

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30 June 2004, TOM Group's bank and cash balance was at HK\$1,088 million. On 10 and 11 March 2004, TOM Online, a subsidiary of the Company, was spin-off and listed on NASDAQ in the United States and GEM in Hong Kong, respectively by issuing 1,000,000,000 shares in total at HK\$1.50 each, raising net proceeds of approximately HK\$1,334 million. During the first six months of the year, TOM Group utilized HK\$1,109 million to finance its operations and investing projects, including purchase of debt securities.

TOM Group had bank and other borrowings totaling HK\$2,063 million and cash-to-borrowing ratio was 53% as at 30 June 2004.

As mentioned in the Listing Document of the Company dated 29 June 2004, the Group has determined to fully repay the shareholders' loans of HK\$850 million to its substantial shareholders prior to 4 August 2004, the date on which the listing of the Company's shares migrates to the Main Board of the Stock Exchange. On 29 July 2004, TOM Group fully repaid the shareholders' loans by drawn down of a secured bank loan of the same amount.

Capital Structure

During the first six months of the year, the Company issued 11,151,548 new shares of par value of HK\$0.1 each, allotted and booked at HK\$1.42 per share, which was the fair value calculated based on the closing price quoted on the Stock Exchange at the date of acquisition as part of the consideration for acquisition of a subsidiary.

Charges on Group Assets

Certain Group assets are pledged to banks and financial institutions as security for general banking facilities granted to TOM Group. As at 30 June 2004, the pledged assets of TOM Group included bank deposits, cash and other assets totaling HK\$18 million. As mentioned above, the Group fully repaid the shareholders' loans of HK\$850 million by drawn down of a secured bank loan on 29 July 2004, debt securities at face value of approximately HK\$936 million were pledged to a bank for obtaining this banking facility.

Foreign Exchange Exposure

It is TOM Group's policy for each operating entity to borrow in local currencies, where necessary, in order to minimize currency risk.

Contingent Liabilities

Contingent liabilities amounted to approximately HK\$9 million as at 30 June 2004.

Employee Information

As at 30 June 2004, TOM Group had 2,757 full-time employees. During the first six months of the year, employee costs, excluding Directors' emoluments, totaled HK\$221 million. The Group's employment and remuneration policies remained the same as detailed in the Annual Report for the year ended 31 December 2003.