

Review of Operations and Outlook

RESULTS SUMMARY

The Group's consolidated turnover for the year showed an increase of 16.7% and reached HK\$1,169 million versus last year's HK\$1,002 million. Consolidated pre-tax profit recorded an increase of 20.3% and amounted to HK\$69.2 million (2004: HK\$57.5 million). The Group's profit after deduction of taxation and minority shareholders' interests amounted to HK\$40.2 million versus HK\$41.9 million of last year. The earnings per share was HK10 cents (2004: HK11 cents).

The Group recorded growth in all its business segments; however, the operating profit has been affected by the escalating newsprint prices and start-up costs of *Ming Pao Daily News'* (the "Daily") new edition in San Francisco and the Chinese language magazines in Mainland China which the Group acquired during the year.

During the year, the Group acquired Media2U Group from Redgate Media Inc. ("Redgate"). Pursuant to the transaction, Winmax Resources Limited ("Winmax"), a subsidiary of the Company which operates the Group's lifestyle magazine business, conditionally allotted 40% of its issued share capital to Redgate. As a consideration, Redgate transferred its 100% equity interest in Media2U Group together with a cash payment of HK\$8.9 million to Winmax.

As a condition of the above transaction, Redgate has undertaken to Winmax's immediate holding company, Starsome Limited ("Starsome"), that if Media2U Group cannot achieve an agreed pre-tax profit described in the relevant agreements, Redgate shall pay to Starsome a pre-determined cash amount or, at the discretion of Redgate and in lieu of payment of such cash payment, reduce Redgate's shareholding in Winmax by transferring its Winmax shares to Starsome in accordance with an agreed schedule. Details of the transaction were disclosed in the Company's announcement dated 12th March 2004.

Media2U Group, which is in the start-up stage, operates content licensing and advertising businesses of several Chinese language lifestyle magazines in Mainland China. The board

considered that the strategic alliance with Redgate would create synergies among the Group's lifestyle magazines and pave the way for the Group's penetration into the lucrative and fast-growing advertising market in Mainland China.

BUSINESS SEGMENT RESULTS

Results of both the Group's publishing and travel businesses have improved, with increase in the segments' turnover of 10.0% and 32.7% respectively. The publishing business segment recorded a 5.3% improvement in its segment result this year while the travel business segment achieved a turnaround from last year's loss to a profit of HK\$1.4 million.

Revenues from the publishing business, which accounted for 66.6% of the Group's turnover, increased year on year by 10.0% to HK\$779 million. The growth was mainly attributable to the improvement in the worldwide economy and the press advertising markets. The Group recorded an overall 16.2% increase in its advertising revenues when compared to last year. The growth in advertising revenues was achieved across all the Group's publications, with particularly strong performance from *the Daily* and *Ming Pao Weekly*.

As more marketing effort was put into promoting *the Daily's San Francisco edition* and the newly acquired Chinese language magazines in Mainland China market, the overall selling and distribution expenses of the Group for the year rose by 24.7%. These new businesses contributed approximately 3.4% to the Group's advertising revenues for the year.

Revenues from the Group's tour business were up by 32.7% or approximately HK\$96 million when compared to the prior year. The significant growth was attributable to the global economic recovery, which helps to boost both business activities and consumer confidence. As a result more leisure and business travelling were conducted this year. The provision of high quality services and the introduction of new tour packages also contributed to the improvement in revenues and the bottom line of this business segment.

BUSINESS REVIEW

Newspapers

Ming Pao Daily News

The year under review was underpinned by satisfactory growth in the advertising revenues of *Ming Pao Daily News*. Benefiting from the recovery in the local economy, *the Daily* in Hong Kong recorded sales growth in most of its advertising sectors. Significant improvement was seen in *the Daily's* advertisements for finance sector, recruitment classified and travel related businesses. Revenues from these advertising sectors went up by 71.7%, 45.2% and 44.3% respectively when compared to the prior year. *The Daily* in Hong Kong, which is well acclaimed by the local education sector for its high journalistic standard, saw a 7.5% growth in its education-related advertisements during the year. In addition, packages with special prices and tailored advertorial services proved hugely successful. The subscription service for Mainland China readers started during the year was well received while school subscriptions remained stable and generated solid circulation revenues for the year.

