MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

• **Turnover**	**$1,374.7 million**
• **Recurring operating profit**	**$264.1 million**
• **Operating profit**	**$363.3 million**
• **Net profit**	**$317.1 million**
• **Earnings per share**	**$0.20**
• **Dividend per share**	**$0.12**
• **Special dividend per share**	**$0.03**
• **Total dividend per share**	**$0.15**

OPERATING RESULTS OF THE GROUP

Overview

The Group's consolidated operating results for the years ended 31 December 2004 and 2003 were as follows:

(HK$ millions, except per share amounts)	**2004**	2003	% Change
Turnover	**1,374.7**	1,280.0	7
Operating costs before depreciation and amortisation	**(1,032.5)**	(1,020.2)	1
Operating profit before depreciation and amortisation	**342.2**	259.8	32
Depreciation and amortisation	**(83.9)**	(83.2)	1
Other revenue	**5.8**	4.1	41
Recurring operating profit	**264.1**	180.7	46
Gain on sale of retailing assets	**76.8**	–	100
Surplus/(deficit) on revaluation of investment properties	**18.1**	(112.0)	*
Gain/(loss) on sale of long-term investment shares	**7.3**	(2.3)	*
Loss on termination of a jointly controlled entity	**(1.1)**	–	100
Loss on disposal of a subsidiary and associates	**–**	(2.0)	(100)
Office relocation expenses	**–**	(10.9)	(100)
Provision for asset impairment	**–**	(0.8)	(100)
Finance cost	**(1.9)**	(5.2)	(63)
Operating profit	**363.3**	47.5	*
Taxation	**(50.4)**	(41.6)	21
Profits/(losses) of associates and a jointly controlled entity	**9.9**	(0.1)	*
Minority interests	**(5.7)**	(4.0)	43
Net profit attributable to shareholders	**317.1**	1.8	*
Number of shares outstanding	**1,560,945,596**	1,560,945,596	
Earnings per share (in cents)	**20.32**	0.11	*

* *Represents an increase or decrease in excess of 100%.*

In November 2004, the Group completed the sale of its retailing assets which constituted the Daily Stop chain of convenience stores. The results of operations of the retailing business are reported as part of recurring operating profit in 2004 and 2003 but will be treated as discontinued operations in 2005.

(HK$ millions)	Continuing Operations	Retailing	2004 Total
Turnover	1,022.7	352.0	1,374.7
Operating costs before depreciation and amortisation	(683.8)	(348.7)	(1,032.5)
Operating profit before depreciation and amortisation	338.9	3.3	342.2
Depreciation and amortisation	(81.3)	(2.6)	(83.9)
Other revenue	5.8	–	5.8
Recurring operating profit	263.4	0.7	264.1

Revenues

Revenues for the years ended 31 December 2004 and 2003, by business segment and for the Group as a whole, were as follows:

(HK$ millions)	**2004**	2003	% Change
Newspaper publishing	**850.1**	684.9	24
Magazine and book publishing	**122.4**	89.0	38
Retailing	**352.0**	398.6	(12)
Investment properties	**13.9**	81.4	(83)
Video and film post-production	**22.5**	20.2	11
Music publishing	**13.8**	5.9	134
Total	**1,374.7**	1,280.0	7

Operating Costs and Expenses

Operating costs and expenses for the years ended 31 December 2004 and 2003 were as follows:

(HK$ millions)	**2004**	2003	% Change
Staff costs	**369.2**	368.8	–
Production costs	**147.5**	110.7	33
Cost of sales – retailing	**266.1**	299.7	(11)
Rental and utilities	**74.3**	83.5	(11)
Advertising and promotions	**24.0**	15.3	57
Other operating expenses	**151.4**	142.2	6
Operating costs before depreciation and amortisation	**1,032.5**	1,020.2	1
Depreciation and amortisation	**83.9**	83.2	1
Total	**1,116.4**	1,103.4	1

Staff costs for 2004 remained at the same level as 2003. A decrease in salaries after the sale of the retailing business offset a modest increase in staff costs in the publishing businesses of the Group. Production costs for 2004 increased 33% compared with 2003, due mostly to higher newsprint expense. Newsprint expense for 2004 increased 31% as a result of a 13% increase in average cost per metric ton of newsprint (US$476 in 2004 compared with US$420 in 2003) and a 16% increase in consumption due to higher advertising volume and circulation sales.

Cost of sales of the retailing business declined because the operations were discontinued after the sale of the assets in November 2004.

