tom.com

TOM Online Inc.

TOM在線有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8282)

CHARACTERISTICS OF GEM

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This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FORWARD-LOOKING STATEMENTS

This announcement contains statements that may be viewed as "forward-looking statements" within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Such forward-looking statements are, by their nature, subject to significant risks and uncertainties that may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Such forward-looking statements include, without limitation, statements that are not historical fact relating to the financial performance and business operations of the Company in mainland China and in other markets, the continued growth of the telecommunications industry in China and in other markets, the development of the regulatory environment and the Company's latest product offerings, and the Company's ability to successfully execute its business strategies and plans.

Such forward-looking statements reflect the current views of the Company with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in our relationships with telecommunication operators in China and elsewhere, the effect of competition on the demand for the price of our services, changes in customer demand and usage preference for our products and services, changes in the regulatory policies by relevant government authorities, any changes in telecommunications and related technology and applications based on such technology, and changes in political, economic, legal and social conditions in China, India and other countries where the Company conducts business operations, including, without limitation, the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. Please also see "Item 3 – Key Information – Risk Factors" section of the Company's annual report on Form 20-F for the year ended December 31, 2005 as filed with the United States Securities and Exchange Commission.

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FIRST QUARTERLY RESULTS FOR 2006

HIGHLIGHTS

- Total revenues were US$48.58 million ("mn"), an increase of 37.7% from the same period last year and up 1.0% from last quarter. This was at the high-end of the Company's 1Q06 guidance range which was US$47.7 mn to US$48.5 mn.

- Wireless Internet revenues were US$45.49 mn, representing a 36.0% increase over the same period last year and a 2.0% increase over the previous quarter. Wireless Internet revenues made up 93.6% of our total quarterly revenues.

- Online advertising revenues were US$2.70 mn, representing a 70.5% increase over the same period last year, but a decline of 15.5% quarter on quarter due to seasonality.

- Net income was US$12.14 mn, an increase of 32.5% from the same period last year but down 4.6% from the last quarter due to recognition of share-based compensation ("SBC") expenses and seasonal impacts.

- Excluding SBC expenses of US$0.78 mn, net income was US$12.91 mn, representing an increase of 41.0% year on year.

- Fully diluted earnings per American Depository Share ("ADS") were US$22.6 cents per ADS or US$0.28 cents per common share.

- Excluding SBC expenses, fully diluted earnings per ADS were US$24.1 cents per ADS or US$0.30 cents per common share.

- Our balance of cash, short-term bank deposits and marketable securities was approximately US$139.03 mn at the end of the first quarter 2006.

CHAIRMAN'S STATEMENT

I am pleased to announce the results of TOM Online Inc. (the "Company" or "TOM Online") and its subsidiaries (collectively referred to as the "Group") for the first quarter ended March 31, 2006.

FINANCIAL HIGHLIGHTS

For the first quarter of 2006:

- Total revenues were US$48.58 million ("mn"), an increase of 37.7% from the same period last year and up 1.0% from last quarter. This was at the high-end of the Company's 1Q06 guidance range which was US$47.7 mn to US$48.5 mn.

- Wireless Internet revenues were US$45.49 mn, representing a 36.0% increase over the same period last year and a 2.0% increase over the previous quarter. Wireless Internet revenues made up 93.6% of our total quarterly revenues.

- Online advertising revenues were US$2.70 mn, representing a 70.5% increase over the same period last year, but a decline of 15.5% quarter on quarter ("QoQ") due to seasonality.

- Net income was US$12.14 mn, an increase of 32.5% from the same period last year but down 4.6% from the last quarter due to recognition of share-based compensation ("SBC") expenses and seasonal impacts.

- Excluding SBC expenses of US$0.78 mn, net income was US$12.91 mn, representing an increase of 41.0% year on year ("YoY").

- Fully diluted earnings per American Depository Share ("ADS") were US$22.6 cents per ADS or US$0.28 cents per common share.

