

These new accounting standards do not require retrospective application. The comparative financial information of the profit and loss account for the six months ended 30 June 2004 has been restated as below:

	For the six months ended 30 June 2004
Increase in profit attributable to equity holders of the Company (HK$'000)	25,131
Increase in earnings per share-basic (HK cent)	0.64
Increase in earnings per share-diluted (HK cent)	0.59

(b) *Adoption of HKFRSs in the current period*

In 2005, the Group has adopted the new HKFRSs below, which are relevant to its operation. The 2004 comparative financial information, where required, has been amended in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 5	Non-current Assets held for Sale and Discontinued Operations

The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and HKFRS 5 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and certain other disclosures in the financial statements;

– HKAS 8 has affected certain disclosures in the financial statements;

– HKASs 2, 7, 10, 16, 23, 24, 27, 28, 31, 33 and HKFRS 5 had no material effect on the Group's policy; and

– HKAS 21 requires goodwill and fair value adjustments arising on acquisition of foreign entities be treated as assets and liabilities of the foreign entities and translated at closing rates.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with the standard on a retrospective basis. The adjustments required by the adoption of HKAS 39 are determined and recognised on 1 January 2005.

HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested on 1 January 2005.

Details of the effects of the other applicable HKFRSs are as below:

HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease and where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

If the allocation between the leasehold land and building elements cannot be made reliably, the leasehold interests in land are accounted for as properties within fixed assets.

HKASs 32 and 39

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 December 2004, investments held by the Group for non-trading purpose are classified as investment securities and 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.

In accordance with HKAS 39, the investments, depending on the purpose for which the investments are held, are required to be classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale.

As a result, the investment securities held by the Group are reclassified as available-for-sale financial assets and carried at fair value at the balance sheet date with movements in fair value taken to reserve, or the part of any change in fair value attributable to interest income calculated using the effective interest method being recognised in profit and loss account.

Furthermore, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method. Embedded derivative should be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the derivative are not closely related to that of the host contract.

Therefore, the convertible bonds in issue by the Group as at 1 January 2005 were split into the equity portion for the fair value of the conversion right by the bondholders, and the liability portion of the loan which is carried at amortised cost using effective interest method.

HKFRS 2
The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective from 1 January 2005, the Group expenses the cost of share options in the profit and loss account. In accordance with the transitional provision of HKFRS 2, only the cost of share options granted after 7 November 2002 which had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

HKAS 19 (Amendment)
In February 2005, HKICPA issued HKAS 19 (Amendment) "Actuarial Gains and Losses, Group Plans and Disclosures" which is effective for accounting periods beginning on or after 1 January 2006. This amendment to HKAS 19, among others, introduces an additional recognition option for all actuarial gains and losses arising from post-employment defined benefit plans outside the profit and loss account. Certain disclosures requirements in financial statements are also revised.

As permitted by HKAS 19 (Amendment), the Group has early adopted this standard with effect from 1 January 2005.

The impact on the prior periods from the adoption of HKAS 19 (Amendment) are not material such that no prior year adjustment has been made.

Overall, effect of changes in the accounting policies on profit attributable to equity holders of the Company and on equity attributable to equity holder of the Company is summarised below:

	HKAS 32 & HKAS 39	**HKFRS 2**	**HKAS 19 (Amendment)**	**As at or for the six months ended 30 June 2005**
Decrease in profit attributable to equity holders of the Company (HK$'000)	**18,348**	**21,188**	**20**	**39,556**
Decrease in earnings per share-basic (HK cents)	**0.47**	**0.55**	**–**	**1.02**
Increase/(decrease) in capital and reserves attributable to equity holders of the Company (HK$'000)	**143,084**	**–**	**(563)**	**142,521**

	HKAS 32 & HKAS 39	HKFRS 2	HKAS 19 (Amendment)	As at or for the six months ended 30 June 2004
Decrease in profit attributable to equity holders of the Company (HK$'000)	–	25,758	–	25,758
Decrease in earnings per share-basic (HK cent)	–	0.66	–	0.66
Decrease in earnings per share-diluted (HK cent)	–	0.60	–	0.60
Increase/(decrease) in capital and reserves attributable to equity holders of the Company (HK$'000)	–	–	–	–

(c) *New standards not yet effective*

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective. The Directors consider that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies:

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 3	Emission Rights
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. New accounting policies

The accounting policies adopted for the condensed consolidated financial statements for the six months ended 30 June 2005 are the same as those as set out in note 1 to the 2004 annual financial statements except for those set out below due to the adoption of HKFRSs.

