Management's Discussion and Analysis

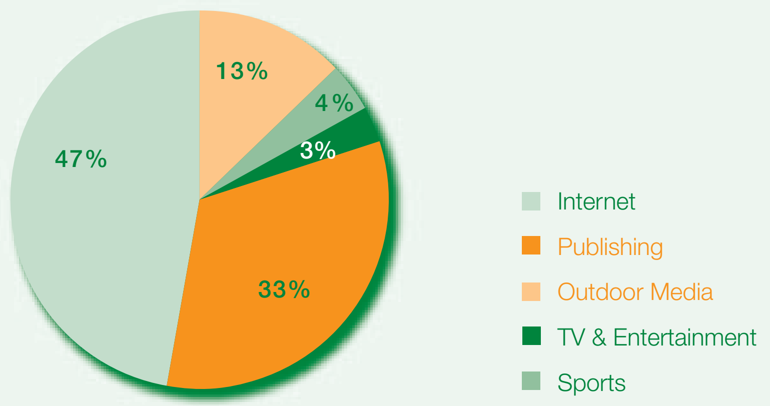
Operations Review

Group revenues dropped by 6.3% to HK$2,911 million compared to HK$3,105 million in 2005. Net profit attributable to shareholders was HK$32 million, represents a basic earnings per share of HK0.82 cents versus HK6.67 cents in 2005.

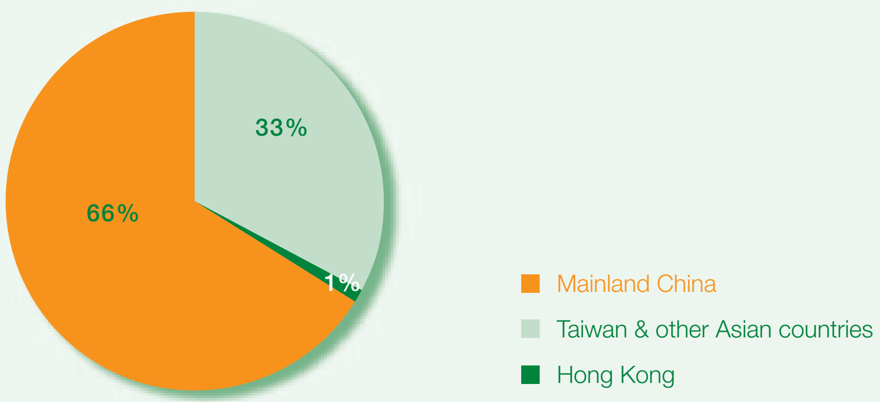
In 2006, despite the tough operating environment, we were taking measures in consolidating our businesses such as disposal of *Yazhou Zhoukan* and other non-performing publishers, proposed disposal of Indiagames, acquisition of Pixnet as well as making impairment provision for our sport event. The operating profit before gain on early redemption and buy-back of convertible bonds, provision for impairment of assets, share of results of our associated companies and jointly controlled entities was HK$291 million, with operating margin maintained at 10% which is at similar level of last year.

Cost structure improvement and margin expansion is one of the major focus of the Group, during the year we successfully reduced our headquarter expenses by around 30%; these efforts will be continued to drive further growth in the years ahead.

2006 Revenue Mix by Business Group



2006 Revenue Mix by Regions



Management's Discussion and Analysis

INTERNET

The Internet Group reported revenues of HK$1,371 million, flat versus last year. Revenues of TOM Online made up 98.1% of the total. Segment profit was HK$302 million, a drop of 13.4% compared to last year's HK$348 million. Segment profit margin for the year was 22.0% compared to last year's 25.4%.

Total wireless revenues for 2006 declined by 3.3% to HK$1,191 million compared to HK$1,231 million last year, as wireless businesses were severely impacted by the adverse regulatory developments in the second half of the year. In 2006, wireless Internet revenues made up 90.7% of total revenues compared to 93.9% in 2005. Revenues of online advertising business increased by 44.2% to HK$104 million and made up 7.9% of the total. The growth in online advertising was mainly driven by increased advertisers' interest to online audiences on sports, entertainment/music channels. TOMO's portal differentiation was enhanced in 2006 through the strategic cooperation with Titan Sports, the country's top-selling sports newspaper and continued growth in "Wanleba" online music community site.