- Excluding SBC expenses, fully diluted earnings per ADS were US$24.1 cents per ADS or US$0.30 cents per common share.

- Our balance of cash, short-term bank deposits and marketable securities was approximately US$139.03 mn at the end of the first quarter 2006.

FIRST QUARTER 2006 – FINANCIAL PERFORMANCE REVIEW

The Company's unaudited consolidated revenues for the three months ended March 31, 2006 were US$48.58 mn, an increase of 37.7% over the same period in 2005 and an increase of 1.0% QoQ. This was at the high-end of the Company's 1Q06 guidance range which was US$47.7 mn to US$48.5 mn.

Wireless Internet revenues were US$45.49 mn, representing a 36.0% increase over the same period last year and a 2.0% increase over the previous quarter. Wireless Internet revenues made up 93.6% of our total quarterly revenues.

Online advertising revenues were US$2.70 mn, representing a 15.5% decrease QoQ due to seasonality associated with the slower Chinese New Year holiday period, but an increase of 70.5% YoY, as our online advertising sales activities continue to show positive results and traffic on our portal continues to grow on a YoY basis.

Gross profit was US$19.96 mn, representing an increase of 43.7% over the same period last year but a 6.6% decline QoQ as gross margins declined in the first quarter to 41.1% from 44.4% in the fourth quarter of 2005. However, gross margins increased from the first quarter of 2005 which were 39.4%. There were a number of factors for the sequential decline in gross margins, including less benefit from higher SMS revenue confirmation rates, lower contribution from higher gross margin online advertising revenues in 1Q06 compared to 4Q05 and a higher contribution from our IVR business which has a significant contribution from TV channel partners who we share revenues with. Our 1Q06 gross margins however compared to the same period last year were higher due to some scale advantages we benefit from as one of the largest wireless Internet service providers in the mainland China market and better performance from our online advertising business.

Total operating expenses were US$9.32 mn in 1Q06, roughly flat from 4Q05, but an increase of 59.7% over the same period last year. In 1Q06, for the adoption of SFAS 123R, we recognized US$0.78 mn in SBC expenses. Selling and marketing expenses in 1Q were US$1.45 mn, representing a 47.6% decline from the previous quarter as 4Q05 is a seasonal high period for year-end overall corporate marketing events. General and administrative expenses were up 25.5% QoQ and 78.3% YoY due to SBC expenses as well as professional fees associated with our preparation for Sarbanes-Oxley. Product development expenses were down slightly QoQ but up 76.0% YoY as we continue to invest in development of new applications and services for 3G.

Operating income was US$10.65 mn up 32.1% from the same period last year but down 12.3% from the previous quarter, due to the expensing of SBC. Excluding SBC expenses, operating income would have been US$11.43 mn. Operating margins were 21.9% in the first quarter of 2006, compared to 25.2% in the previous quarter.

For the first quarter, net interest income was US$0.49 mn. In addition, as TOM Online's functional currency is RMB, the Company recorded a non-operating gain of US$0.92 mn due to the appreciation of the RMB relative to its net non-RMB monetary liabilities at the period end.

1Q06 EBITDA were US$12.92 mn, an increase of 29.4% YoY but down 9.1% QoQ. EBITDA margins were 26.6% for the first quarter down from 29.5% in the last quarter. Excluding SBC expenses, 1Q EBITDA was US$13.70 mn.

Net income was US$12.14 mn, an increase of 32.5% YoY but a decline of 4.6% QoQ, due to lower gross margins and SBC expenses.

Excluding SBC expenses of US$0.78 mn, net income was US$12.91 mn, representing an increase of 41.0% YoY.

US GAAP basic earnings per ADS were US$22.9 cents for the quarter. US GAAP basic earnings per Hong Kong ordinary share were US$0.29 cents for the quarter. Shares used in computing US GAAP basic earnings per ADS were 53.01 mn and shares used in computing US GAAP basic earnings per Hong Kong ordinary share were 4,241 mn.