(a) *Investments*

The Group classifies its investments in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, or discounted cash flow analysis refined to reflect the issuer's specific circumstances. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(b) *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(c) *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity.

(d) *Pension obligation*

From 1 January 2002, pension accounting costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as present value of the estimated future cash outflows using interest rates determined by reference to market yields at the balance sheet date based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. Cumulative unrecognised net actuarial gains and losses at the previous financial year end to the extent of the amount in excess of 10% of the greater of the present value of plan obligations and the fair value of plan assets at that date are recognised over the average remaining service lives of employees. In accordance with transitional provisions, transitional liabilities at 1 January 2002 are recognised as an expense on a straight line basis over a period of less than five years from 1 January 2002.

From 1 January 2005, with the early adoption of HKAS 19 (Amendment), the Company has opted to recognise actuarial gains and losses in full in the period in which they occur, in the statement of recognised income and expense.

(e) *Share-based compensation*

The Group operates equity-settled, share-based compensation plans. For share options granted after 7 November 2002 and not yet vested on 1 January 2005, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

No compensation cost is recognised in relation to the share options granted on or before 7 November 2002, or that have already fully vested on 1 January 2005.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(f) *Foreign currency translation*

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each profit and loss account are translated at average exchange rates; and

(3) all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

For those acquisitions made prior to 1 January 2005, goodwill and fair value adjustments arising on the acquisition of the entity are expressed in the acquiring company's functional currency.

(g) *Leases*

In classifying and accounting for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

4. Segment reporting

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.

	Six months ended 30 June 2005					
	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Total HK$'000
Turnover	621,451	184,063	512,231	65,551	32,451	1,415,747
Segment profit/(loss) before amortisation and depreciation	167,609	35,529	69,725	(8,385)	(17,671)	246,807
Amortisation and depreciation	(31,180)	(12,846)	(6,495)	(252)	(19,447)	(70,220)
Segment profit/(loss)	136,429	22,683	63,230	(8,637)	(37,118)	176,587
Provision for receivables, net	38,932	–	–	(70,903)	–	(31,971)
Share of losses of jointly controlled entities	(85)	–	–	–	–	(85)
Share of profits of associated companies	64	–	8,473	–	–	8,537
Unallocated costs						(35,253)
Operating profit before net gain on deemed disposals						117,815
Net gain on deemed disposals of interests in subsidiaries	160,335	–	–	–	–	160,335
Operating profit						278,150
Finance costs						(45,300)
Profit before taxation						232,850
Taxation						(23,576)
Profit for the period						209,274
Attributable to:						
Equity holders of the Company						169,348
Minority interests						39,926
						209,274
Capital expenditure	44,216	14,443	3,238	373	18,277	80,547
Unallocated capital expenditure						2,952
						83,499

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

	As at 30 June 2005					
	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Total HK$'000
Segment assets	2,252,802	737,121	1,370,120	261,612	149,428	4,771,083
Interests in jointly controlled entities	14,565	–	–	–	–	14,565
Interests in associated companies	1,787	–	224,569	–	–	226,356
Available-for-sale financial assets	788,487	4,230	15,315	2,666	17,609	828,307
Unallocated assets						1,474,597
Total assets						7,314,908
Segment liabilities	163,554	97,619	452,377	52,099	35,066	800,715
Unallocated liabilities						2,722,171
Total liabilities						3,522,886

