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TOM Group Limited

TOM集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2383)

DISCLOSEABLE TRANSACTIONS

Proposed establishment of a domestic joint venture enterprise in Chongqing, the People’s Republic of China which will be engaged in the advertising business and Proposed grant of the put and call options

The Board is pleased to announce that on 15 December 2004, TOM Outdoor Media, a wholly-owned subsidiary of the Company, has entered into the Agreement with Jinzhao, Mr. Xiong and Mr. Wang for the establishment of a domestic joint venture enterprise in Chongqing, the PRC which will be engaged in the advertising business.

The Joint Venture will be owned as to 51% by TOM Nominee and as to 49% by Jinzhao. The registered capital of the Joint Venture is RMB6 million (equivalent to approximately HK\$5.64 million), of which TOM Nominee will contribute RMB3.06 million (equivalent to approximately HK\$2.88 million) in cash and Jinzhao will contribute RMB2.94 million (equivalent to approximately HK\$2.76 million) worth of assets. In addition, TOM Outdoor Media (through TOM Nominee) will provide an amount of RMB9.19 million (equivalent to approximately HK\$8.64 million) in cash to the Joint Venture for funding its capital expenditure and working capital requirements.

Subject to certain conditions as set out in the Agreement, Jinzhao has been granted the Put Option and the Call Option. Pursuant to the Put Option, Jinzhao has a right to sell all (but not part) of its equity interest in the Joint Venture to TOM Outdoor Media (or to an affiliated company nominated by TOM Outdoor Media). Pursuant to the Call Option, Jinzhao and/or Mr. Xiong and/or Mr. Wang has a right to acquire 51% of the equity interest in the Joint Venture held by TOM Nominee and/or its affiliated companies, together with the rights in and to the TOM Loan.

The formation of the Joint Venture and the grant of the Put Option contemplated under the Agreement constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The grant of the Call Option contemplated under the Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing, among other things, further information on the Joint Venture, the Put Option and the Call Option will be despatched to the shareholders of the Company as soon as practicable and, in any event, within 21 days after the publication of this announcement.

THE AGREEMENT

Date

15 December 2004

Parties

- (1) TOM Outdoor Media
- (2) Jinzhao
- (3) Mr. Xiong
- (4) Mr. Wang

Assets to be acquired

51% of the equity interest in the Joint Venture, which will be established by TOM Outdoor Media (through TOM Nominee) and Jinzhao in Chongqing, the PRC.

Establishment of the Joint Venture

Pursuant to the Agreement, TOM Nominee and Jinzhao, as shareholders, will jointly sign all necessary documents for the establishment of the Joint Venture, including, without limitation, the articles of association in respect of the Joint Venture, in accordance with the provision of the Agreement.

Details of the Joint Venture are as follows:

1. Shareholders

- (a) TOM Nominee (51%)
- (b) Jinzhao (49%)

2. Registered capital

- (a) The registered capital of the Joint Venture is RMB6 million (equivalent to approximately HK\$5.64 million), of which TOM Nominee will contribute RMB3.06 million (equivalent to approximately HK\$2.88 million) in cash and Jinzhao will contribute RMB2.94 million (equivalent to approximately HK\$2.76 million) worth of assets (such as unipoles, billboards, lightboxes and novation of certain advertising agreements (between Jinzhao and its customers), media leasing agreements and advertising licenses, permits, etc.) (“Contributing Assets”).
- (b) The aforesaid cash capital contribution by TOM Nominee will be paid within 10 Business Days after the date the capital verification report (驗資報告) of Jinzhao in connection with its contribution of the Contributing Assets to the Joint Venture becomes available. TOM Nominee’s share of the capital contribution will be funded by internal resources of the Company.
- (c) Jinzhao will transfer all of the Contributing Assets to the Joint Venture prior to the establishment of the Joint Venture. The valuation of the Contributing Assets will be assessed by a PRC accounting firm approved by TOM Outdoor Media. The Joint Venture will be entitled to the profit generated by the Contributing Assets with effect from 1 October 2004.

The Joint Venture will be treated as a non wholly-owned subsidiary of the Company.

3. Additional funding

TOM Outdoor Media (through TOM Nominee) will provide an unsecured interest-free shareholder’s loan of RMB9.19 million (equivalent to approximately HK\$8.64 million) to the Joint Venture (“TOM Loan”) for funding its capital expenditure and working capital requirements within 5 Business Days from the date of the Assets Acquisition Agreement. The timing of repayment of the TOM Loan will be determined by the board of directors of the Joint Venture.

The additional funding by TOM Outdoor Media will be funded by internal resources of the Company.

As at the date hereof, TOM Outdoor Media has no other financial commitment to the Joint Venture other than the TOM Loan.