Excluding SBC expenses, basic earnings per ADS were US$24.4 cents and basic earnings per Hong Kong ordinary share were US$0.30 cents for the quarter. Shares used in computing basic earnings per ADS were 53.01 mn and shares used in computing basic earnings per Hong Kong ordinary share were 4,241 mn.

US GAAP diluted earnings per ADS were US$22.6 cents for the quarter. US GAAP diluted earnings per Hong Kong ordinary share were US$0.28 cents for the quarter. Shares used in computing US GAAP diluted earnings per ADS were 53.64 mn and shares used in computing US GAAP diluted earnings per Hong Kong ordinary share were 4,291 mn.

Excluding SBC expenses, diluted earnings per ADS were US$24.1 cents and diluted earnings per Hong Kong ordinary share were US$0.30 cents for the quarter. Shares used in computing diluted earnings per ADS were 53.64 mn and shares used in computing diluted earnings per Hong Kong ordinary share were 4,291 mn.

Our balance of cash, short-term bank deposits and marketable securities was approximately US$139.03 mn at the end of the first quarter 2006.

BUSINESS REVIEW

Wireless Internet Services

Total wireless Internet service revenues were US$45.49 mn for the first quarter of 2006, an increase of 36.0% from the same period last year and a 2.0% increase QoQ. Wireless Internet revenues accounted for 93.6% of our total revenues in the first quarter compared to 92.7% in 4Q05.

During the quarter, we continued to develop our leadership in the mainland Chinese wireless Internet market, prepared ourselves for 3G and continued our initiatives to develop new business opportunities in non-mobile content areas. Key activities in the quarter included:

1. During the quarter, we continued to develop our alliances with media partners in TV, radio and print, to more effectively market our wireless services, such as 2.5G services and IVR, as well as broaden the awareness of our brand with consumers. This includes activities related to our exclusive wireless Internet relationship with CCTV-5 for this year’s World Cup tournament. We believe that our scale and diversification in wireless distribution channels is a competitive advantage.

2. In 1Q06, we signed a strategic cooperation agreement with Titan Sports, the country's top-selling sports newspaper, to provide joint coverage on this year's FIFA World Cup in addition to a range of other long-term initiatives, including the launch of a new sports channel, titan.tom.com, and focus on developing new wireless applications and services around sports content. In the second quarter, we have re-started our offline road shows which promote our "Wanleba" Internet music brand as we believe that mobile music will continue to be an important driver of growth for us in 2006.

SMS services

SMS ("Short Messaging Service") revenues in 1Q06 were US$17.44 mn, down 2.0% QoQ but an increase of 38.5% from the same period last year. SMS revenues made up 38.3% of our total wireless Internet revenues for the quarter. YoY growth in SMS was driven by a combination of improved revenue confirmation rates and broader distribution of our SMS products and services.

2.5G services

MMS ("Multimedia Messaging Service") revenues for 1Q06 were US$4.09 mn, down 7.0% QoQ, but up 113.3% YoY. MMS revenues made up 9.0% of our total wireless Internet revenues in the quarter. However as discussed before, we continue to believe that MMS is a transitory product category and do not expect MMS to be a key business driver to our overall business in coming years.

WAP ("Wireless Application Protocol") revenues for 1Q06 were US$7.83 mn, down 2.9% QoQ but up 5.0% YoY. WAP revenues made up 17.2% of our total wireless Internet revenues in the quarter. WAP revenues declined slightly in 1Q06 from 4Q05 due in part to seasonal factors, but also due to ongoing operator policy issues surrounding inactive users, decline in CDMA WAP usage and ongoing competition for more attractive WAP deck positioning.

Voice services

IVR ("Interactive Voice Response") revenues in 1Q06 were US$12.25 mn, up 12.6% QoQ, and up 46.8% YoY. IVR revenues made up 26.9% of our total wireless Internet revenues in the quarter. Music-related IVR services related to our TV channel alliances were our main revenue driver in 1Q as well as IVR coming off a lower than normal base in 4Q05 due to technical issues we discussed in our 4Q05 results.