	Six months ended 30 June 2004 (As restated)					
	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Total HK$'000
Turnover	458,732	159,460	441,452	127,333	11,398	1,198,375
Segment profit/(loss) before amortisation and depreciation	160,244	38,582	55,929	19,957	(32,771)	241,941
Amortisation and depreciation	(22,325)	(12,865)	(6,412)	(237)	(10,011)	(51,850)
Segment profit/(loss)	137,919	25,717	49,517	19,720	(42,782)	190,091
Provision for impairment of assets	(23,752)	(12,141)	–	–	(46,838)	(82,731)
Provision for contracts termination	–	(25,600)	–	–	(108,715)	(134,315)
Provision for receivables, net	–	(17,831)	–	–	(4,645)	(22,476)
Listing expenses for migration to the Main Board of Stock Exchange						(19,812)
Share of losses of jointly controlled entities	(346)	–	–	–	–	(346)
Share of profits of associated companies	87	–	766	–	–	853
Unallocated costs						(49,720)
Operating loss before net gain on deemed disposals						(118,456)
Net gain on deemed disposals of interests in a subsidiary	873,367	–	–	–	–	873,367
Operating profit						754,911
Finance costs						(15,369)
Profit before taxation						739,542
Taxation						(23,272)
Profit for the period						716,270
Attributable to:						
Equity holders of the Company						683,478
Minority interests						32,792
						716,270
Capital expenditure	34,058	13,912	19,960	514	14,469	82,913
Unallocated capital expenditure						2,243
						85,156

	As at 31 December 2004 (As restated)					
	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Total HK$'000
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
Available-for-sale financial assets	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
Total liabilities						4,702,867

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.

	Turnover		Operating profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004
				(As restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**33,772**	50,616	**(21,442)**	(4,183)
Mainland China	**902,220**	738,089	**177,653**	178,316
Taiwan	**479,755**	409,670	**90,596**	67,808
	1,415,747	1,198,375	**246,807**	241,941
Amortisation and depreciation			**(70,220)**	(51,850)
Provision for impairment of assets			**–**	(82,731)
Provision for contracts termination			**–**	(134,315)
Provision for receivables, net			**(31,971)**	(22,476)
Listing expenses for migration to the Main Board of Stock Exchange			**–**	(19,812)
Share of losses of jointly controlled entities			**(85)**	(346)
Share of profits of associated companies			**8,537**	853
Net gain on deemed disposals of interests in subsidiaries			**160,335**	873,367
Unallocated costs			**(35,253)**	(49,720)
Operating profit			**278,150**	754,911

5. Provision for receivables, net

Provision for receivables, net represents a provision of HK$70,903,000 for accounts receivables in respect of two sports events, offset by a write-back of provision of HK$38,932,000 made in prior years in respect of loans and advances to certain investee companies.

6. Net gain on deemed disposals of interests in subsidiaries

(a) Puccini International Limited ("Puccini")

On 19 November 2003, the Group completed the acquisition of the 100% beneficial interest in Beijing Lei Ting Wu Ji Network Technology Limited from Cranwood Company Limited ("Cranwood") through the acquisition of the entire share capital of Puccini. The purchase consideration was contingent on the audited consolidated net profit of Puccini and its subsidiaries (the "Puccini Group") for the year ended 31 December 2004, and subject to a maximum consideration of US$150 million (approximately HK$1,170 million). Half of the consideration is to be settled in cash and the remaining half is to be satisfied by the issue of shares by TOM Online Inc. ("TOM Online"), a non-wholly owned subsidiary of the Company. As at 31 December 2004, the total purchase consideration was estimated to be US$132 million (approximately HK$1,030 million). Shares of TOM Online worth of US$18.5 million (approximately HK$144.3 million) were issued at an issue price of HK$1.5 each to Cranwood in March 2004 as initial consideration.

The audited consolidated accounts of Puccini Group for the year ended 31 December 2004 were issued on 6 April 2005 and the purchase consideration was finalised at US$132 million (approximately HK$1,030 million). Accordingly, shares of TOM Online totalling US$47.5 million (approximately HK$370.5 million) were issued by TOM Online at an issue price of HK$1.2193 per share (being the average closing price of shares of TOM Online during the 30 trading days immediately before the date of the auditors' report of the accounts of Puccini Group) on 25 April 2005. Cash consideration of US$66 million (approximately HK$515 million) was paid by the Group by 29 April 2005.

As a result of the issuance of shares by TOM Online on 25 April 2005, the beneficial interest in TOM Online held by the Group was reduced from 71.86% to 66.66%, resulting in a gain on deemed disposal of approximately HK$160,872,000.

(b) *Indiagames Limited ("Indiagames")*

As mentioned in note 25 below, TOM Online Games Limited ("TOM Online Games"), a non-wholly owned subsidiary of the Company, has acquired 76.29% beneficial interest in Indiagames and its subsidiaries (the "Indiagames Group") on 24 February 2005. In May 2005, Indiagames allotted and issued a total of 112,683 shares to two independent parties at a total consideration of US$4 million (approximately HK$31.2 million). As a result, the beneficial interest held by TOM Online Games in Indiagames Group was reduced from 76.29% to 62.42%, resulting in a loss on deemed disposal of approximately HK$537,000.

