TOM Group Limited

TOM集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2383)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

HIGHLIGHTS

- In 2004, The TOM Group achieved revenues of HK$2.6 billion, an increase of 24% compared to the previous year.
- Group EBITDA increased 35% to HK$354 million, while operating profit amounted to HK$299 million.
- Profit attributable to shareholders was HK$860 million compared to HK$13 million in 2003.
- Basic earnings per share increase to HK22.12 cents from last year's HK0.35 cent.
- Excluding the one-time non-recurring items, the Group achieved profit attributable to shareholders for the year of HK$129 million, a nine-fold increase.

The audited consolidated results for the year ended 31 December 2004 and the comparisons with last year are set out in the accompanying table.

CHAIRMAN'S STATEMENT

For the TOM Group, this marks the first set of annual results after the Group's listing was transferred from the GEM Board to the Main Board of the Hong Kong Stock Exchange. I am pleased to announce that the Group has delivered a second full year of profitability. In 2004, the Group achieved revenues of HK$2.6 billion, an increase of 24% compared to the previous year. Group EBITDA increased 35% to HK$354 million, while profit attributable to shareholders was HK$860 million compared to HK$13 million in 2003. Excluding the one-time non-recurring items, the Group achieved profit attributable to shareholders for the year of HK$129 million, a nine-fold increase.

The year saw growth in revenues and earnings across most divisions and an improvement in the performance of CETV in the first full year under the management of TOM. The year also saw the successful IPO and dual-listing of the Group's Internet Group, TOM Online Inc. ("TOMO"), on the NASDAQ in the United States and the Growth Enterprise Market in Hong Kong, as well as a return to the pursuit of consolidation initiatives through acquisition.

TOMO continued to deliver strong financial performance throughout the year, recording a 59% growth in revenue compared to the previous year and full year earnings of US$34 million, a 73% increase over 2003. TOMO has now firmly established itself as the leading wireless Internet service provider, as well as one of the top five Internet Portals in Mainland China. TOMO also completed several acquisitions during the year. The acquisitions of Treasure Base and Whole Win in the second half will enable TOMO to broaden its distribution into television media, as well as consolidate its position in 2.5G mobile telephone products and services. The acquisition of Indiagames will enable TOMO to immediately tap into the global wireless gaming market as well as gain a strategic entry into India. The acquisition of course will also help TOMO to continue to diversify its product portfolio in the Mainland market in the important area of mobile games.

The Outdoor Media Group reported revenues of HK$369 million, an increase of 24% compared to HK$298 million in the previous year. With the recently announced acquisitions in Chongqing and Wuhan, the Outdoor Media Group now has 14 subsidiaries operating across Mainland China. Overall, the Outdoor Media Group now operates the largest billboard network in the country with advertising presences in over 50 cities throughout Mainland China.

The Publishing Group delivered strong growth, recording revenues of HK$910 million, an increase of 18% from HK$771 million in the previous year. Initiatives to further develop the Mainland China market were stepped up and over 400 book and magazine titles were licensed from the Taiwan publishing units in 2004 for distribution in Mainland China. The Popular Computer Weekly joint venture was formally brought under management in August 2004.

The Sports Group's revenues for the year amounted to HK$295 million, an increase of 17% over 2003. In September, the Sports Group successfully held the inaugural China Open tennis tournament, a fully sanctioned ATP and WTA event. The event was held in Beijing and featured top international players including Serena Williams, Maria Sharapova, Marat Safin, Carlos Moya, Juan Carlos Ferrero and Paradorn Srichaphan. The two-week long tournament generated 150 hours of programming, which was broadcast live on CCTV, achieved sell-out capacity at the Men's and Women's Finals, and brought in major sponsors including Avon, Coca-cola, Lacoste, Rado, HSBC, Panasonic, Sohu, Tsingtao and Mercedes Benz.

Finally, in the Television and Entertainment Group, CETV was brought fully under the Group's management. Revenues of the Television and Entertainment Group for the year was HK$32 million. Excluding the one-time restructuring charges, CETV reported a net loss of HK$88 million for 2004, representing a reduction of 32% compared to its net loss in the previous year of HK$130 million. Management believes that this performance has put CETV on the right track towards achieving its original target of becoming earnings breakeven within three years following its acquisition by the Group. In December, TOM acquired a 27% stake in Huayi Brothers, one of the largest private film and television studios in Mainland China. This acquisition will not only allow the Television and Entertainment Group access to the rapidly developing film industry in Mainland China, but also deepen our capabilities in Chinese language television and filmed entertainment content production. This expansion of our Group's content production capabilities is expected to create valuable synergies with our various media platforms including CETV, TOMO and Publishing.

