FINANCIAL HIGHLIGHTS

• **Turnover**	**$1,120 million**
• **Recurring operating profit**	**$287 million**
• **Operating profit**	**$306 million**
• **Net profit**	**$246 million**
• **Earnings per share**	**$0.16**
• **Total dividend per share**	**$0.15**

OPERATING RESULTS OF THE GROUP

Following the sale of the retailing business in 2004 and the adoption of the new Hong Kong Financial Reporting Standards, certain comparative figures have been reclassified and restated for a better understanding of the Group's performance.

The Group's consolidated operating results for the years ended 31 December 2005 and 2004 were as follows:

(HK$ millions, except per share amounts)	**2005**	2004 (Restated)	% Change
Turnover	**1,120.4**	1,022.7	10
Staff costs	**(369.3)**	(343.5)	8
Production costs	**(170.4)**	(147.5)	16
Rental and utilities	**(30.8)**	(31.2)	(1)
Advertising and promotions	**(30.5)**	(23.0)	33
Other operating expenses	**(154.1)**	(138.6)	11
Operating costs before depreciation and amortisation	**(755.1)**	(683.8)	10
Depreciation and amortisation	**(78.0)**	(81.3)	(4)
Recurring operating profit	**287.3**	257.6	12
Other revenue	**3.8**	5.0	(24)
Surplus on revaluation of investment properties	**50.4**	18.1	*
Impairment of non-current assets	**(35.7)**	–	100
Gain on disposal of long-term investment shares	**0.7**	7.3	(90)
Discontinued operation – retailing	**–**	0.7	(100)
Gain on sale of retailing assets	**–**	76.8	(100)
Loss on termination of a jointly controlled entity	**–**	(1.1)	(100)
Net finance charges	**(0.1)**	(1.1)	(91)
Operating profit	**306.4**	363.3	(16)
Taxation	**(58.9)**	(48.2)	22
Profits of associates and a jointly controlled entity	**4.4**	7.7	(43)
Minority interests	**(5.5)**	(5.7)	(4)
Profit attributable to shareholders	**246.4**	317.1	(22)
Earnings per share (HK cents)	**15.78**	20.32	(22)

* *Represents an increase in excess of 100%*

The recurring operating profit of the Group rose 12% to $287.3 million. This result reflected a solid performance from the publishing business in a competitive market environment. The publishing division's increase in profits was partly offset by lower contribution and losses from other subsidiaries.

Turnover rose 10% to $1.1 billion. Net profit attributable to shareholders reached $246.4 million compared with $317.1 million in 2004. The 2005 result includes a revaluation surplus of $50.4 million and a provision for asset impairment of $35.7 million. The 2004 result includes a one-time gain on the sale of the retailing business of $76.8 million and a revaluation surplus of $18.1 million.

Turnover

The consolidated turnover for the years ended 31 December 2005 and 2004 by business segment and for the Group were as follows:

(HK$ millions)	**2005**	2004	% Change
Newspaper publishing	**936.6**	850.1	10
Magazine and book publishing	**140.4**	122.4	15
Investment properties	**16.3**	13.9	17
Video and film post-production	**22.6**	22.5	–
Music publishing	**4.5**	13.8	(67)
Revenue from continuing operations	**1,120.4**	1,022.7	10
Retailing	**–**	352.0	(100)
Total revenue	**1,120.4**	1,374.7	(18)

Operating Costs and Expenses

Operating costs and expenses for the years ended 31 December 2005 and 2004 were as follows:

(HK$ millions)	**2005**	2004 (Restated)	% Change
Staff costs	**369.3**	343.5	8
Production costs	**170.4**	147.5	16
Rental and utilities	**30.8**	31.2	(1)
Advertising and promotions	**30.5**	23.0	33
Other operating expenses	**154.1**	138.6	11
Depreciation and amortisation	**78.0**	81.3	(4)
Operating costs and expenses for continuing operations	**833.1**	765.1	9
Retailing	**–**	351.3	(100)
Total operating costs and expenses	**833.1**	1,116.4	(25)