4. Scope of business

The design, production and distribution of all types of advertisements (including, without limitation, outdoor advertisements), and acting as an advertising agent for the distribution of all types of advertisements (including, without limitation, outdoor advertisements).

5. Management

The board of directors the Joint Venture will comprise 5 directors, of which 3 will be nominated by TOM Outdoor Media and 2 will be nominated by Jinzhao.

Jinzhao has the right to nominate the first chairman of the board of directors of the Joint Venture. Subsequent chairmen will be appointed by the board of directors of the Joint Venture.

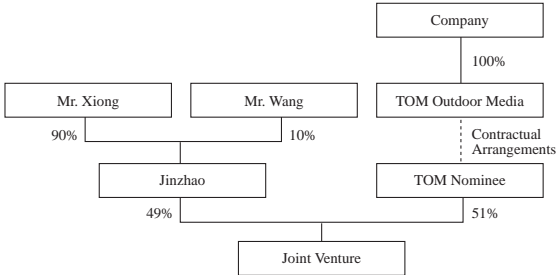
6. Future funding

If the board of directors of the Joint Venture determines that the Joint Venture requires additional funding, such additional funding may be provided in the following matter and in the following order of preference:

- (a) bank loans; or
- (b) if bank loan is unavailable or insufficient, both TOM Nominee and Jinzhao will provide funding in the form of shareholders’ loan in proportion to their then respective shareholding in the Joint Venture with or without interest as determined by the board of directors of the Joint Venture.

If the Joint Venture fails to be established within 90 days from the Effective Date, TOM Outdoor Media may, by giving written notice to the other parties, terminate the Agreement, upon which Jinzhao, Mr. Xiong and Mr. Wang will return in one lump sum all payments made by TOM Outdoor Media or TOM Nominee to the Joint Venture within 14 Business Days from the date of such written notice given by TOM Outdoor Media.

Proposed shareholding structure chart of the Joint Venture



Conditions precedent

The Agreement conditional upon the following conditions (“Conditions”) being fulfilled or waived by TOM Outdoor Media within 90 days after the date of the Agreement (or other date as the parties may agree):

- 1. there being no material adverse change in the business operation of Jinzhao between the date of the Agreement and the Effective Date;
- 2. a legal opinion (in such form and substance satisfactory to TOM Outdoor Media) opining on the legality of the transactions contemplated under the Agreement having been issued by such PRC legal counsels approved by TOM Outdoor Media; and
- 3. if required under the Listing Rules, the Board and/or the shareholders of the Company having approved the transactions contemplated under the Agreement.

Asset Acquisition Agreement

Pursuant to the Agreement, the Joint Venture, Mr. Xiong, Mr. Wang and Jinzhao will enter into the Asset Acquisition Agreement on the date of establishment of the Joint Venture, under which Jinzhao will transfer RMB8.84 million (equivalent to approximately HK\$8.31 million) worth of its advertising assets/businesses and other related businesses (such as unipoles, billboards and lightboxes) to the Joint Venture and the Joint Venture will be entitled to the profit generated by such assets/businesses with effect from 1 October 2004. The Joint Venture will not be required to pay the consideration (being RMB8.84 million (equivalent to approximately HK\$8.31 million), which is interest free and unsecured) for such acquisition of assets until such times when the Joint Venture repays all or part of the TOM Loan, in which case, the parties will procure that the Joint Venture makes such repayment and payment in proportion to TOM Nominee’s and Jinzhao’s respective shareholding in the Joint Venture at that time.

Share conversion, and put and call options

- 1. Subject to, among other things, the advices of the professional advisers of Listco (as defined below) and the profitability of the Joint Venture, TOM Outdoor Media undertakes that in the event that the shares in the Joint Venture or the shares in another company, whose business comprises the Joint Venture’s outdoor advertising business (“Listco”) are listed on any recognised stock exchange (“Listing”), it will procure that Jinzhao’s equity interest in the Joint Venture be converted into shares in Listco (“Listco Shares”) either during the pre-listing restructuring or at the time of the initial listing of the Listco Shares. The number of Listco Shares to be so converted will depend on the amount of the

after-tax profit of Listco contributed by the Joint Venture in the year immediately preceding the year in which the Listing takes place.