7. Operating profit

Operating profit is stated after charging the following:

	Six months ended 30 June	
	2005	2004
		(As restated)
	HK$'000	HK$'000
Depreciation of fixed assets	**46,084**	41,046
Amortisation of other non-current assets	**27,031**	15,140

8. Finance costs

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interest and borrowing costs on bank loans	**16,492**	1,370
Interest and borrowing costs on convertible bonds	**28,453**	10,224
Interest on other loans, wholly repayable within five years	**355**	3,775
	45,300	15,369

9. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less available tax losses.

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

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Hong Kong profits tax	**–**	101
Overseas taxation	**32,147**	27,277
Under-provision in prior years	**–**	769
Deferred taxation	**(8,571)**	(4,875)
	23,576	23,272

Share of associated companies' taxation for the six months ended 30 June 2005 of approximately HK$1,970,000 (2004: HK$Nil) has been included in the consolidated profit and loss account as share of profits of associated companies.

10. Dividend

No dividend has been paid or declared by the Company for the period ended 30 June 2005 and 2004.

11. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding own shares held.

	Six months ended 30 June	
	2005	2004 (As restated)
Profit attributable to equity holders of the Company (HK$'000)	**169,348**	683,478
Weighted average number of ordinary shares in issue	**3,889,997,150**	3,882,734,691
Basic earnings per share (HK cents per share)	**4.35**	17.60

Diluted

No diluted earnings per share is presented for the six months ended 30 June 2005 as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the share of the Company, and the conversion of the convertible bonds would have an anti-dilutive effect during the period.

Details of calculation of diluted earnings per share for the period ended 30 June 2004 are shown as follows:

	Six months ended 30 June 2004 (As restated)
Profit attributable to equity holders of the Company (HK$'000)	683,478
Interest expense on convertible debt (HK$'000)	10,224
Profit used to determine diluted earnings per share (HK$'000)	693,702
Weighted average number of ordinary shares in issue	3,882,734,691
Adjustments for	
– assumed conversion of convertible debt	352,941,176
– share options	1,953,371
Weighted average number of ordinary shares for diluted earnings per share	4,237,629,238
Diluted earnings per share (HK cents per share)	16.37

12. Fixed assets

	HK$'000
At 1 January 2004	245,006
Additions	40,242
Disposals	(3,525)
Deconsolidation of a subsidiary	(1,729)
Depreciation charge	(41,046)
Impairment charge	(29,432)
Exchange adjustment	477
At 30 June 2004	209,993
Additions	105,909
Acquisition of subsidiaries	12,683
Disposals	(3,133)
Depreciation charge	(41,730)
Exchange adjustment	829
At 31 December 2004	284,551
Additions	62,528
Acquisition of a subsidiary *(Note 25)*	704
Disposals	(2,101)
Depreciation charge	(46,084)
Exchange adjustment	807
At 30 June 2005	300,405

13. Other non-current assets

	30 June 2005 HK$'000	31 December 2004 HK$'000
Intangible assets *(Note)*	**92,818**	93,391
Long-term receivable *(Note 15)*	**–**	74,100
Deferred expenses	**7,217**	24,291
Deferred tax assets	**26,579**	16,783
	126,614	208,565

Note:

	Concession rights HK$'000	Copyrights HK$'000	Licence rights and royalties HK$'000	Publishing rights HK$'000	Purchased programme and film rights HK$'000	Software HK$'000	Customer base and others HK$'000	Total HK$'000
At 1 January 2004	40,164	18,634	27,300	1,119	1,987	–	–	89,204
Additions	2,961	–	8,147	13,240	13,798	6,768	–	44,914
Deconsolidation of a subsidiary	–	(18,634)	–	–	–	–	–	(18,634)
Amortisation charge	(4,301)	–	(518)	(1,279)	(8,704)	(338)	–	(15,140)
Exchange adjustment	–	–	–	27	–	–	–	27
At 30 June 2004	38,824	–	34,929	13,107	7,081	6,430	–	100,371
Additions	2,091	–	–	835	7,609	2,914	–	13,449
Acquisition of subsidiaries	–	–	–	–	–	–	7,263	7,263
Amortisation charge	(4,529)	–	(1,360)	(1,746)	(10,531)	(823)	(6,345)	(25,334)
Impairment charge	–	–	(2,397)	–	–	–	–	(2,397)
Exchange adjustment	–	–	–	39	–	–	–	39
At 31 December 2004	36,386	–	31,172	12,235	4,159	8,521	918	93,391
Additions	3,242	–	–	–	17,729	–	–	20,971
Acquisition of a subsidiary *(Note 25)*	–	–	–	–	–	–	6,021	6,021
Amortisation charge	(5,233)	–	(644)	(2,110)	(15,334)	(968)	(2,742)	(27,031)
Disposals	–	–	–	–	–	–	(860)	(860)
Exchange adjustment	–	–	–	325	–	–	1	326
At 30 June 2005	34,395	–	30,528	10,450	6,554	7,553	3,338	92,818