Today, the TOM Group has a diversified and stable mix of businesses, combining the high growth contribution of TOMO with the steadier earnings profile of our more traditional businesses such as Outdoor and Publishing. We believe that the Group's strong performance this year is important because most of it has been achieved as a result of organic growth across our businesses. In addition, our operations generally continued to improve efficiencies resulting in margin expansion. As a result, the Group has achieved a substantive increase in bottom-line earnings even after taking into account the consolidation of the losses from CETV, as well as a dilution in the profit attributable from TOMO after its listing. Looking forward, I expect the Group to continue to develop organically as well as through acquisitions in its existing businesses, all of which offer attractive growth prospects in the Mainland China.

Finally, I would like to thank TOM Group's management team and staff for their dedication and hard work throughout the year.

Frank Sixt
Chairman

Hong Kong, 23 March 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operations Review – Internet Group

The Internet Group recorded revenues of HK$989 million (TOMO: US$123 million), a growth of 67% from HK$592 million (TOMO: US$77 million) reported in 2003. In 2004, segment profit before depreciation and amortization grew to HK$353 million and segment profit to HK$300 million, compared to HK$192 million and HK$133 million respectively in 2003.

Wireless Internet services continued to be the key growth driver, contributing 89% of total revenues and attaining a year-on-year growth of 102%. Short messaging service ("SMS"), which in 2003, made up over 90% of wireless Internet revenues, accounted for only 49% of the segment revenues for the year 2004, while both 2.5G service and voice service revenues both attained over twelve-fold growth compared to the previous year, and contributed 25% and 26% respectively of wireless Internet revenues. These results reflect management's continued focus to diversify revenue streams, with an increased emphasis on 2.5G and voice services, so as to mirror the mobile telecommunications operators' strategies. Advanced data and voice services are expected to drive overall wireless Internet market growth in 2005. TOM Online has now firmly established its leadership in China's wireless Internet sector and is the only portal to be ranked within the top 3 service providers in all wireless delivery channels. Today, it has attained the #1 position in the voice-based service segment, which include interactive voice response ("IVR") and ring-back tone ("RBT") services; the #2 position in the 2.5G segment, covering multimedia messaging services ("MMS") and wireless application protocol ("WAP") services; as well as the #3 position in the 2G category, providing SMS based products.

Content and service offerings on the TOM.COM portal continued to be enriched, and today it ranks as one of China's top 5 Internet portals generating average daily page views of approximately 220 million. In line with the increasing popularity of the website, online advertising revenues have grown and made up 6% of total revenues for the year. Commercial enterprise services, the revenues of which in 2003 contributed to 18% of the total, continued to be de-emphasized and accounted for a very small percentage of total revenues for the year of 2004.

A number of key business development initiatives in the second half of 2004 have helped TOM Online secure its position as a leading wireless Internet service provider. These included the acquisition of Treasure Base, a wireless entertainment service provider with exclusive rights with major TV channels; a co-investment with IDG and Qualcomm in the Sichuan Great Wall Software Group that will focus on the development of Java and BREW technologies, thus enhancing TOM Online's 2.5G and future 3G product development capabilities; exclusive partnerships with UEFA and ESPN STAR brought the Euro 2004 Official Chinese Website and English Premier League content offerings respectively to our users; the strategic alliance with Skype Technologies will look to develop free and fee-based communication and community applications under the co-branded instant messaging tool, TOM-Skype; the acquisition of Whole Win, a leading WAP service provider has strengthened our position in 2.5G services. Lastly, the acquisition of Indiagames has allowed TOM Online to take its first strategic step outside of Mainland China, and will help in its continued diversification strategy – in market coverage, by adding India, a market with high-growth potential; in product mix – with the addition of Indiagames' portfolio of over 60 mobile games; as well as in distribution – with the combination of over 100 distribution channel partnerships worldwide.