In 2006, the wireless Internet business of TOMO was adversely impacted by the policy changes on China Mobile's ("CMCC") Monternet platform; revenues declined and margin compressed as a result. The changes, which have been implemented under the policy directives of China's Ministry of Information Industry ("MII"), aim to address a number of issues, including reducing customer complaints, increasing customer satisfaction and promoting the healthy development of Monternet. In addition, under the same MII policy directives, China Unicom implemented policies similar to those of CMCC during third quarter of 2006.

These policies had a significant negative impact to our wireless Internet business in the second half of 2006. In response, TOMO has focused on managing its wireless Internet cost structure to boost profitability and competitiveness, as well as increasing online advertising revenues and other returns from its portal assets. In addition, TOMO will focus on new opportunities to leverage its portal assets on the introduction of 3G wireless services. TOMO continues to believe that their mobile operator partners will consolidate their value added services business towards a smaller group of large scale wireless Internet service providers and trust this will benefit TOMO's business in the long run.

At the end of 2006, TOMO announced a joint venture agreement with eBay/Eachnet to combine their respective expertise to build a new China marketplace business in 2007. TOMO is optimistic that through the combination of eBay's global e-commerce knowledge and their deep local market expertise enhanced by their online assets that there is an opportunity to create an attractive and profitable online marketplace for mainland Chinese buyers and sellers. Moreover, TOMO believes that the joint venture will benefit from their strong position in the Chinese wireless Internet market in developing new mobile commerce opportunities in the long run.

At the end of January 2007, there were over 31.5 million registered TOM-Skype users, up from over 9.0 million at the end of February 2006, an increase of over 22.5 million new registered users. TOMO is working to maintain the rapid growth of the TOM-Skype community in 2007 with the objective of developing and innovating new value added services around the TOM-Skype community commencing from the later part of 2007.

In December 2006, TOM Online made a decision to sell all of its equity interests in Indiagames which was acquired on 22 August 2005 and to focus on the China Market.

PUBLISHING

Revenues of the Publishing Group dropped by 8.1% to HK$951 million compared to last year's HK$1,035 million, which was mainly impacted by the closing down of some

Management's Discussion and Analysis

loss making publishers and the softening of the book market in Taiwan. Segment profit increased by 2.2% to HK$99 million versus HK$97 million in 2005. Segment profit margin improved from last year's 9.3% to 10.4%.

Advertising revenues made up 33.1% of the Publishing Group's total revenues for the year compared to last year's 32.0%. Magazine sale accounted for 25% versus last year's 26%, while book sale made up 39%. In 2006, slow down in the growth of the book market in Taiwan caused book sale of the group to decline 8.1%. In response to that, the group will reduce its annual publishing of new books titles by 30% starting from 2007 so as to increase the profitability and have a better control of inventory. Impacted by the disposal of *Yazhou Zhoukan*, magazine sale of the group dropped 13% versus last year.

The rationalisation of internal resources continued during the year to enhance the operational efficiency and profitability of the Publishing Group. The group has restructured, disposed of or closed some of its unprofitable magazines and publishing business units and five publishers were closed as a result. The disposal of *Yazhou Zhoukan* in March 2006 resulted in a revenue reduction of HK$48 million but enhanced overall profitability for the division compared to 2005.

Taiwan remains the main growth avenue for the Publishing Group and accounted for 97.6% of the group's total revenues for the year, and the remaining 2.4% was generated from Hong Kong and Mainland China. During the year, five new magazine titles were launched and over 2,300 new book titles were published in Taiwan. The circulation of *Business Weekly*, one of our flagship magazines in Taiwan, continued to grow and is now the best selling magazine in Taiwan; its circulation per issue, as certified by ABC (Audit Bureau of Circulations), has reached more than 137,000 copies in the third quarter of 2006.