CRBT ("Colour Ringback Tones") revenues in 1Q06 were US$2.46 mn, up 6.8% QoQ, but down 8.1% YoY. CRBT revenues made up 5.4% of our total wireless Internet revenues in the quarter. Our CRBT business rebounded slightly during 1Q06, but was still down YoY due to activities/promotions we are doing in conjunction with mobile operators to continue to spur usage as well as activities by smaller players seeking to gain market share by self-promoting their own songs.

Other Wireless Internet

Other wireless Internet revenues were US$1.43 mn, up 21.4% QoQ and 219.7% YoY as we only began to consolidate Indiagames revenues in the late February 2005. However, the major sequential driver for other wireless Internet revenues was mainland China mobile game revenues at the TOM Online level.

Online advertising

Online advertising revenues were US$2.70 mn in 1Q06, down 15.5% QoQ but up 70.5% YoY. On an annual basis our online advertising business performed well due to our efforts to better monetize our core online channels such as entertainment, music (including Wanleba) and sports. To increase our brand recognition with users and advertisers with regards to Wanleba, we will be staging another year of mobile music college campus road shows from April 19 to June 9 and from September to November, covering roughly 30 universities in 16 cities.

NEW BUSINESS OPPORTUNITIES

TOM-SKYPE JV

At the end of April 2006, we had over 12 mn registered TOM-Skype users, up from over 9 mn registered users we announced at the end of February 2006. We continue to drive user growth through tom.com and through our JV partner's eBay China site. The Company continues to work with Skype to co-develop more local features and services for the mainland China market as well as premium services over the TOM-Skype platform. In addition, the Company is exploring advertising opportunities through the TOM-Skype clients which we hope to begin monetizing over the next few quarters.

UMPAY alliance

In the first half of 2006, the Company has begun testing for micro-payment services (<RMB 30 per transaction) based on UMPay's mobile payment platform to allow users to pay for online goods and services using IVR. Moreover, the Company is in the early stages of developing a pre-paid card top up business, based on UMPay's platform, with testing to occur in the second quarter of 2006. The Company continues to work exclusively with UMPay to develop China's mobile payment market as a longer term opportunity for the Company.

BUSINESS OUTLOOK

With a stabilized environment for the Company's wireless Internet business and continued enhancement of its online services, I believe the Company's prospects for the remainder of the year continue to be stable and I expect continued growth in both revenues and net income on an annual basis.

I would like to thank the Board of Directors and all of the Company's employees for their hard work, support and dedication.

Frank Sixt
Chairman

Hong Kong, May 10, 2006

CONSOLIDATED BALANCE SHEETS

	Note	Audited December 31, 2005	**Unaudited March 31, 2006**
		(in thousands of U.S. dollars)	
Assets			
Current Assets:			
Cash and cash equivalents		99,869	**98,289**
Short-term bank deposits		1,863	**2,621**
Accounts receivable, net		33,950	**35,535**
Restricted cash		300	**300**
Prepayments		6,053	**5,677**
Deposits and other receivables		2,503	**3,028**
Due from related parties		189	**193**
Inventories		53	**62**
Total current assets		144,780	**145,705**
Available-for-sale securities		38,519	**38,122**
Restricted securities		59,122	**58,518**
Investment under cost method		1,494	**1,504**
Long-term prepayments and deposits		132	**134**
Property and equipment, net		15,346	**15,479**
Deferred tax assets		521	**524**
Goodwill, net	3,5	184,678	**192,231**
Intangibles, net		1,415	**1,841**
Total assets		446,007	**454,058**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable		5,031	**5,605**
Other payables and accruals		16,002	**17,346**
Income tax payable		569	**328**
Deferred revenues		69	**82**
Consideration payables		16,615	**124**
Due to related parties		19,430	**19,628**
Total current liabilities		57,716	**43,113**
Non-current liabilities:			
Secured bank loan		56,099	**55,753**
Deferred tax liabilities		182	**183**
Total liabilities		113,997	**99,049**
Minority interests		2,900	**3,360**
		116,897	**102,409**
Shareholders' equity:			
Share capital (ordinary share, US$0.001282 par value, 10,000,000,000 shares authorized, 4,224,532,105 and 4,247,131,716 shares issued and outstanding as at December 31, 2005 and March 31, 2006 respectively)		5,416	**5,445**
Paid-in capital		312,643	**317,738**
Statutory reserves		11,396	**11,396**
Accumulated other comprehensive (losses)/incomes		(3,187)	**2,093**
Retained earnings		2,842	**14,977**
Total shareholders' equity		329,110	**351,649**
Total liabilities, minority interests and shareholders' equity		446,007	**454,058**