14. Goodwill

	HK$'000
At 1 January 2004	1,088,466
Consideration adjustments for acquisition of subsidiaries	(44,917)
Impairment charge	(53,299)
Exchange adjustments	13
At 30 June 2004	990,263
Additions	1,287,025
Consideration adjustments for acquisition of subsidiaries	2,709
Exchange adjustments	28
At 31 December 2004	2,280,025
Additions	91,223
Disposals	(21,016)
Exchange adjustments	89
At 30 June 2005	2,350,321

15. Trade and other receivables

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade receivables, net of provision	**732,370**	781,010
Less: Amount due after one year *(Note 13)*	**–**	(74,100)
Amount receivable within one year	**732,370**	706,910
Prepayments, deposits and other receivables	**478,957**	412,242
	1,211,327	1,119,152

The ageing analysis of the Group's trade receivables net of provision is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
1-30 days	**341,194**	346,323
31-60 days	**194,490**	136,235
61-90 days	**93,873**	113,328
Over 90 days	**102,813**	185,124
	732,370	781,010
Represented by:		
Receivables from related companies	**2,419**	2,542
Receivables from third parties	**729,951**	778,468
	732,370	781,010

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

16. Trade and other payables

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade payables	**263,574**	297,433
Less: Amount due after one year *(Note 17)*	**–**	(46,800)
Amount payable within one year	**263,574**	250,633
Other payables and accruals	**577,766**	556,938
	841,340	807,571

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

	30 June 2005 HK$'000	31 December 2004 HK$'000
1-30 days	**148,932**	174,078
31-60 days	**36,661**	31,116
61-90 days	**24,899**	24,298
Over 90 days	**53,082**	67,941
	263,574	297,433

17. Other non-current liabilities

	30 June 2005 HK$'000	31 December 2004 HK$'000
Long-term bank loans	**1,396,170**	1,182,547
Convertible bonds *(Note 18)*	**991,080**	1,179,785
Long-term payables *(Note 16)*	**–**	46,800
Pension obligations	**26,275**	24,867
	2,413,525	2,433,999

18. Convertible bonds

On 28 November 2003, a wholly-owned subsidiary of the Group issued 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 the Company, and convertible into ordinary shares of the Company of par value HK$0.10 each (the "Shares"). The Convertible Bonds bear interest at the rate of 0.5% per annum on the principal amount of each Convertible Bonds, 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 current period, the subsidiary repurchased part of the Convertible Bonds with face value of US$4 million at an aggregate consideration of approximately HK$29.3 million.

19. Share capital

	No. of shares	HK$'000
As at 30 June 2005 and 31 December 2004:		
Ordinary shares of HK$0.1 each	5,000,000,000	500,000
Issued and fully paid		
At 1 January 2004	3,878,261,817	387,827
Issuance of shares	11,151,548	1,115
At 30 June 2004	3,889,413,365	388,942
Issuance of shares	583,785	59
At 31 December 2004 and 30 June 2005	3,889,997,150	389,001

20. Share option schemes

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

	Six months ended 30 June 2005 Pre-IPO Share Option Plan	2005 Old Option Scheme	2004 Pre-IPO Share Option Plan	2004 Old Option Scheme
Number of share options:				
At the beginning of the period	**16,196,000**	**182,757,000**	16,196,000	186,279,000
Granted during the period	**–**	**–**	–	10,000,000
Lapsed during the period	**–**	**(234,000)**	–	(1,840,000)
Cancelled during the period	**–**	**(14,056,000)**	–	(1,818,000)
At the end of the period	**16,196,000**	**168,467,000**	16,196,000	192,621,000