Operations Review – Outdoor Media Group

The Outdoor Media Group ("TOM Outdoor") achieved revenues of HK$369 million, an increase of 24% compared to the HK$298 million reported in the previous year. Segment profit before depreciation and amortization and segment profit was HK$83 million and HK$58 million, compared to HK$67 million and HK$27 million respectively in 2003.

TOM Outdoor now operates the largest billboard network in Mainland China and ranks #2 in terms of overall market share in outdoor advertising. With the recently announced acquisitions in Chongqing and Wuhan at the end of 2004, TOM Outdoor now has over 300,000 square metres of asset space, comprising over 6,500 advertising panels, representing an overall increase of 20% in capacity. Through 14 operating subsidiaries, our advertising network now reaches over 50 cities throughout Mainland China. Occupancy rates have been improving, with the year-end average reaching over 80%. Key new concessions were secured in 10 cities including Shanghai, Beijing, Guangzhou, Dalian, Jinan, Fuzhou, Xiamen, Zhengzhou, Shengyang and Chongqing. These included 18 unipoles along the highway leading to the Pudong International Airport in Shanghai, as well as the 3 largest advertising billboards in Guangzhou. Major advertising account wins during the year included cross-regional placement contracts with NEC, AVIVA-COFCO Life Insurance, Kia Automobile, Futian Automobile and Konka.

In April of 2004, a re-branding exercise was launched for TOM Outdoor. Historically, TOM Outdoor had been built up through a series of acquisitions and also starting up wholly owned operations organically in Beijing, Shanghai and Guangzhou – as a result, the TOM brand and also the local brand of the joint-venture companies have co-existed for a period of time, due to the need to maintain corporate recognition with advertising clients and municipal governments. As part of the ongoing post-acquisition integration process, all units within the division now have unified branding under "TOM Outdoor", with the local mark becoming a sub-brand. It is intended that over time, the local brands would be phased out once the full transition to the TOM Outdoor brand has been completed. Also in the process of ongoing integration, divisional management has been aligned, with central reporting to Li Jian, who is now President of TOM Outdoor.

With integration progressing well, TOM Outdoor has also been looking to continue to build scale through acquisitions. In December, TOM Outdoor announced the acquisitions of Chongqing Jinzhao and Wuhan Lineland. Both Jinzhao and Lineland have leading positions in their home markets of Chongqing and Wuhan respectively and are focused mainly on operating in the billboard and unipole categories.

Operations Review – Publishing Group

The Publishing Group recorded revenues of HK$910 million, an increase of 18% compared to HK$771 million in 2003. Revenue from Taiwan Publishing was 93% of total revenues, with Hong Kong and Mainland China making up the remainder. For 2004, segment profit before depreciation and amortization was HK$100 million, and segment profit was HK$85 million. This compared with HK$71 million and HK$29 million respectively in 2003. The 5-month contribution from Popular Computer Weekly was equity accounted for under the share of profits from associated companies.

Magazine advertising increased by 19% year-on-year to HK$292 million, with its share of the revenue mix remaining level at 32%. Magazine circulation sales was HK$258 million, achieving a 11% growth versus 2003, however its proportion of total revenue dropped to 28% compared to 30% in the previous year. Revenue from book sales was HK$330 million, representing an 18% increase from 2003. The Publishing Group now has a total of over 60 magazine titles and over 40 book publishers, the circulation bases of which in 2004 were over 20 million and over 10 million respectively. During the year, a total of over 1,800 new book titles were published, and 8 new magazine titles launched, among them PC Home – Advance, Stuff and Golf. In the same period, 2 electronic magazines were acquired, namely Communication Components Magazine and Micro-electronics. Planning and preparation work also began for the launch of the China edition of Business Weekly in mid 2005.

In February, Cité Publishing organized and hosted the 12th Taipei International Book Exhibition. The event attracted 925 publishers from 51 countries, with over 250,000 books and magazines presented to over 400,000 visitors. The Taipei Cité flagship bookstore was opened in June, and subsequently the first Cité bookstore was opened in Hong Kong in December. The Publishing Group now has a total of 9 bookstores in Taiwan and Hong Kong.