In pursuing continuing growth opportunities, the group has taken a significant step in developing internet and e-commerce business by acquiring a leading social networking website, namely Pixnet Digital Media (www.pixnet.net), which offers blog, photo and online community services in Taiwan, in February 2007. The Taiwan publishing group is currently running a game player's site called Game Base (www.gamebase.com.tw) which offers casual games for game players; the game site has been running for over six years and is currently profit making. Leveraging on existing content, advertisers and readers base, the group will continue to explore opportunities in developing online business to capture the robust growth of e-commerce and Internet advertising market in Taiwan.

The magazines namely *DG Best*, *Global Business*, *International Wrist Watch* and *MOOK* launched in Mainland China by Taiwan operations, despite continuous growth in both circulation and advertising revenue, were still in investment stage except *DG Best* which achieved breakeven in December 2006. *Global Business*, the Mainland China extension of *Business Weekly*, announced in October 2006, two quarters after its launch in first quarter of 2006, that its circulation per issue, as certified by the BPA (Business of Performing Audits), reached 79,709 copies.

As at 31 December 2006, the Publishing Group has a portfolio of around 60 magazine titles and over 40 book publishing brands. The group operated four bookstores in Taiwan and one in Hong Kong during the year. Looking forward, the group will continue to improve its operating efficiency and profitability with further rationalisation of resources employed so as to gear for a bigger growth in years ahead.

OUTDOOR MEDIA

The Outdoor Media Group reported revenues of HK$391 million, a decline of 5.1% compared to last year's HK$412 million, mainly due to lower occupancy rate of the group's media assets for the year. Segment profit dropped by 57.6% to HK$7 million versus last year's HK$16 million, and segment profit margin was 1.7% versus last year's 3.9%.

Management's Discussion and Analysis

Revenues from self-owned/leased media assets made up 56% of the total for the year, media buying accounted for 32% and the remainder was generated from professional services and others. Revenues from billboard and unipole accounted for 44% of the total.

In year 2006, total media asset space amounted to over 345,000 square metres, representing an increase of 19% over last year's about 300,000 square metres. Of the total media asset space 88% were self-owned/leased and 12% were media buying. 75% of the group's assets were billboard and unipole, while street furniture and transportation advertising accounted for 21%.

Occupancy rate of the self-owned/leased assets was 73% compared to last year's 78%. The lower occupancy rate was mainly due to the fact that some newly acquired media assets took a longer time to sell; the occupancy rate was picking up in early 2007. Average selling price of the group increased 7.3% over last year. Media asset costs of the group in 2006, i.e. the land and media rental, however increased 32% compared to last year, which impacted the margin of the group.

In November 2006, OMG entered into an agreement with New Media Information Broadcasting Company Limited ("NMB"), a subsidiary of Shanghai Media and Entertainment Management Group, and obtained the advertising rights of NMB's new media assets in Shanghai. According to the agreement, OMG has the sole advertising right that covers not less than 1,000 bus-shelter digital light boxes located at the Puxi area for a period of five years between 1 January 2007 to 31 December 2011. NMB will be responsible for the construction and maintenance of the light boxes as well as coordinating and maintaining relationship with the municipal government. It is believed that the light boxes will start to generate reasonable revenues in the third quarter of 2007.

OMG also obtained the sole and exclusive distribution rights of Novamedia's advanced illuminated display technology in Greater China and Singapore, from Novamedia LP, a US leading illuminated displays provider. Novamedia's technology utilises the screen-silk printing process to produce quality-illuminated signs with stunning neon effect. OMG will leverage on this technology to maximise advertising value to its customers.

In March 2006, Singapore Press Holdings Limited ("SPH") became a strategic partner of TOM OMG by acquiring a 35% stake in OMG through a capital injection to the group of approximately HK$203 million (US$26 million) at an implied value of approximately HK$820 million (US$105 million); and a deemed disposal gain of HK$25 million was recorded. SPH is the leading media company in Singapore with an established platform in publishing business. The strategic partnership provides SPH with a foothold in the outdoor media sector in Mainland China. OMG in turn will benefit from SPH's media expertise and resources and will continue to expand and solidify its leading outdoor advertising business by acquiring quality media assets in Mainland China.