The Daily opened its Beijing Office in August 2004 to enhance coverage of China news in view of increasingly close ties between Hong Kong and Mainland China. In another development, the Group established co-operative agreements with the Guangzhou Daily Group in Mainland China and the China Times Group in Taiwan to enhance news coverage across the Strait.

During the year, *the Daily* provided CD-ROMs containing up-to-date information on current affairs free-of-charge to our readers as a means to promote general education with the aid of multi-media, which received positive response from the public.

In May 2005, the Financial desk enhanced its online financial news reporting through increased news sharing between *the Daily's* print and Mingpao.com's online editions. This provides readers with a platform that supplies financial information on a round-the-clock basis and an exhaustive database for financial news updates, real-time market analyses as well as property market information.

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The Supplement desk produced a series of highly acclaimed special supplements that generated additional advertising revenues. *The Daily's* position in fashion news was further recognised with the publication of four special reports on brand name fashion, while its status as a travel expert was also underpinned by publishing travel guides to Japan in three booklets, a new attempt in this regard.

Overseas Editions of Ming Pao Daily News

The overall results of the *Toronto* and *Vancouver* editions of *the Daily* were satisfactory. The advertising revenues of the two editions registered a double-digit growth, and reached record highs in the second half of the year.

Turnover of the *New York* edition remained stable, coupled with stringent cost-control efforts, its loss was further reduced. To supplement growth of its business, the Group set up *the Daily's San Francisco* edition in April 2004. The edition received strong support from the local community and a stable growth in turnover was recorded for the year. While break-even was yet to be achieved in the start-up stage, the edition's overall results were in line with expectations.

Looking ahead, the overseas editions are expected to fare better on the back of enhanced China news in *the Daily* and closer co-operation with news media in China and Taiwan. The *San Francisco* edition should also benefit from the daily hour-long radio broadcast of its news Monday to Friday.

Internet

Mingpao.com

Mingpao.com had an outstanding year in reporting major news, leveraging increased news sharing with *the Daily's* print edition. The portal entertained record daily page views of over 8 million for its special issue on "Legco Elections 2004", which provided real-time vote-counting updates through the night on 13th September. Other special issues such as the "Tsunami" and "US Elections 2004" were equally impressive. During the year, Mingpao.com registered average daily page views of over 5 million and it currently has a 560,000-strong membership subscribing to its content.

Mingpao.com achieved a double-digit growth in Internet advertising revenues and its profit nearly doubled that of last year to reach over HK\$4 million, owing largely to the successful strategy of cross-media sales of advertising spaces with *the Daily*.

Cultural and Current Affairs Magazines and Book Publications

Ming Pao Monthly

Ming Pao Monthly enhanced its focus on political, economic and cultural developments in Mainland China during the year in the light of permission for Hong Kong travels granted to individual Mainlanders and a generally more liberalized atmosphere in Mainland China. Features and columns such as "China Ponders", "History in Archives" and "Old Times to Remember" proved immensely popular with readers. The placing of selected contents from past issues of *Ming Pao Monthly* on its web site and stronger efforts to promote "Instant Online Subscription" also proved effective.

Yazhou Zhoukan

During the year, *Yazhou Zhoukan*, the Group's renowned Chinese newsweekly, organised or jointly sponsored a number of economic and trade forums to provide platforms for interaction and exchange of views between speakers and readers with a view to foster stronger sensitivities to current affairs and a broader China vision. The performance of *Yazhou Zhoukan* continued to improve and the Group's share of losses was further reduced to HK\$3.7 million, 31.7% lower than that of the previous year.