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Three months ended March 31, 2005	2006
		(in thousands of U.S. dollars, except for number of shares and per share data)	
Revenues:			
Wireless Internet services		33,440	**45,493**
Advertising		1,585	**2,702**
Commercial enterprise solutions and Others		256	**384**
Total revenues		35,281	**48,579**
Cost of revenues:			
Cost of services (includes share-based compensation cost under SFAS 123R of 0 and 24 in thousands of U.S. dollars, respectively)		(21,387)	**(28,615)**
Total cost of revenues		(21,387)	**(28,615)**
Gross profit		13,894	**19,964**
Operating expenses:			
Selling and marketing expenses (includes share-based compensation cost under SFAS 123R of 0 and 1 in thousands of U.S. dollars, respectively)		(1,177)	**(1,451)**
General and administrative expenses (includes share-based compensation cost under SFAS 123R of 0 and 745 in thousands of U.S. dollars, respectively)		(4,054)	**(7,230)**
Product development expenses (includes share-based compensation cost under SFAS 123R of 0 and 8 in thousands of U.S. dollars, respectively)		(258)	**(454)**
Amortization of intangibles		(346)	**(181)**
Total operating expenses		(5,835)	**(9,316)**
Income from operations		8,059	**10,648**
Other income:			
Net interest income		1,119	**488**
Exchange gain	5	–	**918**
Income before tax		9,178	**12,054**
Income tax (expenses)/ credit	4	(20)	**60**
Income after tax		9,158	**12,114**
Minority interests		3	**21**
Net income attributable to shareholders		9,161	**12,135**
Earnings per ordinary share – basic (cents):		0.24	**0.29**
Earnings per ordinary share – diluted (cents):		0.22	**0.28**
Earnings per ADS – basic (cents):		18.8	**22.9**
Earnings per ADS – diluted (cents):		17.4	**22.6**
Weighted average number of shares used in computing Earnings Per Share:			
Ordinary shares, basic		3,896,200,000	**4,240,608,912**
Ordinary shares, diluted		4,200,355,503	**4,291,046,914**
American Depositary Shares, basic		48,702,500	**53,007,611**
American Depositary Shares, diluted		52,504,444	**53,638,086**

Effective from January 1, 2006, the Group adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", (or SFAS 123R), which requires all share-based awards to employees and directors to be recognized in the financial statements based on their grant date fair values. Net income for the three months ended March 31, 2006 included share-based compensation expense under SFAS 123R of US$778,000. Please refer to Note 2 to the Consolidated Financial Statements for additional information.