Operating costs and expenses from continuing operations rose 9% to $833.1 million. Staff costs increased 8% due to an increase in headcount, salary adjustments and higher bonuses paid in 2005. Production costs rose 16% as a result of an 18% increase in average newsprint cost from US$476 to US$563 per metric ton and a 3% increase in newsprint consumption. Advertising and promotions increased 33% with more readers' promotions, readership surveys and conferences and seminars held during the year. Other operating expenses increased 11% as sales discounts and rebates, sales commissions and other expenses increased due to higher sales.

Operating Profit and EBITDA

Operating profit and EBITDA for the years ended 31 December 2005 and 2004 by business segment and for the Group were as follows:

	Contribution to EBITDA			Contribution to Operating Profit		
(HK$ millions)	**2005**	2004	% Change	**2005**	2004	% Change
Newspaper publishing	**339.3**	310.0	9	**241.3**	242.4	–
Magazine and book publishing	**19.4**	12.6	54	**18.1**	9.6	89
Investment properties	**12.7**	9.0	41	**63.1**	28.3	*
Video and film post-production	**(7.6)**	(2.1)	*	**(17.5)**	(3.9)	*
Music publishing	**1.5**	9.4	(84)	**1.4**	9.4	(85)
Continuing operations	**365.3**	338.9	8	**306.4**	285.8	7
Retailing	**–**	3.3	(100)	**–**	77.5	(100)
Total	**365.3**	342.2	7	**306.4**	363.3	(16)

* *Represents an increase in excess of 100%*

FINANCIAL REVIEW BY BUSINESS

Publishing

(HK$ millions)	**2005**	2004	% Change
Revenue			
Newspaper publishing	**936.6**	850.1	10
Magazine and book publishing	**140.4**	122.4	15
Total	**1,077.0**	972.5	11
EBITDA	**358.7**	322.6	11
Operating profit	**259.4**	252.0	3

Publishing revenues grew 11% and accounted for 96% of the turnover of the Group. Operating profit included provisions for asset impairment of $31.4 million. Adding back these provisions, operating profit increased 15% due to satisfactory growth in ad revenue.

The circulation of *South China Morning Post* increased 4% and 3% in the first half and second half of 2005, respectively compared with the same periods in 2004. The circulation of *Sunday Morning Post* increased by 3% in the first half and remained stable in the second half of 2005.

Display advertising revenue rose 13%. Properties, fashion, telecommunication and watches & jewelry showed the highest growth in ad spending. Yield increased 13% as a result of more color ads, rate increases for prime positions and new executions such as double page spreads and cover wraps.

Classified revenue recorded an 11% growth. Recruitment advertising remained the major source of revenue. *Classified Post* increased ad volume and yield by 4% and 2%, respectively. *Jiu Jik* increased ad volume and yield by 4% and 7%, respectively. Business notices increased 23% as a result of an increase in ad volume.

SCMP.com revenues increased 15% driven by growth in subscription and syndication revenues. The annual subscription fee was increased from $249 to $399 in March 2005. As at 31 December 2005, the site had around 20,000 paid subscribers.

The magazine publishing business improved significantly due to a 23% growth in advertising revenue for the Hearst titles.

Investment Properties

(HK$ millions)	**2005**	2004	% Change
Turnover	**16.3**	13.9	17
EBITDA	**12.7**	9.0	41
Operating profit	**63.1**	28.3	*

* *Represents an increase in excess of 100%*

The operating profit includes a revaluation surplus of $50.4 million compared with $18.1 million in 2004. Rental income increased with additional contributions from the Leighton Road property, which was leased in November 2004 and another property, where the lease was renewed at better terms.