Ming Pao Publications/Crystal Window Publications/Ming Man Publications

Ming Pao Publications published over 100 titles during the year underscoring improvements both in terms of quality and quantity. The "21st Century Encyclopedia of Science" series were strongly commended by the education sector, while the "Old Times to Remember" series published in 2004 were also well received by book-lovers. Ming Pao Publications will continue to publish high quality books in the ensuing year, including dedicated efforts to develop the "General Education Series" covering a broad range of topics in practical knowledge in a move to support general

education. These publications are intended to benefit readers from different age groups, helping them to upgrade themselves and broaden their vision.

Lifestyle Magazines

Ming Pao Weekly

Ming Pao Weekly, the Group's flagship lifestyle magazine, also had an excellent year and registered a growth of 18.4% in its advertising revenues. The increase was largely due to the advertisements placed by international premium brand name advertisers.

A new financial column featuring wealth management advice from well-acclaimed financial experts was introduced during the year to meet the needs of the growing investing public amid local economic recovery. *Ming Pao Weekly* is committed to the ongoing pursuit of excellence by adding new elements and contents from time to time and gaining further understanding in readers' interest through surveys and polls.

Ming Pao Weekly staged the Fifth Showbiz Award at its 36th anniversary celebration party during the year to commend local artists who produced outstanding performances in the past year and the turnout was magnificent. Over the years, *Ming Pao Weekly* has not only enjoyed the support of general readers and members of the show business, but has also won recognition from among its industry peers by receiving six major awards from the Society of Publishers in Asia in 2005 for its unflinching effort in providing a rich variety of news and information on entertainment and fashionable culture.

Hi-TECH Weekly

Hi-TECH Weekly continued to enhance its contents both in terms of quality and quantity to cater readers' changing preferences and market trends. In addition to the latest news on global IT developments, digital products, computer software/hardware and e-commerce, *Hi-TECH Weekly* broadened its coverage by introducing a new section during the year on home entertainment and audio-visual systems named @HOME in its split book @WORK.

Power Handbook, which is a practical guide to readers with a different subject for each issue, is another new feature of *Hi-TECH Weekly*. It has also become a major attraction of the magazine.

Coupled with effective marketing strategies, sales promotion and publicity efforts, *Hi-TECH Weekly* was well received by readers and advertisers and achieved satisfactory overall result with advertising revenue grew at a significant 39%.

City Children's Weekly

During the year, a new column on multiple intelligences was introduced in *City Children's Weekly*. The initiative to open a forum where child readers could express their views was also met with encouraging response. Meanwhile, *City Children's Weekly* continued to co-organise educational activities and events for children with various organisations. Such activities generated satisfactory advertising revenues and project revenues from sponsors.

In September 2004, *City Children's Weekly* launched the "Multiple-intelligences for Kids" program among primary schools in Hong Kong to encourage the development of multiple intelligences. With the support of principals, teachers and parents, the program was greeted with a strong turnout rate of child participants. The program will continue in the new school year for more children to realise their diverse potentials while consolidating the profile of *City Children's Weekly* as a dedicated partner of the education sector.

Media2U Group

To supplement growth of its business, the Group acquired Media2U Group early this year. This acquisition effectively expands the Group's presence in Mainland China and provides the Group with a solid operation platform, which in turn leads to increase in the opportunities of cross-selling across regions and acceleration of sales growth.

Media2U Group, which becomes a subsidiary of the Group after the acquisition, holds the exclusive licenses to provide contents of a number of famous international magazines, including *Popular Science*, *TopGear*, *Digital Camera* and *T3 - Tomorrow's*

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Technology Today, to and sells advertising space in the Chinese magazines in Mainland China. All of these magazines that incorporate the licensed contents enjoyed stable growth in advertising and circulation revenues during the year. In response to the increasing market demands, Media2U Group is planning to launch more new titles in the coming year.

Travel and Travel Related Services

Charming Holidays

Charming Holidays, which specialises in the long haul travel business, achieved encouraging results with turnover and number of tourist customers increased by nearly 40% and 35% respectively. This was attributable to the recovery of tourism industry and its efforts on launching new travel routes.

