

## CHAIRMAN'S STATEMENT

I am pleased to announce the results of TOM Group Limited ("TOM" or the "Company") and its subsidiaries (collectively referred to as the "TOM Group" or the "Group") for the six months ended 30 June 2004.

Key achievements for the first six months of 2004 include:

- Group revenue grew 31% over the same period last year
- EBITDA margin grew to 16% from 8% in the same period last year
- Year-on-year, all divisions except for Television and Entertainment registered revenue growth: TOM Online by 66%, Outdoor Media Group by 13%, Publishing Group by 23% and Sports Group by 110%
- Profit attributable to shareholders of HK\$684 million was achieved, compared to the loss attributable to shareholders of HK\$33 million in the same period last year

## Financial Highlights

	For the six month period ended	
	30 June 2004	30 June 2003
	HK\$'000	HK\$'000
Turnover	1,198,375	911,968
Operating profit/(loss)	145,479	(12,420)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	189,918	75,820
Deemed disposal gain	873,367	–
Provision for impairment of assets	(82,731)	–
Provision for contracts termination	(134,315)	–
Provision for other receivables	(22,476)	–
Listing expenses for migration to Main Board of Stock Exchange	(19,812)	–
Profit/(loss) attributable to shareholders	684,105	(32,674)

## Financial Performance

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TOM Group delivered strong growth in the first half of 2004 over the corresponding period in 2003. Unaudited consolidated revenue amounted to HK\$1.2 billion, an increase of 31% from HK\$912 million during the same period last year. EBITDA was HK\$190 million, representing a 2.5 times growth from HK\$76 million in the same period last year. Profit attributable to shareholders amounted to HK\$684 million, compared to an attributable loss of HK\$33 million in the same period last year. These results include a deemed disposal gain of HK\$873 million from the listing of TOM Online on the NASDAQ in the United States and GEM in Hong Kong on 10 and 11 March 2004 respectively. In the first quarter, the Group made provisions in relation to previously acquired businesses where performance has lagged management's expectations. In addition, CETV terminated an analogue transponder service contract in preparation for its migration to a digital transmission platform. These one-time provisions amounted to a total of HK\$240 million. Further, these results also include the one-time listing expenses of HK\$20 million. These are in relation to the listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction.

TOM Online delivered strong results with revenue at approximately HK\$443 million (US\$56.8 million), an increase of 66% year-on-year, primarily due to the growth of its 2.5G products and services. Outdoor revenue was HK\$159 million, a healthy 13% growth over the same period last year. Publishing revenue was HK\$441 million, a 23% growth over the same period last year, due to increased marketing efforts and the contribution from the Taipei International Book Exhibition. Sports reported revenue of HK\$127 million, registering a 110% increase over the same period last year, primarily due to the sales of television broadcasting rights and a general rebound from SARS in the first half of 2003. Revenue from CETV amounted to HK\$11 million for the first six months of 2004.

First half year growth both in turnover and profitability is encouraging given that the first six months of the year are traditionally slower for advertising, which is a meaningful part of the Group's revenue base.

## Business Review

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### ***TOM Online***

TOM Online reported revenue of approximately HK\$443 million (US\$56.8 million) representing an increase of 66% over the same period last year, on a pro forma basis as set out in the financial statements of TOM Online. EBITDA was approximately HK\$173 million (US\$22.2 million), delivering over 2 times growth from the same period in 2003. Margins continued to expand, gross margin increased to 51% from 43% and EBITDA margin grew to 39% from 29% for the same period in 2003. Wireless internet revenues for the first six months of 2004 were approximately HK\$411 million (US\$52.7 million), representing an increase of 105% from the same period in 2003. Online advertising revenues for the first six months of 2004 were approximately HK\$24 million (US\$3.1 million), representing a 434% increase from the same period in 2003. The solid performance reflects the benefit from the diversification in wireless internet business. In the first six months of 2004, TOM Online has solidified a leading position in the wireless internet sector in Mainland China particularly in the important growth area of 2.5G ("WAP" and "MMS") products and services as well as IVR products. The increased popularity of the portal also brought about an expansion of client base for online advertising.

