

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 Consolidated Results and the related notes.

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

Revenue

The Group's revenues for the year ended 31 December 2005 amounted to HK\$3,105 million, an increase of 20% compared to the previous year of HK\$2,595 million.

Revenue Mix

The Internet and Publishing Groups remain the main growth drivers of the Group for the year under review; revenue of the Internet Group made up 44% of the Group's total revenues and was the largest revenue contributor. Revenue from Publishing Group was the second largest contributor accounted for 33% of total revenues. The Outdoor Media Group and Sports Group contributed 13% and 7% respectively, while revenue from Television and Entertainment Group represented 3% of the Group's total revenues.

The Greater China region remained the key focus of the Group's businesses in year 2005; revenue generated from Mainland China was 66% of the Group's total, Taiwan and other Asian countries accounted for 32% while Hong Kong contributed the remaining 2%.

Segmental Results

The Internet Group achieved HK\$1,371 million revenues for the year under review, representing an increase of 39% over last year. EBITDA was HK\$373 million and segment profit was HK\$348 million, an increase of 36% and 39% compared to the previous year. Revenues from wireless Internet services made up 92%, while the remaining 8% generated from online advertising and others.

The Publishing Group delivered revenues of HK\$1,035 million in year 2005, an increase of 14% from HK\$910 million in the previous year. EBITDA increased by 21% to HK\$137 million compared to HK\$113 million of last year. Segment profit of the

group was HK\$97 million for the year, representing an increase of 14% over last year.

Revenues of the Outdoor Media Group grew by 12% to HK\$412 million for the year, compared to the previous year of HK\$369 million. EBITDA was HK\$44 million, representing a drop of 46% over last year mainly due to the increase in media asset costs. Segment profit of the group was HK\$16 million compared to HK\$58 million of last year.

Revenue of the Sports Group was HK\$208 million compared to HK\$295 million in the previous year, representing a drop of 29%. EBITDA was HK\$5 million compared to HK\$43 million last year. Segment profit was HK\$4 million compared to HK\$43 million in year 2004.

The Television and Entertainment Group continued to report a strong growth in year 2005. Revenue of the group increased by 146% to HK\$79 million, compared to HK\$32 million in year 2004. EBITDA loss and segment loss were HK\$11 million and HK\$54 million respectively for the year, representing a significant reduction of 82% and 36% respectively over last year.

Operating Expenses

The operating expenses of the Group during the year under review increased 2% to HK\$953 million as compared to year 2004. The operating expenses as a percentage of revenue for the year under review dropped from last year's 36% to 31% thanks to the ongoing cost control measures.

Operating Profit

Group operating profit before net gain on deemed disposal of interests in subsidiaries for the year amounted to HK\$335 million, compared to operating loss of HK\$20 million in year 2004. Operating profit margin was at 11% for the year.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders was HK\$260 million, compared to HK\$773 million in year 2004. Excluding HK\$160 million (2004: HK\$979 million) net gain on deemed disposals of interests in subsidiaries and other one-time restructuring charges and provisions, net profit of the Group was HK\$88 million (2004: HK\$43 million) for the year.

Liquidity and Financial Resources

As at 31 December 2005, TOM Group had bank and cash balance, including pledged deposits, of approximately HK\$1,156 million and listed debt securities of approximately HK\$1,991 million, of which listed debt securities of approximately HK\$1,379 million were pledged to secure long-term bank loan facilities of HK\$1,288 million and deposit amounted to approximately HK\$70 million was pledged to secure a short-term bank loan of HK\$64 million. A total of HK\$1,790 million financing facilities were available, of which HK\$1,653 million had been drawn down to finance the Group's acquisitions, capital expenditures and for working capital purposes as at 31 December 2005.

Total borrowings of TOM Group amounted to approximately HK\$2,695 million as at 31 December 2005. This included convertible bonds of approximately HK\$1,033 million, long-term bank and other loans of approximately HK\$1,587 million and short-term bank loans of approximately HK\$75 million. The gearing ratio of TOM Group was 41% as at 31 December 2005, as compared to 40% as at 31 December 2004.

As at 31 December 2005, the Group had net current assets of approximately HK\$1,174 million, showing a significant improvement from approximately HK\$101 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\$246 million as at 31 December 2005, the settlement of which were mainly financed by utilising long-term financing facilities, sales proceeds from disposal of debt securities and by issuance of shares of TOM Online, a subsidiary of the Company.

As at 31 December 2005, the current ratio of TOM Group was 1.91 compared to 1.04 as at 31 December 2004.

In year 2005, the Group generated net cash of HK\$134 million from its operating activities, as compared to a net cash used of HK\$30 million in the same period of year 2004. Net cash used in investing activities was HK\$572 million, which mainly included capital expenditures and acquisition of subsidiaries amounting to HK\$1,028 million, partly offset by the interest income of HK\$104 million and the proceed of HK\$327 million from the sales of debt securities. During the year, the Group utilised bank loans, net of arrangement expenses, of HK\$511 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\$412 million.

Charges on Group Assets

As at 31 December 2005, the Group had listed debt securities with a market value of approximately HK\$1,379 million pledged to banks for securing bank loans and the amount drawn down by the Group was HK\$1,288 million. In addition, bank deposits, cash and other assets at total net book value of approximately HK\$88 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 minimise currency risk.

Contingent Liabilities

As at 31 December 2005, TOM Group had no material contingent liabilities.

Employee Information

As at 31 December 2005, TOM Group had 4,094 full-time employees. Employee costs and stock option costs, excluding directors' emoluments, totalled at HK\$598 million for the year (2004: HK\$476 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 TOM Group. Social, sports 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 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 TOM Group and retaining the services of the employees who will continue to make valuable contributions to the TOM Group.