Terms of the share options outstanding as at 30 June 2005 are:

Expiry date	Subscription price per share	No. of share options 30 June 2005	30 June 2004
10 February – 14 November 2010	HK$1.78 – HK$11.30	**50,872,000**	56,626,000
6 February 2012	HK$3.76	**20,000,000**	37,334,000
8 October 2013	HK$2.505	**103,791,000**	104,857,000
15 February 2014	HK$2.55	**10,000,000**	10,000,000
		184,663,000	208,817,000

For detailed information of the Pre-IPO Share Option Plan and Old Option Scheme of the Company, please refer to the 2004 annual report of the Company.

(b) *Details of the share options granted by TOM Online*

	Six months ended 30 June 2005 Pre-IPO Share Option Plan	2005 Share Option Scheme	2004 Pre-IPO Share Option Plan	2004 Share Option Scheme
Number of share options:				
At the beginning of the period	**262,425,040**	**–**	–	–
Granted during the period	**–**	**18,000,000**	280,000,000	–
Lapsed during the period	**(6,596,126)**	**–**	(2,616,669)	–
At the end of the period	**255,828,914**	**18,000,000**	277,383,331	–

Details of share options granted during the period:

Number of options granted	:	18,000,000
Expiry date	:	10 May 2015
Subscription price per share	:	HK$1.204

Terms of the share options outstanding as at 30 June 2005 are:

Expiry date	Subscription price per share	No. of share options 30 June 2005	30 June 2004
15 February 2014	HK$1.50	**255,828,914**	277,383,331
10 May 2015	HK$1.204	**18,000,000**	–
		273,828,914	277,383,331

For the detail information of the Pre-IPO Share Option Plan and Share Option Scheme of TOM Online, please refer to the 2004 annual report of the Company.

21. Reserves

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Exchange difference HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004, as previously reported	3,605,986	(377)	776	15,579	5,610	1,206	(2,391,147)	1,237,633
Effects of adoption of HKFRS 2	–	3,951	–	–	–	–	(3,951)	–
At 1 January 2004, as restated	3,605,986	3,574	776	15,579	5,610	1,206	(2,395,098)	1,237,633
Investment revaluation deficit	–	–	–	–	(46,996)	–	–	(46,996)
Exchange difference	–	–	–	49	(44)	(227)	–	(222)
Profit for the period, as restated	–	–	–	–	–	–	683,478	683,478
Appropriation to general reserve	–	–	–	63,235	–	–	(63,235)	–
Issuance of shares for acquisition of subsidiaries, net of issuing expenses	14,720	–	–	–	–	–	–	14,720
Employee share option schemes – value of employee services	–	25,758	–	–	–	–	–	25,758
At 30 June 2004, as restated	3,620,706	29,332	776	78,863	(41,430)	979	(1,774,855)	1,914,371

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	General reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Exchange difference HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2004, as previously reported	3,621,591	(377)	776	80,067	(5,184)	(2,594)	–	(1,595,509)	2,098,770
Effects of adoption of HKFRS 2	–	59,680	–	–	–	–	–	(59,680)	–
At 31 December 2004, as restated	3,621,591	59,303	776	80,067	(5,184)	(2,594)	–	(1,655,189)	2,098,770
Effect of adoption of HKASs 32 and 39	–	–	–	–	(254)	–	204,235	(37,902)	166,079
At 1 January 2005, as restated	3,621,591	59,303	776	80,067	(5,438)	(2,594)	204,235	(1,693,091)	2,264,849
Investment revaluation deficit	–	–	–	–	(21,659)	–	–	–	(21,659)
Exchange difference	–	–	–	160	(27)	(1,123)	–	–	(990)
Profit for the period	–	–	–	–	–	–	–	169,348	169,348
Appropriation to general reserve	–	–	–	1,094	–	–	–	(1,094)	–
Pension obligation	–	–	–	–	–	–	–	(543)	(543)
Buy back of convertible bonds	–	–	–	–	–	–	(4,709)	–	(4,709)
Employee share option schemes – value of employee services	–	21,188	–	–	–	–	–	–	21,188
At 30 June 2005	3,621,591	80,491	776	81,321	(27,124)	(3,717)	199,526	(1,525,380)	2,427,484