Operations Review – Sports Group

The Sports Group achieved HK$295 million in revenues, an increase of 17% from HK$252 million in 2003. Segment profit before depreciation and amortization and segment profit was just over HK$43 million and just under HK$43 million respectively, compared to HK$77 million and HK$73 million in the previous year. The decline in profit was mainly as a result of cancellation of certain events.

The 2004 fiscal year remained a difficult one for the Sports Group. The performance of all our major events including the "Paradorn Super Tour" was severely affected by the spread of Bird Flu in Thailand and the "Thailand Golf" was even cancelled in 2004 and postponed to 2005. The 2nd Thailand Open Tennis Tournament was successfully launched in September, fortunately right before the widespread onset of Bird Flu. The tournament was very successful in terms of coverage and attendance, with presence many of ATP stars in attendance, including top seeds Roger Federer, Andy Roddick, Carlos Moya, Marat Safin and the #1 Asian player, Thailand's own Paradorn Srichaphan. Due to the event-driven nature of the sports business, the impact on performance, and hence the decline in profit this year, was compounded by the fact that results in 2003 included profit contribution from certain one-time non-recurring services.

The inaugural China Open, the first-ever combined ATP and WTA sanctioned event in China, was staged at the newly purpose-built Beijing Tennis Centre in September 2004. The event featured top international seeds including Serena Williams, Maria Sharapova, Marat Safin, Carlos Moya, Juan Carlos Ferrero and Paradon Srichaphan. The two-week long China Open event generated 150 hours of live programming broadcast on CCTV and achieved sell-out capacity in the 11,000-seater stadium at the Men's and Women's Finals. The events secured a group of strong sponsors like Avon, Coca-Cola, Lacoste, Rado, HSBC, Panasonic, Sohu, Tsingtao as well as Mercedes Benz. Both finals were closely fought competitions, with the ultimate Men's and Women's Championships taken by Marat Safin and Serena Williams respectively. The Sports Group has the right to hold the event in Beijing until 2013.

During the year, the Sports Group also organized the "China National Diving Challenge Series", a total of three events that are staged in Zhuhai, Shanghai and Guangzhou. This grand prix tournament began in 2003 and will be held until 2007. Other sports rights held by the Sports Group in the year included – commercial representation of the China National Table Tennis Team, sponsored by LG; commercial representation of the China National Women's Volleyball Team, sponsored by Vinda; and commercial representation of the China Inter-University Football League, which is sponsored by Philips.

Operations Review – Television and Entertainment Group

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 amortization 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 amortization 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 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, reorganization and revamping 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 digitization 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 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 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.

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, 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 amortization 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 amortization 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 amortization 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 magazines titles were licensed from the Taiwan publishing units into Mainland China in 2004. In addition, the Popular Computer Weekly joint venture was formally brought under management and financial contribution began in August 2004.

The Sports Group achieved HK$295 million in revenue, an increase of 17% from HK$252 million in the previous year. Segment profit before depreciation and amortization 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 ("HKFRS") 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, net off against one-time restructuring charges and impairment provisions totaling HK$248 million after minority interests, the Group achieved net profit of HK$129 million.

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 spin-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 utilized 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 equivalent to 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% by 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 the capital expenditures of HK$205 million, 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 minimize 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 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, totaled 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 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 TOM Group may be granted share options to subscribe for shares in the Company for the purposes of recognizing 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.

AUDITED CONSOLIDATED RESULTS

For the year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover		**2,595,245**	2,089,234
Cost of sales		**(1,509,070)**	(1,202,730)
Interest income		**82,925**	14,097
Selling and marketing expenses		**(268,307)**	(191,394)
Administrative expenses		**(241,518)**	(216,552)
Other operating expenses		**(360,138)**	(400,306)
Operating profit		**299,137**	92,349
Finance costs		**(34,902)**	(19,919)
Profit on deemed disposal of a subsidiary	3	**979,476**	–
Provision for impairment of assets	4	**(85,128)**	–
Provision for contracts termination	5	**(134,315)**	–
Provision for other receivables		**(22,476)**	–
Listing expenses	6	**(19,812)**	–
Share of losses of jointly controlled entities		**(367)**	(6,387)
Share of profits of associated companies		**13,069**	1,823
Profit before taxation		**994,682**	67,866
Taxation	7	**(30,557)**	(12,399)
Profit after taxation		**964,125**	55,467
Minority interests		**(104,303)**	(42,869)
Profit attributable to shareholders		**859,822**	12,598
Earnings per share	8		
Basic		**HK22.12 cents**	HK0.35 cent
Diluted		**HK20.76 cents**	HK0.35 cent