During the year, OMG undertook various measures in deepening the consolidation of the group. Apart from the readjustment of the business strategies by increasing self-owned/leased assets, a new management team was appointed to strengthen the management of OMG. A new Chief Executive Officer and a Chief Operating Officer were appointed during the year, together with five newly recruited senior executives, the management team of OMG makes its focus on strengthening the media development of the group in the areas of digital media and national sales.

As at 31 December 2006, OMG operated 16 subsidiaries with advertising presence in over 60 cities throughout Mainland China. The group will continue to strengthen its network sales by enhancing the integration within subsidiaries and its knowledge platform as well as developing network sales in new media with higher margin. The group is actively exploring potential acquisition of outdoor assets in different categories with higher margin in the first tier cities including

Management's Discussion and Analysis

Beijing, Shanghai, Guangzhou and Shenzhen and some leading second tier cities to expand its assets portfolio and improve profitability.

TELEVISION AND ENTERTAINMENT

Revenues of the Television and Entertainment Group grew by 15.9% to HK$94 million. Segment loss was HK$50 million, an improvement of 8.3% compared to loss of HK$54 million which included a disposal gain of HK$12 million from sale of the Group's interests in Huayi Brothers. Excluding this one time gain in 2005, segment loss from this division improved by 24%.

Advertising revenues made up 76.5% of the total revenues for the year, with the rest generated from wireless, events and programme syndication. As a result of new regulatory restrictions in the second half of 2006, advertising growth of CETV slowed down, despite a strong growth of 30.0% in the first half. Total advertising revenues of the group was HK$72 million for the year, which represented a 4.3% increase over last year. In response, CETV has successfully broadened its client base and it is expected that advertising revenues will resume growth momentum in 2007.

As at 31 December 2006, CETV achieved a market share during prime time of 1.6% and 2.6% in Guangzhou and Shenzhen respectively; and covered about 24 million households throughout Mainland China.

In 2006, about 30% of programmes broadcasted during prime time were original productions with the remainder acquired from Korea, Taiwan and overseas; CETV targets to increase original production broadcast during prime time to 40%. In October 2006, TOM acquired Chi-Chi Dei Entertainment Limited, a cutting-edge reality-content production studio aimed at the growing Asian youth market; the Group believes that the acquisition will further enhance its production capacity.

New original productions in 2006 included "*2R Blog*" (hosted by Rosanne and Race, the show introduces new styles and trends throughout Greater China), "*Celebrity Kitchen*" (a food and cooking show including showbiz artists dropping in on families for dinner). CETV continues to integrate commercial elements to create more branded content and sponsored productions.

The new media business posted about three-fold growth compared to last year, mobile interactive programmes like "*Happy Laisee*" and "*Hi! Lucky Taxi*" were well received during the year. "*Happy Laisee*" is an interactive auction program, audience can use IVR call-in to bid-down for the auctioned goods, while "*Hi! Lucky Taxi*" is a "*Millionaire-Like*" show in a taxi that provides participation opportunities for audiences by using IVR call-ins. At present, CETV partners with TOM Online and various other services providers in its new media business.

In 2006, CETV continued to strengthen its ties with China Mobile (Guangdong) and produced a new sponsored talent show named "*Star Power 2006*". The show opened in Guangzhou and qualifying rounds were held in the Guangdong cities of Foshan, Zhangjiang, Dongguan, Shantou, Zhuhai with the finals held in Shenzhen. Over 40,000 participants took part in the talent show.