TOM Online has expanded its product portfolio through strategic alliances with premium content providers as well as distribution partners and hence further enhanced its position as a wireless internet operator. TOM Mobile Music was launched together with international and domestic record labels and music publishers providing users compelling music content across its 2.5G and IVR product platforms. The content, some of which is proprietary to TOM Online, includes music premiers, ring back tones, voice greetings, image downloads and music video clip downloads. In the field of sports, an exclusive alliance was entered with the Union of European Football Associations (“UEFA”), which brought the UEFA Euro Cup 2004 to wireless internet users in Mainland China. The popularity of TOM Online’s portal continued to improve as a result of increased premium content. Whilst focusing on building the portal’s sports and entertainment related content channels, TOM Online built and hosted the official Chinese language website for UEFA Euro Cup 2004, catering to football fans all across Mainland China. The portal offering was further enhanced by launching a Map Channel, Weather Channel, DTM Auto Racing official Chinese language website and upgraded Avatar, a virtual community product.

The solid financial performance reflects TOM Online’s consistent focus on customer acquisition and retention. Content differentiation, product innovation and distribution expansion has enabled TOM Online to maintain first mover advantage in several key areas, in particular 2.5G services.

### ***Outdoor Media Group***

The Outdoor Media Group reported revenue of HK\$159 million and EBITDA of HK\$39 million in the first six months of 2004, compared to HK\$141 million and HK\$37 million in the same period of last year. Gross margin and EBITDA margin were at 34% and 24%, down slightly from 39% and 26% respectively in the same period last year. The decline was primarily due to the increased level of media buying from third parties in the top tier cities.

During the quarter, the Outdoor Media Group continued to attain quality and strategically located outdoor media assets. Assets that are located in high traffic volume areas or are positioned to capture maximum attention were selected and the total area of outdoor assets increased to approximately 260,000 square meters as of 30 June 2004. Approximately 80% of assets were in the unipole and billboard categories and the rest in transport, street furniture and others. New concessions obtained in the first half of the year included approximately 24,000 square meters of outdoor asset space, in key locations across seven provinces of Fujian, Guangdong, Liaoning, Shandong, Shanghai, Sichuan and Yunnan. The new capacity increase was primarily in the billboard and unipole category. In Shanghai, the Outdoor Media Group secured exclusive concession rights to one billboard and eighteen unipoles along the highway to Shanghai Pudong International Airport. Other concessions secured included the three largest billboards in Guangzhou.

As a pioneer in creative outdoor advertising designs, the Outdoor Media Group has won a number of awards for outdoor designs around the country capturing attention of major advertisers. These included the China Outdoor Silver Award, The Top Ten Advertising Awards and The China Advertising and Marketing Award. The Group monitors the latest developments in outdoor advertising worldwide and has brought many creative outdoor advertising designs to Mainland China. For example, the Outdoor Media Group was the first to pioneer glass wall building-wrap signage in Dailian, Shanghai and Shenyang. Average occupancy rate was consistently over 80%, reflecting the increasing demand of the Outdoor Media Group’s high quality outdoor media assets.

Overall, the Outdoor Media Group secured new sales contracts amounting to approximately HK\$100 million in the second quarter, with an average term of one year. New major clients in the quarter included Kia, Konka, Founder, Futian Auto among a number of international and local companies, with the largest contract worth over HK\$20 million being secured with a large domestic advertising company, to provide nationwide services. Presence in the three cities of Beijing, Shanghai and Guangzhou continued to expand and contracts amounted to approximately HK\$50 million were secured during the second quarter.

## **Publishing**

The Publishing Group reported revenue of HK\$441 million and EBITDA of HK\$57 million in the first six months of 2004, a 23% growth and 115% growth respectively over HK\$360 million and HK\$26 million in the same period in 2003. Gross margin was maintained at 46% with EBITDA margin expanded to 13%, from 7% in the same period last year.