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Shares	Share Capital	Paid-in Capital	Statutory Reserves	Accumulated other comprehensive (losses)/ incomes	(Accumulated deficit)/ Retained earnings	Total shareholders' equity
	(in thousands of U.S. dollars except for number of shares)						
Balance as of January 1, 2005	3,896,200,000	4,995	260,867	9,452	(670)	(40,220)	234,424
Unrealized loss on securities	–	–	–	–	(2,314)	–	(2,314)
Net income	–	–	–	–	–	9,161	9,161
Balance as of March 31, 2005	3,896,200,000	4,995	260,867	9,452	(2,984)	(31,059)	241,271
Balance as of January 1, 2006	4,224,532,105	5,416	312,643	11,396	(3,187)	2,842	329,110
Issuance of shares on exercise of employee share options	22,599,611	29	4,317	–	–	–	4,346
Share-based compensation	–	–	778	–	–	–	778
Unrealized loss on securities	–	–	–	–	(907)	–	(907)
Currency translation adjustments	–	–	–	–	6,187	–	6,187
Net income	–	–	–	–	–	12,135	12,135
Balance as of March 31, 2006	4,247,131,716	5,445	317,738	11,396	2,093	14,977	351,649

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2005	**2006**
	(in thousands of U.S. dollars)	
Cash flow from operating activities:		
Net income	9,161	**12,135**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangibles	346	**181**
Amortization of premium on debt securities	109	**94**
Allowance for doubtful accounts	241	**159**
Depreciation	1,578	**2,092**
Exchange gain	–	**(918)**
Loss on disposal of property and equipment	81	**2**
Share-based compensation	–	**778**
Minority interests	(3)	**(21)**
Change in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(2,112)	**(1,480)**
Prepayments	190	**456**
Deposits and other receivables	(267)	**(493)**
Due from related parties	–	**(4)**
Inventories	31	**(9)**
Accounts payable	592	**172**
Other payables and accruals	1,274	**1,196**
Income tax payable	4	**(246)**
Deferred revenues	(25)	**12**
Due to related parties	487	**199**
Net cash provided by operating activities	11,687	**14,305**
Cash flow from investing activities:		
Payments for purchase of property and equipment	(2,447)	**(1,740)**
Cash paid for short-term bank deposits	–	**(736)**
Payments for acquisitions	(13,707)	**(17,952)**
Net cash used in investing activities	(16,154)	**(20,428)**
Cash flow from financing activities:		
Issuance of ordinary shares from the exercise of shares options, net of expenses	–	**4,346**
Payments for IPO shares issuing expenses	(803)	**–**
Partial repayment of bank loan	–	**(347)**
Net cash (used in) /provided by financing activities	(803)	**3,999**
Net decrease in cash and cash equivalents	(5,270)	**(2,124)**
Cash and cash equivalents, beginning of period	79,320	**99,869**
Foreign currency translation	–	**544**
Cash and cash equivalents, end of period	74,050	**98,289**
Supplemental disclosures of cash flow information		
Cash (paid)/received during the period:		
Cash paid for income taxes	(17)	**(186)**
Interest received from bank deposit and securities	800	**1,049**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

TOM Online Inc. (the "Company" or "TOM Online") and its subsidiaries are collectively referred to as the "Group".

The accompanying unaudited consolidated financial statements have been prepared in accordance with US GAAP. A reconciliation summary of the principal differences between US GAAP and HK GAAP is presented under note 7.

Except for the adoption of SFAS 123R "Share-Based Payment" from January 1, 2006, which is disclosed in detail in Note 2, the accounting policies and methods of computation used in the preparation of these consolidated financial statements, in all material respects, are consistent with those used in the annual report for the year ended December 31, 2005.

2. Share-based payment

Prior to 2006, the Group accounted for the share option schemes under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, the amount of compensation expense was determined based on the intrinsic value, i.e. the excess, if any, of the quoted market price of the shares over the exercise price of the options at the date of the grant and was amortized over the vesting period of the option concerned. SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure" allowed entities to continue to apply the provision of APB 25 and provide pro forma net income or loss and pro forma earnings or loss per share disclosures in the notes to financial statements for employee share options using fair-value based methods of accounting as prescribed in SFAS 123 "Accounting for Stock-Based Compensation" and SFAS 148.