Video and Film Post-Production

(HK$ millions)	**2005**	2004	% Change
Turnover	**22.6**	22.5	–
EBITDA	**(7.6)**	(2.1)	*
Operating loss	**(17.5)**	(3.9)	*

* *Represents an increase in excess of 100%*

The operating loss includes a provision for asset impairment of $4.3 million.

The Hong Kong operations was restructured at the end of the year in view of the weak prospects and fierce competition in the industry. The Guangzhou operations will intensify business development efforts to build a client base for the company's high quality post-production services.

Music Publishing

(HK$ millions)	**2005**	2004	% Change
Turnover	**4.5**	13.8	(67)
EBITDA	**1.5**	9.4	(84)
Operating profit	**1.4**	9.4	(85)

Capital Artists recorded an operating profit of $1.4 million, a significant decline from the previous year. However, 2004 was an exceptional year due to the strong sales of music recordings of Anita Mui and Leslie Cheung. Revenues in 2005 were generated from the release of reissued albums and licensing deals for the use of songs in radio and TV programs, advertisements and concerts.

LIQUIDITY AND CAPITAL RESOURCES

The Group's main source of liquidity is strong recurring cash flows from the publishing business which is supplemented from time to time by committed banking facilities. The Group's financial position as at 31 December 2005 and 2004 were as follows:

(HK$ millions)	**2005**	2004	% Change
Cash and bank balances	**181.4**	363.1	(50)
Bank overdraft	**6.7**	2.4	*
Bank loan – current portion	**51.9**	230.0	(77)
– non-current portion	**17.0**	17.0	–
Shareholders' funds	**1,720.5**	1,684.9	2
Ratios:			
Gearing	**–**	–	
Current ratio	**1.7**	1.6	

* *Represents an increase in excess of 100%*

As at 31 December 2005, the Group had total borrowings of $75.6 million. Of this amount, a $50.0 million unsecured short-term revolving loan and a $17.0 million unsecured term loan were denominated in Hong Kong dollars at floating interest rates payable within one year and four years, respectively. The remaining balances consist of a $1.9 million short-term revolving bank loan and a $6.7 million bank overdraft denominated in Renminbi payable within one year. The Group's cash and bank balances were held predominantly in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations.

As at 31 December 2005, the Group had no gearing (after deducting bank balances and deposits). The ratio of current assets to current liabilities was 1.7 times as at 31 December 2005 compared with 1.6 times as at 31 December 2004.

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

Net cash generated from operations was $331.7 million, an increase of $78.9 million reflecting strong business performance.

Net cash used for investing activities in 2005 was $98.0 million compared with a net cash inflow of $77.5 million in 2004. Cash was used mainly to pay for capital expenditures of $110.9 million, of which $85.7 million was invested in four new printing presses, and an additional investment in an associate of the Group. These cash outflows were partly offset by dividends, interest income and proceeds from the sale of certain share investments. Net cash generated from investing activities in 2004 of $108.1 million came mainly from the sale of the retailing business and investment shares less $37.9 million in capital expenditures.

Net cash used in financing activities was $419.7 million consisting mainly of a repayment of a $230.0 million bank loan, dividend payments of $234.1 million to shareholders of the Group and $7.5 million to a minority shareholder of a subsidiary, less bank loans of $51.9 million.

OUTLOOK

The outlook for 2006 is positive. Stable economic growth is expected for both Hong Kong and mainland China and this will bolster financial performance. A strong Hong Kong economy bodes well for recruitment advertising, display advertising and circulation. Advertising revenue for the newspaper division will benefit from higher rates in 2006.

The future, however, is not without challenges. Circulation is under pressure. Readers and advertisers have more choices than ever before. Advertising revenues from business notices are at risk from a pending change in listing rules. Cost pressures from rising newsprint prices, salaries and rent remain a concern. New business development must be pursued with adequate risk management.

The Group is responding to a changing industry by building an editorial team committed to the highest standards of excellence, enhancing print and online platforms, creating new products to provide advertisers with more options to reach an affluent and influential audience and integrating the print and online editorial and advertising sales effort.