- 2. Subject to: (a) the Listing not having taken place by 31 December 2008; (b) Jinzhao not having exercised the Call Option (as defined below); (c) the after-tax profit of the Joint Venture in the year ending 31 December 2008 having reached a minimum of RMB10 million (equivalent to approximately HK\$9.4 million); and (d) all outstanding loans granted to the Joint Venture by TOM Nominee and/or its affiliated companies (other than the TOM Loan) having been repaid in full, Jinzhao has a right to sell all (but not part) of its equity interest in the Joint Venture to TOM Outdoor Media (or to an affiliated company nominated by TOM Outdoor Media) (“Put Option”) at any time during the year ending 31 December 2009 at an exercise price of three times (or such other multiple as the parties may agree) the average value of the audited after-tax profit of the Joint Venture for the three years ending 31 December 2007 (subject to a cap of RMB25 million (equivalent to approximately HK\$23.5 million)).
- 3. Subject to: (a) the Listing not having taken place by 31 December 2008; (b) Jinzhao not having exercised the Put Option; and (c) all outstanding loans granted to the Joint Venture by TOM Outdoor Media and/or its affiliated companies (other than the TOM Loan) having been repaid in full, Jinzhao and/or Mr. Xiong and/or Mr. Wang has a right to acquire the 51% equity interest in the Joint Venture held by TOM Nominee and/or its affiliated companies, together with the rights in and to the TOM Loan, (“Call Option”) at any time during the year ending 31 December 2009 at an exercise price calculated in accordance with the following formula:

A = B – C – D

Where:

A = the Call Option exercise price

- B = (i) RMB12.25 million (equivalent to approximately HK\$11.52 million) x 1.2; or
- (ii) RMB12.25 million (equivalent to approximately HK\$11.52 million) if, in the opinion of Listco’s professional advisers, the reasons for the Listing not having taken place by 31 December 2008 are not attributable to Jinzhao, Mr. Xiong or Mr. Wang

C = the aggregate amount of all dividends (if any) received by TOM Outdoor Media from the Joint Venture

D = the aggregate principal amount of the TOM Loan repaid by the Joint Venture to TOM Outdoor Media

Assuming that TOM Outdoor Media does not receive any dividend from the Joint Venture, the maximum amount of the Call Option exercise price will be RMB25,401,600 (equivalent to approximately HK\$23,877,504).

INFORMATION ON JINZHAO

Jinzhao is a domestic company established in Chongqing, the PRC in 1997 and owned as to 90% by Mr. Xiong and as to 10% by Mr. Wang. Jinzhao is principally engaged in the outdoor media advertising business and has established dominant presence in Chongqing with a high quality portfolio of unipoles and billboards in prime locations, accounting for 87% of total revenue and 88% of total media asset area of Jinzhao. Jinzhao is one of the largest outdoor advertising companies in Chongqing in terms of revenue and scale of media assets. All the outdoor advertising assets/businesses of Jinzhao will be injected to the Joint Venture pursuant to the Agreement and the Asset Acquisition Agreement.

Based on the management accounts of Jinzhao, the unaudited net revenues of Jinzhao prepared in accordance with HK GAAP for the year ended 31 December 2003 and six months ended 30 June 2004 were approximately RMB35,612,000 (equivalent to approximately HK\$33,475,000) and approximately RMB23,816,000 (equivalent to approximately HK\$22,387,000) respectively. The unaudited profit before taxation of Jinzhao prepared under HK GAAP for the years ended 31 December 2002, 31 December 2003 and six months ended 30 June 2004 were approximately RMB5,712,000 (equivalent to approximately HK\$5,369,000), approximately RMB8,630,000 (equivalent to approximately HK\$8,112,000) and approximately RMB4,717,000 (equivalent to approximately HK\$4,434,000) respectively. The unaudited profit after taxation of Jinzhao prepared under HK GAAP for the years ended 31 December 2002, 31 December 2003 and six months ended 30 June 2004 were approximately RMB3,827,000 (equivalent to approximately HK\$3,597,000), approximately RMB5,782,000 (equivalent to approximately

HK\$5,435,000) and approximately RMB3,161,000 (equivalent to approximately HK\$2,971,000) respectively. As at 30 June 2004, the unaudited net assets of Jinzhao prepared in accordance with HK GAAP was approximately RMB16,000,000 (equivalent to approximately HK\$15,040,000).

REASONS FOR ENTERING INTO THE AGREEMENT

As Chongqing is the only municipality located in southwest of the PRC, the Directors considered that the quality and scale of Jinzhao's outdoor media assets in Chongqing is valuable to the Company's outdoor media consolidation strategy as it will enhance the dominant position of the Group in the region.

With the establishment of the Joint Venture, the Company would further expand its outdoor media advertising business in Chongqing and the Southwest region of the PRC. Together with TOM Outdoor Media's existing presence in Chengdu and Kunming, the PRC, TOM Outdoor Media's leadership in the outdoor advertising industry in the Southwest region of the PRC will be further strengthened.

The Directors consider that the Agreement is entered into on normal commercial terms in the ordinary and usual course of business of the Company and that the terms of the Agreement are fair and reasonable and in the interests of the Company so far as the shareholders of the Company are concerned.