Notes:

1. **Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that certain investment securities are stated at fair value.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. With effect from 1 January 2004, the Group has early adopted HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets". The early adoption of these standards has resulted in a decrease in cost of sales of HK$1,365,000, decrease in other operating expenses of HK$45,802,000, increase in the share of profits of associated companies of HK$2,086,000, leading to an increase in the profit attributable to shareholders of HK$50,477,000 for the year ended 31 December 2004.

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. **Segmental information**

Primary reporting format – business segments

Year ended 31 December 2004

	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Group HK$'000
Turnover	988,999	369,287	909,653	295,275	32,031	2,595,245
Segment profit/(loss) before amortisation and depreciation	352,700	82,926	99,766	43,071	(62,024)	516,439
Amortisation and depreciation	(52,592)	(24,450)	(14,927)	(475)	(23,272)	(115,716)
Segment profit/(loss)	300,108	58,476	84,839	42,596	(85,296)	400,723
Unallocated costs						(101,586)
Operating profit						299,137
Finance costs						(34,902)
Profit on deemed disposal of a subsidiary	979,476	–	–	–	–	979,476
Provision for impairment of assets	(26,149)	(12,141)	–	–	(46,838)	(85,128)
Provision for contracts termination	–	(25,600)	–	–	(108,715)	(134,315)
Provision for other receivables	–	(17,831)	–	–	(4,645)	(22,476)
Listing expenses						(19,812)
Share of losses of jointly controlled entities	(367)	–	–	–	–	(367)
Share of profits of associated companies	223	–	12,846	–	–	13,069
Profit before taxation						994,682
Taxation						(30,557)
Profit after taxation						964,125
Minority interests						(104,303)
Profit attributable to shareholders						859,822

Year ended 31 December 2003

	Internet Group HK$'000	Outdoor Media Group HK$'000	Publishing Group HK$'000	Sports Group HK$'000	Television and Entertainment Group HK$'000	Group HK$'000
Turnover	592,443	297,966	771,441	251,535	175,849	2,089,234
Segment profit/(loss) before amortisation and depreciation	191,590	67,197	70,890	76,747	(4,928)	401,496
Amortisation and depreciation	(58,140)	(40,434)	(41,928)	(3,776)	(27,570)	(171,848)
Segment profit/(loss)	133,450	26,763	28,962	72,971	(32,498)	229,648
Unallocated costs						(137,299)
Operating profit						92,349
Finance costs						(19,919)
Share of losses of jointly controlled entities	(6,387)	–	–	–	–	(6,387)
Share of profits of associated companies	29	–	1,794	–	–	1,823
Profit before taxation						67,866
Taxation						(12,399)
Profit after taxation						55,467
Minority interests						(42,869)
Profit attributable to shareholders						12,598

Secondary reporting format – geographical segments

	Turnover 2004 HK$'000	Turnover 2003 HK$'000	Segment profit 2004 HK$'000	Segment profit 2003 HK$'000
Hong Kong	**157,724**	173,593	**12,194**	36,598
Mainland China	**1,595,837**	1,204,013	**375,323**	270,998
Taiwan	**841,684**	711,628	**128,922**	93,900
	2,595,245	2,089,234	**516,439**	401,496
Amortisation and depreciation			**(115,716)**	(171,848)
Unallocated costs			**(101,586)**	(137,299)
Operating profit			**299,137**	92,349

3 **Profit on deemed disposal of a subsidiary**

On 10 March and 11 March 2004, the shares of TOM Online Inc. ("TOM Online"), previously a wholly-owned subsidiary of the Company, were listed and traded on the National Market of National Automated Systems Dealership and Quotation ("NASDAQ"), United States of America and the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Global Offering") by the issuance of new ordinary shares. As a result of the Global Offering, the Company's shareholding in TOM Online has been diluted to 71.86%, which resulted in a gain of HK$875,775,000 arising from this deemed disposal.

