

TV and Entertain -ment

CETV's original productions increased from below 15% to 40% of prime-time programming.

Television and Entertainment

Management's Discussion and Analysis Operations Review

The Television and Entertainment Group reported revenues of HK\$32 million, compared to HK\$176 million revenues in 2003.

The revenues in 2004 were primarily derived from CETV, whereas the revenues in 2003 were mainly comprised of the previous audio-visual business from Hong Xiang, a unit which has subsequently been deconsolidated in 2004, as well as just over three months of contribution from CETV. Pro forma revenues for the Television and Entertainment Group, primarily comprised of CETV, were approximately HK\$11 million in 2003, so the revenues in 2004 represents an almost two-fold increase year-on-year. The Television and Entertainment Group reported a segment loss before depreciation and amortisation and a segment loss of HK\$62 million and HK\$85 million respectively for the year under review. This compared to the previous year's consolidated segment loss before depreciation and amortisation and segment loss of HK\$5 million and HK\$32 million respectively.

On an operating basis, excluding the one-time restructuring charges, CETV recorded a net loss of HK\$88 million, compared to a net loss in 2003 of



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HK\$130 million. This represents a reduction of net losses by 32%. While CETV remains a loss-making unit within the TOM Group, good progress has been made in the first full year the channel under TOM management, and the improvement in performance has put it firmly on track towards achieving a breakeven by the end of the targeted third year after acquisition, namely the end of 2006.

For CETV, 2004 was a year that involved the restructuring, reorganisation and revamp of the channel. Key managements were brought aboard throughout the year, including the former General Manager of STAR TV Taiwan as the new Chief Executive Officer, a new Channel Controller and President of China Operations, who was previously Vice President of Hunan Economic TV, as well as new senior executives to take over production, sales and marketing, and government relations. In preparation for the digitisation of the transmission and distribution platform later in the year, in the first quarter CETV terminated its analogue transponder agreement and entered into a new digital service contract, which resulted in a one-time termination charge of HK\$109 million. As of today, the CETV analogue service has

been switched off and the channel is digital, giving an improved signal quality, as well as a more stable and enhanced transmission. Representative offices for CETV were set up in Beijing and Guangzhou with newly formed sales teams, and the main operations were relocated from Hong Kong to Shenzhen, with the new facilities up and running in August. In September, a re-branded CETV was launched with a revamped programming line-up.

On the programming side, subsequent to the setting up of the new facilities in Mainland China, original productions has been increased from below 15% to now approximately 40% of prime-time programming. Hit programmes include the acquired reality shows "Believe It Or Not", "Who Wants To Marry A Millionaire" and "TV Searcher", drama series "The Outsiders", "Date With A Vampire", "Snow Angel" and "Monkey





King" – as well as in-house productions such as the top idol contest "I Am China's Star", "Inside Entertainment", the talk shows "Scent Of A Woman" and "Coco Cooks". CETV has also been able to derive content and marketing synergies with other divisions within TOM. TOM Online helped redesign the CETV website and it is now integrated into the tom.com portal, in addition to intra-Group collaboration on wireless interactive services and subscriptions tied back to CETV programming such as "Inside Entertainment", "I Am China's Star" and "The Outsiders". Also noteworthy is the fact that the hit drama series "The Outsiders" was originally based on a book produced by Cité Publishers – as such, a marketing campaign for the launch of the China edition of the book was timed to coincide with the airing of the drama on CETV in August and as a

Time is Money

The programme brings together top artists, superstars and a live audience and lets them compete in a time-critical game. Through the three rounds: "SOS Questions", "Brain Twisters" and "Strange Professions", we learn vital day-to-day skills and useful general knowledge. The programme also invites exotic and talented performers from Mainland China, Hong Kong and Taiwan.

Scent Of A Woman

The three hosts, Nicola Cheung, Anna Cheng and Yedda Chao discuss everything about women, drawing on their experience, knowledge and personalities. They interview successful women from the local community, Taiwan and Hong Kong, taking a peep at the ups and downs of their success, and revealing some of their most intimate secrets.

People from professions that serve women share their unique views on the fairer sex in the programme. The hosts address viewers' intimate questions about love and relationships. The show is a lively chat between viewers and their three best on-screen girlfriends.

The Outsiders

The hit drama series "The Outsiders" was originally based on a book produced by Cité Publishers – as such, a marketing campaign for the launch of the China edition of the book was timed to coincide with the airing of the drama on CETV in August and as a result, the book sold over 80,000 copies.

result, the book sold over 80,000 copies. With the increase in popularity and rating of its programmes, CETV was able to increase its advertising rates by an average of 40% in November. Major advertising clients on the channel include, among others, Coca-Cola, Johnson & Johnson, Kao, Procter & Gamble and Biostime.