On 5 July, the Publishing Group announced the successful set up of a joint venture company, China Popular Computer Week Management Company Limited. TOM Group will have an effective beneficial interest of approximately 49% in the joint venture and will have exclusive sales and distribution rights of the weekly computer periodical *Popular Computer Weekly*, including *Popular Computer Weekly Bound Volume*, *Popular Computer Weekly CD-ROM* and other writings and electronic publications related to *Popular Computer Weekly*. The joint venture also has an exclusive advertising agency right in respect of all advertisements contained in the above publications. With the establishment of this joint venture, TOM Group will be able to substantially increase its presence in Mainland China publishing, in particular in the area of information technology-related publications. The establishment of the joint venture will also allow the wide range of off-line content produced by the joint venture partner to be distributed through TOM Online, thus increasing TOM Group's overall market competitiveness.

In Taiwan, new distribution channels are being explored. Discussions have been held with television shopping channels to market the Publishing Group's books and magazines in and outside of Taiwan. Co-operation opportunities are being explored to expand distribution channels into North America, through a network managed by a Taiwanese cable operator. Further, a new Cité bookstore was opened in June in the same premise as the new head office at Mingsheng Road East in Taipei. This is our flagship store, offering a complete collection of publications and creating new book-café lifestyle store experience. During the second quarter, a total of 6 new magazines in the computer related and lifestyle genres, and over 400 new books were published in Taiwan. A further 61 titles, including a variety of topics in fiction, education, children's books, lifestyle and health genres were licensed for local production by Mainland China publishers.

*Business Weekly* won a number of exclusive awards from the Society of Publishers in Asia, reflecting the outstanding professionalism and quality content of the magazine. The awards included a title award of "Excellence in Magazine", "Excellence in Feature Writing" and "Excellence in Business Reporting".

## **Sports**

The Sports Group reported revenue of HK\$127 million and EBITDA of HK\$19 million in the first six months of 2004, a 110% increase compared to HK\$60 million of revenue and a 14 times growth compared to HK\$1.3 million of EBITDA in the same period in 2003. The improvement in 2004 is primarily due to the pick up of the number of events held in the first six months and in particular the sale of the UEFA Euro 2004 Football exclusive broadcasting right to CCTV. Gross margin and EBITDA margin also improved, delivering a gross margin of 23% compared to last year's 18% and an EBITDA margin of 15%, compared to 2% last year.

Management is continuing its preparation for the upcoming China Open tennis tournament in September. A landmark deal was sealed where the exclusive broadcasting rights for China Open were awarded to CCTV, comprising 150 hours of tennis matches to be broadcasted across Mainland China, a record breaking first. Major sponsors include Avon, Coca Cola, CCTV, Lacoste, Rado and Sohu. A second press conference was held in Beijing to further promote the event. Ticketing agents were appointed and an official website was launched, with tickets going on sale 28 July. The China Open will be held from 10 to 26 September in Beijing and will be the first ever international tennis event to be held in the city that encompasses both men and women matches. Top international players such as Wimbledon champion Maria Sharapova, Wimbledon runner-up Serena Williams, and leading men's seeds Carlos Moya, Marat Safin, Juan Carlos Ferrero have signed up for the tournament.

Events held in the first quarter included the exhibition matches for the National Women Volleyball Team, National Table Tennis Team and the 4th annual Vinda National Bowling Championship. In the second quarter, events included the Champions Diving Tour, which featured members from the National Diving Team. The first stop was held in April at Zhuhai with the second in June at Shanghai, the finals will be held in Guangzhou, after the Olympics. Key sponsors included Ford and Nokia. For Nokia in particular, press events were organized in Shanghai to further enhance brand awareness, at a handset giveaway ceremony each member of the National Diving Team was presented with a Nokia mobile phone to stay connected while they are abroad competing at the Olympics. For Amway, the official nutritional food sponsor for the China Olympics team, sports carnivals were organized around the Amway Marathon, which is being held throughout nine cities across Mainland China. Other events held in the second quarter included the Philips University Football League, with 400 teams competing in matches held across 31 cities in Mainland China.