Charming Holidays will continue to focus on popular routes in the coming year while developing new routes in response to market demands. Our target is to promote our new products to potential customers in the entire South China market. As the study tours offered by Charming Holidays in recent years are being held in high esteem by the market, plans are underway to expand this project internationally, arranging Hong Kong or China tours for overseas Chinese students returning from the US, Canada, Europe and Australia, on top of the mainstream business of sending Hong Kong students abroad.

Delta Group

With operating networks formed in the US and Canada by Charming Holidays' local branches, Delta Group, tour information has become more easily accessible to customers in North America. The branches on a collaborated basis have successfully developed tours to China, South America, Europe and Southeast Asia resulting in better results for the travel business segment.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's revenues and costs are mainly denominated in HK dollars, Canadian dollars, US dollars and RMB. Since HK dollars and RMB

remain pegged to US dollars, the Group does not foresee a substantial exposure for US dollars and RMB in this regard.

For the revenues and costs denominated in Canadian dollars, the Group generally endeavours to hedge its foreign currency positions with the appropriate level of borrowings in the same currency.

COMMUNITY SERVICES

Industry and School Activities

In March 2005, *the Daily* co-organised the "Flying Dragon Finance Symposium 2005" with Hong Kong Commercial Radio. Prominent speakers from government authorities and commercial fields were invited to share their views on the position and economic future of Hong Kong. The event was very successful and was highly praised by the participants.

The "Ming Pao Daily News Student Reporters Scheme" was in its eighth year to train up talented students and pass on to them the expertise of journalism. The year under review saw the scheme broaden its scope by covering primary schools as well, with a view to cultivating critical thinking skills among the younger generation at an early stage.

For the third year in a row, *the Daily* and *City Children's Weekly* were awarded the "Caring Company" logo by the Hong Kong Council of Social Service in recognition and commendation of their zealous promotion of community welfare.

Readers' Donations

The "East China Flood Relief Project", started by *the Daily* in 2003, was concluded in August 2004 with over HK\$8 million raised for the relief of victims of the Huai River flood. More than 90,000 people living mainly in counties and districts in Hunan and Anhui benefited from the financial aid.

During the year, *the Daily* continued the operation of the "Project Blossom", which was set up in 2003 together with the Hong Kong Performing Artistes Guild, to offer financial assistance to the children of SARS victims.

The Daily also co-organised the “Guangdong Province Remote Area Education Relief Fund” in association with several education groups in Hong Kong to provide assistance to the development of education in remote and deprived areas in Guangdong Province. Approximately HK\$0.9 million were raised during the year for 20 schools in hill areas.

Towards the end of 2004, *Yazhou Zhoukan* started a campaign to raise funds for Tsunami victims in Indonesia. The donations were passed on to the Red Cross instantly to provide emergency aids.

OUTLOOK

In the coming year, we expect stable growth in our newspaper and magazine publishing businesses under the improving Hong Kong economic environment. Furthermore, we expect that *the Daily's editions* in the US will continue to improve their operating results. Our enhanced product range, coupled with effective marketing strategies will fuel this growth.

To supplement organic growth in the business, the board will continue to seek out synergistic acquisitions that will add value to our customers and to our earnings. With a strong balance sheet and operational cash flow, the Group is now well positioned to take advantage of the opportunities for profitable growth across all our focus markets.

The board anticipates that the newsprint prices and labour costs may continue to rise in the coming year. Stringent controls will continue to be exercised on the Group's headcount as well as the purchases and consumption of newsprint. At the same time, the management will continue its strive to improve efficiencies in all operating units.

In May 2005, an application was made for the separate listing of One Media Group, the newly formed company which operates the Group's lifestyle magazine business, on the main board of The Stock Exchange of Hong Kong Limited. The board believes that the successful spin-off and listing of One Media Group will help the Group to tap into the fast growing Chinese language lifestyle magazine market in Mainland China.