Rental and utilities expense decreased in 2004 because of lower office rental (the lease was renewed in November 2003) and the sale of the retailing business. Rental and utilities costs associated with the retailing business in 2004 and 2003 were $43.1 million and $49.6 million, respectively. Advertising and promotions for 2004 increased 57% compared with 2003 due to higher spending to drive circulation sales and advertising and to launch the Hong Kong edition of *Maxim* in April 2004. Depreciation charges increased slightly as a result of investments in editorial and circulation operation systems.

Operating Profit and EBITDA

Operating profit and EBITDA for the years ended 31 December 2004 and 2003, by business segment and for the Group as a whole, were as follows:

	Contribution to EBITDA		% Change	Contribution to Operating Profit		% Change
(HK$ millions)	**2004**	2003		**2004**	2003	
Newspaper publishing	**310.0**	156.2	98	**242.4**	66.0	*
Magazine and book publishing	**12.6**	16.2	(22)	**9.6**	13.1	(27)
Retailing	**3.3**	2.1	57	**77.5**	(0.7)	*
Investment properties	**9.0**	79.1	(89)	**28.3**	(32.9)	*
Video and film post-production	**(2.1)**	1.3	*	**(3.9)**	(2.3)	70
Music publishing	**9.4**	4.9	92	**9.4**	4.3	*
Total	**342.2**	259.8	32	**363.3**	47.5	*

* *Represents an increase or decrease in excess of 100%*

Operating profit for the Group increased significantly in 2004 compared with 2003 due to higher profits for the newspaper publishing business, the gain from the sale of the retailing assets and revaluation gains on investment properties.

Operating profit for the newspaper publishing business increased in 2004 due to higher advertising revenues, particularly recruitment ad revenues, and a modest increase in operating costs and expenses. Operating profit margin increased from 9.6% in 2003 to 28.5% in 2004.

Operating profit from other publishing businesses comprising magazines and books decreased in 2004 compared with 2003 because of an operating loss related to *Maxim* which was partially offset by higher operating profit for the other magazine titles and book publishing.

In September 2004, the Group sold its retailing assets. The sale was completed in November 2004 resulting in a gain of $76.8 million. Most of the operating profit of the retailing business was due to the sale.

Investment properties contributed to operating profit in 2004 compared with an operating loss in 2003 due to a revaluation deficit.

FINANCIAL REVIEW BY BUSINESS

Publishing

(HK$ millions)	**2004**	2003	% Change
Revenues			
Newspaper publishing	**850.1**	684.9	24
Magazine and book publishing	**122.4**	89.0	38
Total	**972.5**	773.9	26
EBITDA	**322.6**	172.4	87
Operating profit	**252.0**	79.1	*

* *Represents an increase in excess of 100%.*

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The Group's major source of earnings is the newspaper publishing business. In 2004, 67% of the operating profit and 90% of the recurring operating profit of the Group came from this business.

In 2004, circulation revenues for the weekday and Sunday editions increased 1% and 5%, respectively. Advertising revenues increased 29% compared with 2003. Display ad revenues increased 23% due to an increase in ad volume. Recruitment ad revenues increased 51% as a result of a 40% increase in ad volume and a 7% increase in yield. The strong growth in recruitment advertising in 2004 reflects the full impact of a recovery from Sars which weakened the market in 2003. In contrast, display advertising recovered from the effects of Sars starting in the fourth quarter of 2003. Business notices revenues increased 31% on higher volume, which was slightly offset by lower yields.

The economic recovery in 2004 also led to improved results for the existing magazine titles. Advertising revenues increased across all titles but operating profit declined after taking into account an operating loss for *Maxim* which was launched in April 2004.

The book publishing business recorded its best sales and operating profit in five years. These results were achieved by changing the emphasis to Chinese fiction books aimed at young adult readers, selectively publishing English books and controlling costs.

Retailing

(HK$ millions)	**2004**	2003	% Change
Turnover	**352.0**	398.6	(12)
EBITDA	**3.3**	2.1	57
Operating profit/(loss)	**77.5**	(0.7)	*

* *Represents an increase in excess of 100%*

The Group sold its retailing assets for $101.5 million. The sale was completed in November 2004. The Group recorded a gain from the sale of $76.8 million.

Revenues and operating profit (excluding the gain on sale) in 2004 for the retailing business were $352.0 million and $0.7 million, respectively.