## Television & Entertainment

The Television and Entertainment Group reported revenue of HK\$11 million and EBITDA loss of HK\$33 million for the first half of the year, compared to revenue of HK\$86 million and EBITDA of HK\$8 million in the same period of 2003. The results of the first six months of 2004 comprised only of the operating results of CETV whereas the results of the same period of 2003 reflected only the audio and video products distribution business of Hong Xiang. The Group has excluded the results of Hong Xiang since the first quarter of this year. Results of CETV in the first six months of 2004 continued to improve, with healthy top line growth and narrowing losses. On a quarterly basis, CETV's revenue of the second quarter of 2004 was HK\$7.4 million, an 82% increase over HK\$4 million in the first quarter, reflecting the continued growth of CETV's popularity. New key advertisers included Coca Cola, Johnson & Johnson and Kao. Costs continued to be monitored and operating costs have significantly improved due to the new digital service contract. With the termination of the analogue transponder agreement in the first quarter, the new digital distribution and transmission platform is commanding a much lower transponder rental cost, resulting in savings of approximately HK\$6 million in the second quarter over the first quarter. Savings for the nine months in 2004 is estimated to be approximately HK\$18 million. Net loss of CETV is now at HK\$21 million for the second quarter, compared to a net loss in the first quarter of approximately HK\$25 million, excluding the one-off analogue transponder termination charge of HK\$109 million in the first quarter of the year.

In the second quarter, Mr. Ivan Yuan was appointed as the Chief Executive Officer of CETV. Mr. Yuan is a veteran television professional and was the general manager of Star TV in Taiwan. Mr. Yuan brings with him over 15 years of in-depth industry knowledge and expertise in the entertainment field.

CETV has pioneered a number of new programmes in the first six months of 2004, including a number of top rated programmes such as *Co Co Cooks*, *The Winds of Change III* and *The Scent of Women*, a pioneer talk show with three female hosts from Mainland China, Taiwan and Hong Kong. In May, the channel produced *I am China's Star*, a talent quest competition held over the seven-day Mainland Labour holiday in the beginning of May at Shenzhen's Windows of the World. Guangdong Huanan Pharmacy Limited, a major pharmaceutical manufacturer in China was secured as the exclusive title sponsor to the programme. CETV and TOM Online jointly set up SMS interactive voting for audiences of *I am China's Star* to apply to take part in the contest as well as to vote for their favorite talent. Similar SMS interactivity has been created for popular programmes such as the hit idol drama series *The Outsiders* and *Inside Entertainment*, attracting thousands of viewers to participate via their mobile phones as part of the programme.

The channel's ranking and ratings continued to improve. In the second quarter, CETV ranked number two in Guangzhou among all Putonghua channels. The Monthly Final of *I am China's Star* ranked number six in all programs in Guangzhou and the June version of the *Movie Zone* ranked as high as number two in all programs in Guangzhou. *Jacky Go Go Go* consistently ranked number six for the first half of the year.

## ***Business Outlook***

On 4 August 2004, TOM Group's shares were listed on the Main Board of the Stock Exchange by way of introduction. TOM Group is now an established media company with strong positions in each of its segments of Internet, Outdoor, Publishing, Sports and Television & Entertainment. The listing is a reflection of the organization's true size and scale and will be beneficial to the future growth, financing capabilities and business development of TOM Group.

For the second half of the year, TOM Online will continue to focus on developing and marketing 2.5G and IVR products and services, while exploring acquisition and sector consolidation opportunities in the market. The Outdoor Media Group will continue to build its presence in the top tier cities of Beijing, Shanghai and Guangzhou, with selective acquisitions of media assets and concessions. In Publishing, a number of options are being evaluated with respect to entry into the Mainland China distribution sector. In Sports, the China Open, to be held in mid-September, will become a significant annual event within Mainland China and the Group will continue to work with multinational companies to develop the Mainland China sports market. For CETV, emphasis will be to continue to drive for revenue growth and loss reduction. Relocation and restructuring of the channel will rationalize the current cost structure. Channel rebranding and repositioning will materialize in the second half of the year.

We are pleased to announce the appointment of Mr. Ekkehard Rathgeber as the Chief Operating Officer of TOM Group and Chief Executive Officer of TOM Publishing China. Mr. Rathgeber will become an integral part of TOM Group's senior management team and will spearhead and reinforce the development of the Group's publishing business in China.

We would like to take this opportunity to show gratitude to our valued employees, customers, shareholders and business partners. We remain committed to further grow and strengthen our businesses and maximize the value of the Company for our shareholders.

**Frank Sixt**

*Chairman*

Hong Kong, 12 August 2004