The Television and Entertainment Group continued to deepen its content production capabilities with the acquisition of Huayi Brothers in December. As one of the largest private film and TV production studios in Mainland China, in 2003, Huayi Brothers has over 30% market share of the total box office revenues derived from domestically produced films. In addition to producing over 200 hours of television dramas and some of the leading films each year in Mainland China (box office hits in 2003/4 included "Cellphone", "Warriors of Heaven & Earth", "Ke Ke Xi

Li", "A World Without Thieves" and the co-production with Sony and Stephen Chow called "Kung-Fu Hustle"), Huayi Brothers also represents over 30 of the leading acting and directing talents within the industry. The acquisition involved US\$5 million for an initial 27% equity stake, with an option to purchase up to a 47% of the company. It is expected to begin financial contribution to TOM some time in the first half of 2005.



Management's Discussion and Analysis

Financial Review

The following discussion and analysis of the TOM Group's financial position and results of operations should be read in conjunction with the Audited Accounts and the related notes.

The TOM Group reports its results in five business segments namely Internet Group, Outdoor Media Group, Publishing Group, Sports Group, as well as Television and Entertainment Group.

Revenues

The Group's revenues for the year ended 31 December 2004 amounted to HK\$2.6 billion, an increase of 24% compared to the previous year of HK\$2.1 billion.

Revenue Mix

In 2004, revenues of the Internet Group made up 38% of the Group's total revenues and was the largest revenue contributor. Revenues from Publishing Group was the second largest contributor with 35% of total revenues. The Outdoor Media Group and Sports Group contributed 14% and 12% respectively, while revenues from Television and Entertainment Group represented 1% of the Group's total revenues.

The Greater China region remained the key focus of the Group's businesses in year 2004; revenues generated from Mainland China was 62% of the Group's total, while Taiwan and Hong Kong accounted for 32% and 6% respectively.

Segmental Results

Revenues of the Internet Group for the year under review were HK\$989 million, representing an increase of 67% over last year. Segment profit before depreciation and amortisation was HK\$353 million and segment profit was HK\$300 million, an increase of 84% and 125% compared to the previous year. Revenues from wireless Internet services and online advertising made up 89% and 6% respectively of total revenues of the Internet Group.

Revenues of the Outdoor Media Group grew by 24% to HK\$369 million for the year, compared to the previous year of HK\$298 million. Segment profit before depreciation and amortisation and segment profit were HK\$83 million and HK\$58 million respectively for 2004, an increase of 23% and 118% compared to the previous year. With the recently announced acquisitions in Chongqing and Wuhan, the 14 subsidiaries of Outdoor Media Group now operate the largest billboard network in the country with advertising presence in over 50 cities throughout Mainland China.

The Publishing Group recorded revenues of HK\$910 million in 2004, an increase of 18% from HK\$771 million in the previous year. Segment profit before depreciation and amortisation was HK\$100 million and reported segment profit was HK\$85 million. This represented an increase of 41% and almost two-times compared to 2003. Over 400 book and magazine titles were licensed from the Taiwan publishing units into Mainland China in 2004. In addition, the Popular Computer Week joint venture was formally brought under management and financial contribution began in August 2004.

The Sports Group achieved HK\$295 million in revenues, an increase of 17% from HK\$252 million in the previous year. Segment profit before depreciation and amortisation and segment profit for the year declined 44% and 42% respectively to HK\$43 million and HK\$43 million compared to 2003. The Sports Group performance was affected as one of our major events the "Thailand Golf", was cancelled in 2004 and postponed to 2005 due to the spread of Bird Flu in Thailand.

In the Television and Entertainment Group, 2004 was the first full year that CETV came under the management of TOM. Revenues of the Television and Entertainment Group for the year was HK\$32 million. The Television and Entertainment Group has also excluded the results of Hong Xiang since January 2004. Excluding a one-time analogue transponder termination charge of HK\$109 million, on an operating basis CETV reported net loss of HK\$88 million for 2004, compared to its net loss in the previous year of HK\$130 million, a reduction of over 32%. The target is for CETV to breakeven by the end of the third year after acquisition, that is the end of 2006.

Operating Expenses

The Group's early adoption of Hong Kong Financial Reporting Standards 3 "Business Combinations" and Hong Kong Accounting Standards ("HKAS") 36 "Impairment of Assets" and HKAS 38 "Intangible Assets", has resulted in a decrease in cost of sales by HK\$1 million and net decrease in other operating expenses by HK\$46 million.

The operating expenses of the Group during the year under review increased 8% to HK\$870 million as compared to 2003; excluding the impact of the early adoption of the aforementioned accounting standards, operating expenses for the year ended 31 December 2004 increased 13% when compared to the previous year. As a result of ongoing cost control, operating expenses as a percentage of revenue in 2004 declined to 35% compared to 39% in 2003.