CETV achieved several important recognitions in 2006. It was voted among the "Top 10 Most Influential TV Brands" in a survey conducted by GAPP (General Administration of Press and Publication), China Association of Advertising Agencies, Sinomonitor International, people.com.cn, etc. The other voted channels included CCTV, Hunan TV, Dragon TV, Phoenix TV, Anhui TV, Chongqing TV, Southeast TV, Jiangsu TV and Shandong TV. The sponsored talent show for China Mobile (Guangdong) was voted as one of the "Top 10 Best Marketing Campaigns in 2006". This survey was conducted by CCTV, *Southern Metropolis Daily*, *New Beijing Daily* and Sina. *New Weekly Magazine's* "Xinreibang" nominated CETV's "*Scent Of A Woman*" as "Best Talk Show", and drama-reality "*Ways Of The World*" as "Best Social Commentary Programme".

Management's Discussion and Analysis

CETV will continue to pursue initiatives to further deepen its content productions capabilities and expand distribution platforms; a new media distribution company was set up to broaden the revenue streams of the group. The major business of the new company is mainly engaged in interactive programming and third party content online syndication. In March 2007, the pilots for two new interactive programmes were completed and one of the programmes will go into formal production for pre-sales through its online network.

SPORTS

The Sports Group underwent a significant restructuring during the first half, which included settlement of litigation and claims with external partners. Revenues for the group declined by 45.6% to HK$113 million, compared to last year's HK$208 million. The decline was partially attributable to de-consolidation of revenues from the China Open tournament, which totalled HK$65 million in 2005. Following the restructuring, the tournament was operated by an associated company of the group whereas it had been operated by a subsidiary in 2005. A segment loss of HK$23 million was reported versus last year's segment profit of HK$4 million, which had included an one-off compensation from COL, a joint venture between Beijing Media Corporation ("BMC") and TOM, of HK$68 million for China Open 2005 and before.

In the first half of 2006, YC underwent a major restructuring. A new Chief Executive Officer was appointed and YC was repositioned as an integrated marketing communication expert. During the year, YC has been gradually shifting its focus to event and PR promotion production services and media-buying business.

Drawing on the diversified media platform of TOM Group, its own all-round experiences in Mainland China, including sponsorship, public/media relationship building, event organising and management, and student campus promotion, as well as its excellent relationships established with all key media in Mainland China i.e. TV, print, Internet and outdoor media, YC developed a new business model directed towards developing integrated communication campaigns with influencing media and value-added executions to clients by cross-selling relevant products from all of TOM Group's five business groups. The client portfolio will be expanded to cover international advertising/ PR agencies in China, and clients in industries with substantial expenditure in below-the-line activities such as automobile and cognacs.

China Open 2006 was held from 11 to 24 September in Beijing, the event featured world's top male and female players including *Ivan Ljubicic, Nikolay Davydenko, Marcos Baghdatis, Amelie Mauresmo, Lindsay Davenport* as well as *Svetlana Kuznetsova*. The sponsors of China Open 2006 included Rolex, Sony Ericsson, Mercedes Benz, CCTV, Lacoste, Sohu, Beijing Chateau, and Tsing Tao. In March 2007, the Group signed an agreement to dispose of COL and the subsidiaries holding the memberships of ATP (Association for Tennis Professionals) and WTA (Women Tennis Association) for a total consideration of HK$120.9 million; an impairment provision of HK$11 million relating to the disposal was made in year 2006. Upon completion of the disposal, TOM will exit the sport business and focus its resources on the other four business groups.

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.

The 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 revenue for the year ended 31 December 2006 amounted to HK$2,911 million, a decrease of 6.3% compared to the previous year of HK$3,105 million.

Segmental Results

The Internet Group reported revenues of HK$1,371 million compared to last year's HK$1,372 million. Segment profit was HK$302 million versus last year's HK$348 million. Segment profit margin for the year was 22.0% compared to last year's 25.4%.

Revenues of Publishing Group dropped by 8.1% to HK$951 million compared to last year's HK$1,035 million. Segment profit increased by 2.2% to HK$99 million versus HK$97 million in 2005. Segment profit margin increased from last year's 9.3% to 10.4%.