Investment Properties

(HK$ millions)	**2004**	2003	% Change
Turnover	**13.9**	81.4	(83)
EBITDA	**9.0**	79.1	(89)
Operating profit/(loss)	**28.3**	(32.9)	*

* *Represents an increase in excess of 100%.*

Rent from investment properties fell in 2004 as a result of the expiration of the TV City lease on 31 December 2003. Rent from this property amounted to $65.8 million in 2003. Investment properties recorded an operating profit in 2004 as a result of a revaluation gain of $18.1 million compared with a loss in 2003 as a result of a revaluation deficit of $112.0 million.

The Group will continue to explore options to maximise the value of the TV City property, including an application to change the land use to principally a residential development, which has received an in-principle approval from the Town Planning Board. Given that the application process is expected to take some time, we will continue to consider the property's potential for rental income as investment property.

Management Discussion and Analysis

Video and Film Post-production

(HK$ millions)	**2004**	2003	% Change
Turnover	**22.5**	20.2	11
EBITDA	**(2.1)**	1.3	*
Operating loss	**(3.9)**	(2.3)	70

* *Represents a decrease in excess of 100%*

Operating losses for this business increased in 2004 compared with 2003 despite an 11% increase in revenues because of price competition and initial set-up costs of operations in Guangzhou.

Music Publishing

(HK$ millions)	**2004**	2003	% Change
Turnover	**13.8**	5.9	*
EBITDA	**9.4**	4.9	92
Operating profit	**9.4**	4.3	*

* *Represents an increase in excess of 100%*

Revenues and operating profit for the music publishing business increased due to strong demand for old music recordings of Anita Mui and Leslie Cheung.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's financial position as at 31 December 2004 and 31 December 2003 were as follows:

(HK$ millions)	**2004**	2003	% Change
Cash and cash equivalents	**363.1**	159.8	*
Bank overdraft	**2.4**	2.8	(14)
Bank loan	**247.0**	230.0	7
Shareholders funds	**1,684.9**	1,470.0	15
Ratios:			
Gearing	**–**	5%	(100)
Current ratio	**1.6**	2.3	(30)

* *Represents an increase in excess of 100%.*

As at 31 December 2004, the Group had total borrowings of $249.4 million. Of this amount, $230 million and $17 million are unsecured Hong Kong dollar term loans at floating interest rates payable within one year and five years, respectively. The remaining $2.4 million is a bank overdraft payable within one year. The Group has no significant exposure to foreign exchange fluctuations.

As at 31 December 2004, the Group had no gearing (after deducting bank balances and deposits) compared with a gearing ratio of 5% as at 31 December 2003.

The ratio of current assets to current liabilities was 1.6 times as at 31 December 2004 compared with 2.3 times as at 31 December 2003. The decline was mainly attributable to the reclassification of a $230 million bank loan due in October 2005 from long-term liabilities to current liabilities in 2004.

In 2005, the Group expects its beginning cash balance, cash generated from operations and funds available from external sources to be adequate to meet working capital requirements, repay bank loans, fund planned capital expenditures and pay dividends.

Operating Activities

The primary source of the Group's liquidity is cash flows from operating activities, mainly newspaper publishing. Net cash provided by operating activities in 2004 was $252.8 million, compared with $214.6 million in 2003. Net cash increased because of an increase in revenues while operating costs were stable.

Investment Activities

Net cash inflow from investing activities in 2004 was $77.5 million compared with a net cash outflow of $19.9 million in 2003. Investment cash inflows in 2004 include the proceeds from the sale of retailing assets ($90.4 million) and investment shares ($17.6 million). These inflows were partially offset by capital expenditures. Capital expenditures in 2004 were $37.9 million, of which (i) $14.6 million was invested in new advertising and circulation systems; (ii) $8.0 million was used to buy video film production equipment; and (iii) $15.3 million was spent on replacement items and computer equipment.

The Group is investing in four new presses which will be commissioned in late 2005. These new presses will replace four old units that have been in use for 18 years and are near the end of their useful lives. The estimated cost of the new presses is $93.2 million of which $9.0 million was paid in 2004, $80.2 million will be paid in 2005 and $4.0 million will be paid in 2006.

In 2005, the Group is investing approximately $115.0 million in fixed assets, including $80.2 million for the new presses.

Financing Activities

Net cash used in financing activities during the year was $126.5 million consisting of dividend payments of $140.5 million to shareholders of the Group and $3.0 million to a minority shareholder of a subsidiary, which were partially offset by a bank loan of $17.0 million.