In December 2004, SFAS 123R "Share-Based Payment" was released and this new standard requires entities to recognize the costs of employee services in share-based payment transactions based on the fair values of the stock options at the grant date thereby reflecting the economic consequences of those transactions in the financial statements. This Statement is effective for the Group from January 1, 2006. Under its modified prospective application, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards, for which the requisite service has not been rendered and therefore the related compensation expense has not been recognized in the income statement, that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date.

The share-based compensation cost recognized in the first quarter of 2006 is US$778,000. For detailed information of the Share Options Plans, please refer to the Company's 2005 annual report, Note 29. The Group has not granted new options in the first quarter of 2006.

If the Group had applied the fair value recognition provision to share-based employee compensation in the comparative period, the effect on net income would have been reduced and adjusted to the pro forma amounts as follows:

	Three months ended March 31, 2005 *(in thousands of U.S. dollars, except for per share data)*
Net income as reported	9,161
Less: share-based employee compensation expense determined under fair value based method, net of tax	(1,548)
Pro forma net income attributable to shareholders	7,613
Pro forma earnings per ordinary share – basic (cents)	0.20
Pro forma earnings per ordinary share – diluted (cents)	0.18

3. Acquisition of Beijing Huan Jian Shu Meng Network Technology Limited ("Huanjian Shumeng")

Effective January 4, 2006, the Company, through its variable interest entity, Beijing Lei Ting Wan Jun Network Technology Limited, entered into a sale and purchase agreement with the shareholders of Huanjian Shumeng, to acquire 75% of the entire issued share capital of Huanjian Shumeng for an aggregate amount of RMB22,000,000, of which RMB10,000,000 was injected as additional paid-in capital.

The acquisition has been accounted for using the purchase method of accounting. US$1,397,000, which represented the excess of the acquisition cost (comprising cash consideration and the professional costs) over the fair value of identifiable assets acquired and liabilities assumed, was recorded as goodwill, and the result of the operations of Huanjian Shumeng has been consolidated in the Group's consolidated financial statements from the acquisition date of January 4, 2006.

In connection with this sale and purchase agreement, we expect to be granted an exclusive call option to purchase the remaining 25% of Huanjian Shumeng for US$2,400,000, anytime after 2 years from the execution date of the sale and purchase agreement. This option contract was not formally signed and therefore was not effective as at March 31, 2006.

Huanjian Shumeng is an operator of the Internet website www.hjsm.net which provides original Chinese novels to its users. The Company believes that the investment in Huanjian Shumeng will help to increase traffic to its Internet portal, increase online advertising opportunities and generate synergies with our wireless Internet business through the provision of literature content.

4. Taxation

Under the current laws of the Cayman Islands, the Company is not subject to income taxes.

Pursuant to the PRC Income Tax Laws, the Group is generally subject to enterprise income tax ("EIT") at a statutory rate of 33% and companies located within special economic zones are entitled to a 15% preferential rate. Certain companies were also granted a full exemption from EIT for the first three years of operation including the year of incorporation and a 50% reduction for the following three years.

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit in Hong Kong for the three months ended March 31, 2006 (2005: Nil).

Taxes on income assessable in India have been calculated at the rates of tax prevailing in that country in which the Group operates its subsidiary, Indiagames, based on existing legislation, interpretations and practices in respect thereof.

5. Foreign currency translation

During the first quarter of 2006, the Group re-measured the financial statements and recorded an exchange gain of US$918,000 for the cumulative effects of the continuing appreciation of RMB. In addition, upon translation of the Group's consolidated balance sheet as at March 31, 2006 from RMB into U.S. dollar, currency translation adjustments totaling US$6,187,000 are recorded as accumulated other comprehensive income. As a result, goodwill increased by US$6,156,000 during the first quarter of 2006.

6. Dividends

There were no dividends declared, made or paid by the Group for the three months ended March 31, 2006 (2005: Nil).