The Outdoor Media Group reported revenues of HK$391 million, a drop of 5.1% compared to last year's HK$412 million. Segment profit dropped by 57.6% to HK$7 million versus last year's HK$16 million; segment profit margin decreased from last year's 3.9% to 1.7%.

Revenues of the Television and Entertainment Group grew by 15.9% to HK$94 million, versus last year's HK$81 million. Segment loss was HK$50 million, a drop of 8.3% compared to last year's HK$54 million.

Revenues of the Sports Group dropped by 45.6% to HK$113 million, compared to last year's HK$208 million. A segment loss of HK$23 million was reported versus last year's segment profit of HK$4 million.

Operating Expenses

The operating expenses of the Group during the year under review decreased by 2.4% to HK$933 million as compared to HK$956 million in year 2005, as a result of the Group's ongoing cost control measures.

Operating Profit

The Group's operating profit before net gain on deemed disposal of interests in subsidiaries for the year amounted to HK$273 million, compared to last year's HK$335 million. Basing on such, operating profit margin was at 9.4% for the year.

Profit Attributable to Shareholders

The Group's profit attributable to shareholders was HK$32 million, compared to HK$260 million in year 2005.

Liquidity and Financial Resources

As at 31 December 2006, TOM Group had bank and cash balances, including pledged deposits, of approximately HK$1,656 million and listed debt securities of approximately HK$1,914 million, of which listed debt securities of approximately HK$1,759 million were pledged to secure long-term bank loan facilities of HK$1,628 million and deposits amounted to approximately HK$35 million were pledged to secure bank loans granted to certain subsidiaries and an associated company of the Group. A total of HK$3,086 million financing facilities were available, of which HK$2,727 million had been drawn down to finance the Group's acquisitions, capital expenditures and for working capital purposes as at 31 December 2006.

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Total borrowings of TOM Group amounted to approximately HK$2,918 million as at 31 December 2006. This included convertible bonds of approximately HK$191 million, long-term bank loans of approximately HK$1,999 million and short-term bank loans of approximately HK$728 million. The gearing ratio (Debts/(Debts + Equity)) of TOM Group was 40.3% as at 31 December 2006, as compared to 40.8% as at 31 December 2005.

As at 31 December 2006, the Group had net current assets of approximately HK$864 million, as compared with approximately HK$1,174 million as at 31 December 2005.

As at 31 December 2006, the current ratio of TOM Group was 1.43 compared to 1.91 as at 31 December 2005.

In year 2006, the Group generated net cash of HK$480 million from its operating activities, as compared to HK$134 million in the same period of 2005. Net cash used in investing activities was HK$100 million, which mainly included capital expenditures and acquisition of subsidiaries amounting to HK$491 million, partly offset by interest income of HK$119 million, proceed of HK$79 million from the sales/maturity of debt securities and proceeds from deemed disposal of interests in subsidiaries of HK$203 million. During the period, the net cash inflow from financing activities amounted to HK$157 million, included in which was the drawing of bank loans, net of repayments and arrangement expenses, of HK$1,052 million. Such proceed was mainly used to finance the buyback of convertible bonds of HK$959 million.

Charges on Group Assets

As at 31 December 2006, listed debt securities with a total market value of approximately HK$1,759 million were pledged to banks for securing bank loans and the amount drawn down by the Group was HK$1,628 million. In addition, bank deposits, cash and other assets with a total net book value of approximately HK$53 million were pledged to banks for securing banking facilities granted to certain subsidiaries and an associated company 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 2006, the Group has contingent liabilities amounting to approximately HK$14 million in respect of the provision of fixed deposits as securities for bank loans granted to an associated company in which the Group has a 49% equity interest.

Employee Information

As at 31 December 2006, TOM Group had 4,218 full-time employees. Employee costs and stock option costs, excluding Directors' emoluments, totalled HK$556 million for the year (2005: HK$588 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 programs 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 Group may be granted share options to subscribe for shares in the Company for the purposes of recognising the contributions made by the employees to the Group and retaining the services of the employees who will continue to make valuable contributions to the Group.