

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

As at 30 June 2005, TOM Group had bank and cash balances of approximately HK\$887 million and listed debt securities of approximately HK\$2,024 million, of which listed debt securities of approximately HK\$1,402 million were pledged to secure long-term bank loan facilities of HK\$1,295 million. A total of HK\$1,836 million financing facilities were available, of which HK\$1,474 million had been drawn down to finance the Group's acquisitions, capital expenditures and for working capital purposes as at 30 June 2005.

Total borrowings of TOM Group amounted to approximately HK\$2,465 million as at 30 June 2005. This included convertible bonds of approximately HK\$991 million, long-term bank loans of approximately HK\$1,396 million and short-term bank loans of approximately HK\$78 million. The gearing ratio of TOM Group was 39.4% as at 30 June 2005, as compared to 42.6% as at 31 December 2004.

As at 30 June 2005, the Group had net current assets of approximately HK\$1,116 million, showing a significant improvement from approximately HK\$106 million as at 31 December 2004. This was mainly attributed to the decrease in consideration payables from HK\$1,388 million as at 31 December 2004 to HK\$129 million as at 30 June 2005, the settlement of which were mainly by utilizing long-term financing facilities, sales proceeds from disposal of debt securities and by issuance of shares of TOM Online, a subsidiary of the Company. Moreover, pursuant to an agreement dated 21 June 2004 entered into between, among others, Mountergate Limited ("Mountergate"), a wholly-owned subsidiary of the Company, and Shanghai Maya Audio Video Company Limited ("Maya Audio"), a sum of US\$25 million (approximately HK\$195 million) consideration payable by Mountergate to Maya Audio under an equity transfer contract dated 28 April 2000 entered into between them was set-off and discharged in full against an aggregate net book value of approximately HK\$156 million which was lent or otherwise advanced by the Group to Maya Audio and its affiliates. This has resulted in an increase of net current assets by approximately HK\$141 million. The current ratio of TOM Group increased from 1.05 as at 31 December 2004 to 2.01 as at 30 June 2005.

In the first half of 2005, the Group used net cash of HK\$3 million for its operating activities, as compared to a net cash used of HK\$60 million in the same period of 2004. Net cash used in investing activities was HK\$466 million, which mainly included capital expenditures and acquisition of subsidiaries amounting to HK\$870 million, partly offset by the interest income of HK\$56 million and the proceed of HK\$327 million from the sales of debt securities. During the period, the Group utilized bank loans, net of arrangement expenses, of HK\$272 million to finance partly the acquisition of subsidiaries and the buyback of convertible bonds of US\$4 million, resulting a net cash from financing activities of HK\$237 million.

Charges on Group Assets

As at 30 June 2005, the Group had listed debt securities with a market value of approximately HK\$1,402 million pledged to banks for securing bank loans and the amount drawn down by the Group was HK\$1,123 million. In addition, bank deposits, cash and other assets at total book value of approximately HK\$5 million were pledged to banks for securing banking facilities granted to certain subsidiaries of the Group.

Foreign Exchange Exposure

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

Contingent Liabilities

As at 30 June 2005, TOM Group had no material contingent liabilities.

Employee Information

As at 30 June 2005, TOM Group had 3,529 full-time employees. During the first six months of the year, employee costs, including Directors' emoluments, totaled HK\$321 million. The Group's employment and remuneration policies remained the same as detailed in the Annual Report for the year ended 31 December 2004.