DISCLOSEABLE TRANSACTIONS OF THE COMPANY

The formation of the Joint Venture and the grant of the Put Option contemplated under the Agreement constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The grant of the Call Option contemplated under the Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing, among other things, further information on the Joint Venture, the Put Option and the Call Option will be despatched to the shareholders of the Company as soon as practicable and, in any event, within 21 days after the publication of this announcement.

GENERAL

The Company (HKSE stock code: 2383) is listed on the Main Board of the Stock Exchange. A leading Chinese-language media group in the Greater China region, the Group has diverse business interests in five key areas: Internet (TOM Online) (Hong Kong GEM stock code: 8282, NASDAQ stock symbol: TOMO), outdoor media, publishing, sports, television and entertainment across markets in Mainland China, Taiwan and Hong Kong.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

"Agreement"	a conditional co-operative framework agreement dated 15 December 2004 entered into between TOM Outdoor Media, Jinzhao, Mr. Xiong and Mr. Wang in respect of, among other things, the proposed establishment of the Joint Venture
"Asset Acquisition Agreement"	an asset acquisition agreement to be entered into between Jinzhao, Mr. Xiong, Mr. Wang and the Joint Venture on the date of establishment of the Joint Venture, under which Jinzhao will transfer RMB8.84 million (equivalent to approximately HK\$8.31 million) worth of its advertising assets/businesses and other related businesses to the Joint Venture
"associates"	has the same meaning as ascribed to it under the Listing Rules
"Board"	the board of directors of the Company
"Business Day"	a day (excluding Saturday) on which banks are generally open for business in the PRC
"Company"	TOM Group Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange
"Contractual Arrangements"	a series of contracts under which the Company is able to enjoy economic benefits and consolidate the accounts of the entity which it does not have legal ownership. Please refer to the listing document dated 29 June 2004 of the Company for details of the Contractual Arrangements
"Contributing Assets"	has the meaning ascribed to it in paragraph 2 headed "Registered Capital" in the section headed "Establishment of the Joint Venture" above
"Director(s)"	the director(s) of the Company
"Effective Date"	the date on which the last of the Conditions is fulfilled or waived
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong. For the purposes of this announcement, the conversion rate between RMB and HK\$ is RMB1 = HK\$0.94
"HK GAAP"	the generally accepted accounting principles in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Jinzhao"	重慶金朝廣告有限公司 (Chongqing Jinzhao Advertising Company Limited), a limited liability company established in Chongqing, the PRC and is owned as to 90% by Mr. Xiong and as to 10% by Mr. Wang as at the date of this announcement. Jinzhao is a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules) or any of their respective associates and not a connected person (as defined in the Listing Rules) of the Company
"Joint Venture"	a domestic joint venture enterprise to be established in the PRC as contemplated under the Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Wang"	Mr. Wang Changyu (王昌渝), who holds 10% of the equity interest in Jinzhao. Mr. Wang is a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules) or any of their respective associates and not a connected person (as defined in the Listing Rules) of the Company. Mr. Wang is not connected with Mr. Xiong.
"Mr. Xiong"	Mr. Xiong Fan (熊帆), who holds 90% of the equity interest in Jinzhao. Mr. Xiong is a third party independent of and not connected with the Company or any of its connected persons (as defined in the Listing Rules) or any of their respective associates and not a connected person (as defined in the Listing Rules) of the Company. Mr. Xiong is not connected with Mr. Wang.
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TOM Nominee"	昆明風馳明星信息產業有限責任公司 (Kunming Fench Star Information Industry Limited), a purely domestic PRC entity to be nominated by TOM Outdoor Media to acquire 51% of the equity interest in the Joint Venture. The shareholders of TOM Nominee have granted options to a wholly-owned subsidiary of the Company, under which such subsidiary has the right at any time to acquire all of the equity interest in TOM Nominee from the shareholders of TOM Nominee
"TOM Outdoor Media"	TOM Outdoor Media Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

By Order of the Board
TOM GROUP LIMITED
 Angela Mak
 Company Secretary

Hong Kong, 15 December 2004

As at the date hereof, the directors of the Company are:

Executive Directors:

Mr. Sing Wang
 Ms. Tommei Tong

Non-executive Directors:

Mr. Frank Sixt (Chairman)
 Ms. Debbie Chang
 Mrs. Susan Chow
 Mr. Edmond Ip
 Mrs. Angelina Lee
 Mr. Holger Kluge
 Mr. Wang Lei Lei

Independent non-executive Directors:

Mr. Henry Cheong
 Ms. Anna Wu
 Mr. James Sha

* for identification purpose