On 10 March 2004, US$18,500,000 (approximately HK$144,300,000) worth of TOM Online shares were issued and allotted to Cranwood Company Limited at HK$1.5 per share to satisfy part of the consideration for the acquisition of the entire share capital of Puccini International Limited. This share allotment by TOM Online resulted in a deemed disposal gain of HK$103,701,000.

4 **Provision for impairment of assets**

Provision for impairment of assets represents provision for impairment of fixed assets of HK$29,432,000, other intangible assets of HK$2,397,000 and goodwill of HK$53,299,000. The impairment provision was mainly the result of certain internal restructuring initiatives in connection with the Group's operations. Among which, a provision of HK$46,838,000 has been made for impairment of goodwill arising from the acquisition of a subsidiary engaged in the audio and video products distribution business. The subsidiary has been excluded from consolidation since 1 January 2004 as the Group has ceased to have the ability to control or significantly influence the subsidiary's operation.

5 **Provision for contracts termination**

Provision for contracts termination included a one-time charge of HK$108,715,000 for the early termination of China Entertainment Television Broadcast Limited's analogue transponder agreement, in preparation for migration to digitalised transmission and distribution platform.

6 **Listing expenses**

On 4 August 2004, the listing shares of the Company have been migrated from GEM to the Main Board of the Stock Exchange. The associated expenses for the migration amounted to HK$19,812,000.

7 **Taxation**

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 HK$'000	2003 HK$'000
Hong Kong profits tax	**101**	26
Overseas taxation	**20,884**	20,270
Under/(over)-provision in prior years	**1,233**	(1,661)
Deferred taxation	**6,314**	(6,236)
	28,532	12,399
Share of taxation attributable to associated companies	**2,025**	–
Taxation charges	**30,557**	12,399

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

8. **Earnings per share**

(a) **Basic**

The calculation of the basic earnings per share is based on consolidated profit attributable to shareholders of HK$859,822,000 (2003: HK$12,598,000) and the weighted average of 3,886,250,185 (2003: 3,583,805,272) ordinary shares in issue during the year.

(b) **Diluted**

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the adjusted consolidated profit attributable to shareholders of HK$880,207,000, after adding back the borrowing costs of the convertible bonds, and the weighted average of 4,239,411,657 ordinary shares, after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options and convertible bonds issued by the Group had been exercised and converted into ordinary shares at the date of issuance.

The calculation of the diluted earnings per share for the year ended 31 December 2003 is based on the consolidated profit attributable to shareholders of HK$12,598,000 and the weighted average of 3,606,757,274 ordinary shares, after adjusting the effects of all dilutive potential ordinary shares, as if all the outstanding share options granted by the Company had been exercised at the date of issuance and the consideration shares for acquisition of subsidiaries had been issued at the date of acquisition. Since all potential ordinary shares arising from the convertible bonds, if converted into ordinary shares, would increase profit attributable to shareholders per share as a result of savings on the interest and redemption premium payable and amortisation of borrowing costs, the effects of anti-dilutive potential ordinary shares have not been taken into account in calculating diluted earnings per share.

9. **Dividends**

No dividends had been paid or declared by the Company during the year (2003: HK$Nil).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

PUBLICATION OF FURTHER INFORMATION

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules (in force prior to 31 March 2004) will be published on the website of the Stock Exchange as soon as possible.

DEFINITIONS

"CETV"	means China Entertainment Television Broadcast Limited
"Cité Publishing"	means Cité Publishing Holding Limited
"Company" or "TOM"	means TOM Group Limited
"Directors"	means the directors of the Company
"GEM"	means the Growth Enterprise Market of the Stock Exchange
"Group" or "TOM Group"	means the Company and its subsidiaries
"Huayi Brothers"	means Huayi Brothers International Holdings Limited
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Indiagames"	means Indiagames Limited
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Mainland China"	means The People's Republic of China, excluding Hong Kong, Macau and Taiwan
"NASDAQ"	means National Market of National Automated Systems Dealership and Quotation in the United States of America
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"TOM Online" or "TOMO"	means TOM Online Inc.
"Treasure Base"	means Treasure Base Investments Limited
"Whole Win"	means Whole Win Investments Limited

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

Executive Directors:
Mr. Sing Wang
Ms. Tommei Tong

Independent non-executive Directors:
Mr. Henry Cheong
Ms. Anna Wu
Mr. James Sha

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

* *for identification purpose*