Operating Profit

Group operating profit for the year increased 224% to HK\$299 million, compared to HK\$92 million in 2003. Excluding the impact resulting from the early adoption of the aforementioned accounting standards, operating profit for the year ended 31 December 2004 was HK\$252 million, an increase of 173% over the previous year and operating profit margin achieved 9.7% for the year, an improvement of 5 percentage points compared to 4.4% in 2003.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders was HK\$860 million, compared to HK\$13 million in 2003. Excluding the HK\$979 million profit on deemed disposal of TOM Online, and one-time restructuring charges and impairment provisions totaling HK\$248 million after minority interests, the Group achieved net profit of HK\$129 million.

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Financial Resources and Liquidity

As at 31 December 2004, the Group had cash and bank balances of HK\$1,119 million (2003: HK\$885 million) and listed debt securities of HK\$2,368 million (2003: HK\$1,475 million). In March this year, TOM Online, a subsidiary of the Company, was spun-off and listed on NASDAQ in the United States and GEM in Hong Kong, respectively by issuing 1 billion new ordinary shares in total at HK\$1.5 each, raising net proceeds of HK\$1,334 million. The Group has utilised HK\$927 million from the proceeds to invest in liquid and high credit-rated listed debt securities before such cash is deployed for capital expenditure or acquisition purposes.

Of the total value of listed debt securities of HK\$2,368 million, HK\$942 million were pledged to secure a long-term bank loan of HK\$850 million. The bank loan has been fully drawn down for the repayment of shareholders' loan to our substantial shareholders prior to the migration of the listing of Company's shares to the Main Board of the Stock Exchange of Hong Kong in August 2004. Financing facilities totalling HK\$473 million were available, of which HK\$332 million had been drawn down to finance the Group's acquisitions and capital expenditures. The Group's cash-to-borrowing ratio was 47% as at the end of 2004, as compared to 43% as at 31 December 2003.

As at 31 December 2004, the shareholders' fund of the Group amounted to HK\$2,482 million, representing an increase of 53% as compared to 31 December 2003. During the year, a total of 11,735,333 ordinary shares were allotted and booked at prices of HK\$1.42 and HK\$1.616 per share as part of the considerations for the acquisitions of certain subsidiaries.

As at 31 December 2004, the Group had net current assets of HK\$106 million compared to net current liabilities of HK\$150 million as at 31 December 2003. The Group's current ratio was approximately 1.05 (2003: 0.9) as at 31 December 2004.

As a result of the one-time payment of analogue transponder termination fee of HK\$109 million by CETV, the Group has a net cash used in operating activities of HK\$30 million in 2004. Net cash used in investing activities was HK\$33 million, which included capital expenditures of HK\$205 million, consideration for acquisition of subsidiaries and an associated company of HK\$308 million and net purchase of investment securities of HK\$940 million, partly offset by the TOM Online IPO proceeds of HK\$1,334 million and interest received of HK\$84 million. Net cash from financing activities of HK\$298 million in 2004 primarily reflects the increase in bank loans of HK\$1,235 million, partly offset by repayment of shareholders' loan and bank loans of HK\$934 million.

Foreign Exchange Exposure

In general, it is the Group's policy for each operating entity to borrow in local currencies, where necessary, to minimise currency risk.

Charges on Group Assets

As at 31 December 2004, the Group had listed debt securities with a market value of approximately HK\$942 million pledged to banks for securing a bank loan of HK\$850 million. In addition, bank deposits, cash and other assets at total book value of approximately HK\$16 million were pledged to banks for securing banking facilities granted to certain subsidiaries of the Group and an investee company.

Contingent Liabilities

As at 31 December 2004, the Group had contingent liabilities amounted to approximately HK\$9 million in respect of the provision of fixed deposits as securities for a bank loan granted to an investee company in which the Group has 50% equity interest.

Employee Information

As at 31 December 2004, the Group employed 3,400 full-time employees. Employee costs, excluding Directors' emoluments, totalled HK\$447 million for the year (2003: HK\$385 million). All of the TOM Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the TOM Group's salary and bonus system which is reviewed annually. A wide range of benefits including medical coverage and provident funds are also provided to employees. In addition, training and development programmes are provided on an ongoing basis throughout the TOM Group. Social, sporting and recreational activities were arranged during the year for the employees on a Group-wide basis.

The Group also adopted a share option scheme under which, inter alia, the employees of the TOM Group may be granted share options to subscribe for shares in the Company for the purposes of recognising the contributions made by the employees of the TOM Group and retaining the services of the employees who will continue to make valuable contributions to the TOM Group.