22. Minority interests

	30 June 2005 HK$'000	31 December 2004 HK$'000
At 1 January	**709,655**	**163,083**
Profit for the period/year	**39,926**	**104,303**
Exchange difference	**1,909**	**3,183**
Minority interests in revaluation deficit on available-for-sale financial assets	**(2,011)**	**(1,069)**
Recognised income and expense attributable to minority interests	**39,824**	**106,417**
Acquisition of subsidiaries *(Note 25)*	**3,846**	**2,764**
Dividend to minority shareholders	**(5,479)**	**(8,820)**
Minority interests in other reserves	**7,171**	**20**
Deemed disposal of interests in subsidiaries	**224,159**	**458,767**
Contribution from minority shareholders	**–**	**1,932**
Disposal of a subsidiary	**–**	**(14,508)**
Others	**2,446**	**–**
At 30 June/ 31 December	**981,622**	**709,655**

23. Pledge of assets

As at 30 June 2005, debt securities of market value of approximately HK$1,401,708,000 (31 December 2004: HK$941,653,000) were pledged to banks for securing bank loans of HK$1,123,000,000 (31 December 2004: HK$850,000,000).

As at 30 June 2005, bank deposits and cash totaling approximately HK$3,933,000 (31 December 2004: HK$11,691,000) were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company.

As at 30 June 2005, concession rights and a property with net book values of approximately HK$nil (31 December 2004: HK$3,096,000) and HK$689,000 (31 December 2004: HK$801,000), respectively, were pledged to banks for securing banking facilities granted to certain subsidiaries of the Company.

24. Contingent liabilities

As at 30 June 2005, the Group had no significant contingent liabilities. As at 31 December 2004, the Group had contingent liabilities in respect of the provision of fixed deposits of HK$9,400,000 as securities for bank loans granted to an investee company in which the Group had a 50% equity interest.

25. Business combinations

On 24 February 2005, Tom Online acquired 76.29% of the issued share capital of Indiagames through one of its wholly owned subsidiary, Tom Online Games. Indiagames Group is primarily engaged in the publishing and development of mobile games. The acquisition helps the Group enlarge its market share in the wireless value added services market globally. The purchase consideration was approximately US$13.7 million (approximately HK$107.1 million). The allocation of costs of acquisition is as follows:

	HK$'000
Net assets acquired at fair value:	
Fixed assets	704
Intangible assets recognised upon acquisition	6,021
Deferred tax assets	17
Trade and other receivables	22,116
Bank and cash	2,442
Trade and other payables	(6,934)
Tax payable	(2,122)
Minority interests	(3,846)
	18,398
Costs of acquisition	
Purchase consideration	107,121
Other directly attributable costs	2,500
	109,621
Goodwill	91,223

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 30 June 2005, post acquisition turnover and profit for the period ended 30 June 2005 amounted to approximately HK$20,788,000, HK$13,223,000 and HK$1,337,000, respectively. The contribution of turnover and net profit to the Group by Indiagames Group for the period from 1 January 2005 to 23 February 2005, assuming if it was acquired by the Group on 1 January 2005, is not material to the Group.

26. Commitments

(a) Capital commitments

	30 June 2005 HK$'000	31 December 2004 HK$'000
Acquisition of new investments		
– Contracted but not provided for	**39,000**	177,307
Acquisition of fixed assets and other intangible assets		
– Contracted but not provided for	**5,234**	18,051
– Authorised but not contracted for	**257,430**	310,971
	301,664	506,329

(b) As at 30 June 2005, the Group had commitments in respect of contributions of registered capital of certain investments in Mainland China of approximately HK$9,776,000 (31 December 2004: HK$11,214,000) and no provision of interest-free shareholder's loan was made to an investment in Mainland China (31 December 2004: HK$4,315,000).

(c) As at 30 June 2005, 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%.

(d) Other commitment

As at 30 June 2005, the Group had other commitment in respect of the acquisition of the 100% beneficial interest in Treasure Base Investments Limited and its subsidiaries (collectively referred to as the "Treasure Base Group"). According to the sale and purchase agreement, the initial consideration recognised totaled 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 30 June 2005 amounted to RMB276 million (approximately HK$259.3 million).