7. Summary of principal differences between US GAAP and HK GAAP

	Three months ended March 31, 2005	**2006**
	(in thousands of U.S. dollars)	
Net income attributable to shareholders under US GAAP	9,161	**12,135**
Reconciliation adjustments, net of tax:		
Share-based compensation*	(1,479)	**34**
Net income attributable to shareholders under HK GAAP	7,682	**12,169**
Earnings per ordinary share – basic (cents) under US GAAP	0.24	**0.29**
Earnings per ordinary share – basic (cents) under HK GAAP	0.20	**0.29**

* Since January 1, 2005, the Group has adopted the Hong Kong Financial Reporting Standard 2 "Share-based Payment" ("HKFRS2"), which requires an entity to recognize share-based payment transactions in its financial statements for share options that were granted after November 7, 2002 and had not yet vested at the effective date of HKFRS2. The Company has adopted SFAS 123R since January 1, 2006. The GAAP difference for the first quarter of 2006 represents the compensation expense related to options granted before November 7, 2002 which was recognized under US GAAP but was not recognized under HK GAAP.

	December 31, 2005	**March 31, 2006**
	(in thousands of U.S. dollars)	
Total assets under US GAAP	446,007	**454,058**
Reconciliation adjustments, net of tax:		
Reversal of amortization of intangibles which were recognized as goodwill under HK GAAP	5,040	**5,040**
Total assets under HK GAAP	451,047	**459,098**

	December 31, 2005	**March 31, 2006**
	(in thousands of U.S. dollars)	
Net assets under US GAAP	329,110	**351,649**
Reconciliation adjustments, net of tax:		
Reversal of amortization of intangibles which were recognized as goodwill under HK GAAP	5,040	**5,040**
Net assets under HK GAAP	334,150	**356,689**

MANAGEMENT GUIDANCE FOR THE SECOND QUARTER OF 2006

The Company's management estimates that its total revenues for the next quarter would be between US$50.0 mn and US$51.5 mn.

RECONCILIATION FROM US GAAP INCOME FROM OPERATIONS TO EBITDA

	Three months ended March 31,	
	2005	**2006**
	(in thousands of U.S. dollars)	
Income from operations	8,059	**10,648**
Add back: Depreciation	1,578	**2,092**
Amortization	346	**181**
EBITDA	9,983	**12,921**

EBITDA refers to earnings before interest, taxation, depreciation, amortization and other non-cash activities. To supplement its consolidated financial statements presented in accordance with the generally accepted accounting principles in the United States, the Group uses the non-US GAAP measure of EBITDA, which is adjusted from results based on US GAAP. The use of non-US GAAP measures is provided to enhance the reader's overall understanding of our current financial performance and our future prospects. Specifically, the Company believes that the non-US GAAP results provide useful information to both management and investors by excluding certain items that are not expected to result in future cash payments or may not be indicative of our core operating results. In addition, because the Company has historically reported certain non-US GAAP results, the Company believes the inclusion of non-US GAAP measures provides consistency in our financial reporting. Non-US GAAP measures should be considered in addition to results prepared in accordance with the US GAAP, but should not be considered a substitute for or superior to our US GAAP results. Consistent with the Company's historical practice, the non-US GAAP measures included in this announcement have been reconciled to the nearest US GAAP measure.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended March 31, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

Executive Directors:	*Non-executive Directors:*	*Independent non-executive Directors:*
Mr. Wang Lei Lei	*Mr. Frank Sixt (Chairman)*	*Mr. Gordon Kwong*
Mr. Jay Chang	*Ms. Tommei Tong (Vice Chairman)*	*Mr. Ma Wei Hua*
Mr. Peter Schloss	*Ms. Angela Mak*	*Dr. Lo Ka Shui*
Ms. Elaine Feng		
Mr. Fan Tai	*Alternate Director:*	
Mr. Wu Yun	*Mrs. Susan Chow (Alternate to Mr. Frank Sixt)*	

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.tom.com.

* *For identification purpose*