27. Related party transactions

A summary of significant related party transactions, in addition to those disclosed in notes 6(a) and 15 to the interim financial statements, is set out below:

	For the six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Sales to		
– Hutchison Whampoa Limited ("HWL") and its subsidiaries	**4,176**	2,251
– Cheung Kong (Holdings) Limited ("CKH") and its subsidiaries	**1,164**	926
– a jointly controlled entity	**1,660**	2,838
– minority shareholders of subsidiaries and their subsidiaries	**63**	428
Cost of sales payable to		
– minority shareholders of subsidiaries and their subsidiaries	**14,992**	12,633
– Cranwood and its related companies	**305**	309
Office and warehouse rental and service fees payable to		
– an associated company of CKH	**5,388**	5,313
– a subsidiary of CKH	**2,070**	3,624
– minority shareholders of subsidiaries and their subsidiaries	**727**	663
Service fees payable to		
– HWL and its subsidiaries	**5,658**	2,924
– minority shareholders of subsidiaries and their subsidiaries	**2,588**	14,720
Interest expenses payable to		
– a subsidiary of HWL	**–**	1,292
– a subsidiary of CKH	**–**	646
– Cranwood	**–**	1,292

28. Subsequent events

(a) On 15 April 2005, the Company, by way of a public announcement, reported that a petition for the winding up of Tennis Management Limited ("TML"), a 60%-owned subsidiary of the Company, was presented by Spectrum International Holding Limited ("Spectrum"), the then 40% minority shareholder of TML, on 8 April 2005 in the High Court of Justice in the British Virgin Islands (the "Petition").

TML and its subsidiaries (collectively the "TML Group") is mainly engaged in hosting and organising sports events in Asia (most notably the hosting and organising of the annual ATP and WTA tennis tournaments in Beijing, namely the China Open Tennis Tournament).

On 8 July 2005, the Company announced that a deed of settlement (the "Deed") has been entered into among Modern Perfect Developments Limited ("Modern Perfect"), a wholly-owned subsidiary of the Company, TML, Spectrum, Mr. Venancio Lincoln ("Mr. Venancio"), the sole shareholder of Spectrum, and Spectrum Plus Limited, a company wholly-owned by Mr. Venancio. Pursant to which, among others, the proceedings instigated by Spectrum and Mr. Venancio against TOM Group, including the Petition, have been discontinued.

Further, under the Deed, for a consideration of US$6.88 million (equivalent to approximately HK$53.7 million) (the "Consideration"), Modern Perfect has acquired the remaining 40% interests in TML held by Spectrum and the Company has transferred to Spectrum five wholly-owned subsidiaries of TML (the "Transferring Companies"), including the business operated by TML in Thailand. Both parties also agreed to waive all claims on outstanding amounts due from either party.

The transaction was completed on 10 August 2005 and the Consideration has been fully paid. After the completion, TML and its subsidiaries, excluding those Transferring Companies, have become wholly-owned subsidiaries of the Company. The estimated goodwill arising from the acquisition of the remaining interests in TML Group, which will be recongnised in the second half of this year, will amount to approximately HK$28 million.

(b) In late July 2005, China Unicom notified several major service providers, including Beijing Lei Ting Wan Jun Network Technology Limited ("Beijing Lei Ting"), a subsidiary of the Company, of a temporary suspension of the settlement of service fees, because of complaints it received from mobile phone users pertaining to services rendered during the period from January 2005 to June 2005. According to the notice received by Beijing Lei Ting on 28 July 2005, China Unicom received complaints from users regarding the provisions of Short Messaging Service, which may be in breach of certain conditions of the agreement between China Unicom and its mobile operators. China Unicom would investigate those complaints and temporarily suspended settlement of services fees with Beijing Lei Ting commencing from the distribution of fees payment for the month of May 2005, until further notice. The Group conducted an internal review of its operations during the period in question and it was concluded that it complied with the strict rules set out in the agreement with China Unicom. The amount of receivable from China Unicom for the period from May 2005 to June 2005 was US$ 2,407,000 (approximately HK$18.8 million). Until the results of the investigation are known, management cannot determine with certainty whether the Group may be liable to any penalty and the impact should China Unicom conclude that a breach of contract has occurred. Accordingly, no provision has been made for this contingency as at 30 June 2005. Potential penalties could be in the form of requiring double confirmation from subscribers, suspension of certain services, cancellation of the agreement, monetary fines, and suspension of new businesses with China Unicom.