

# Management Discussion and Analysis

## RESULTS SUMMARY

For the year ended 31st March 2006, the Group reported a consolidated turnover of HK\$187,975,000 (2005: HK\$177,115,000), representing an increase of 6% compared to the last financial year. The profit after taxation amounted to HK\$7,022,000 (2005: HK\$22,386,000), representing a decrease of 69% compared to the last financial year. The decrease was mainly attributed to the one-time marketing expenditure and the additional production costs of the Compact Edition and the pre-launch development costs for the two new magazines in Mainland China, namely, MING and RS. An increase in the unallocated expenses, mainly the corporate expenses, also led to the decrease in the profit after taxation.

## REVIEW OF OPERATIONS

### Hong Kong

The magazines currently published in Hong Kong include *Ming Pao Weekly*, *Hi-TECH Weekly* and *City Children's Weekly* ("HK Magazines"). These three titles contributed a turnover of HK\$171,882,000 (2005: HK\$166,328,000) to the Group, representing an increase of 3% compared to the last financial year, and an operating profit of HK\$26,940,000 (2005: HK\$35,823,000). The drop of operating profit in the Hong Kong division was mainly due to the one-time marketing expenditure and the additional production costs of the Compact Edition incurred.

In 2005, the Compact Edition of the same tabloid-sized *Ming Pao Weekly* ("Classic Edition") was launched in Hong Kong. The content and pagination of the Compact Edition are identical to that of the Classic Edition; however, the size has been reduced for the readers who prefer a convenient compact format to carry and read. This strategic move of publishing both Compact Edition and Classic Edition of each issue provides readers with more choices while the editorial quality of the magazine remains in tact and allowing advertisers to leverage a larger readership base.

In this financial year, the Group also revamped *Hi-TECH Weekly* into an "All-in-One" edition. Previously, the magazine was marketed as a two-book periodical in one package. The new "All-in-One" edition combines the content into one comprehensive magazine, offering readers a more convenient format and layout. This upgraded edition has resulted in positive feedback from both readers and advertisers regarding the changes.

*City Children's Weekly* continued to provide category-leading "edutainment" content to its target audience of primary school students in Hong Kong during this financial year. With the support of principals, teachers and parents, the magazine continued its "Multiple Intelligences for Kids" program in primary schools for the second year, entertaining and educating children on a weekly basis.

The HK Magazines were originally operated by two separate wholly-owned subsidiaries of the Company. In November 2005, the Group has undergone a reorganisation by consolidating the businesses of the HK Magazines under one single wholly-owned subsidiary of the Company. This consolidation will enable the Group to reduce corporate administration costs and, the most important of all, achieve operational efficiency for the Group as a whole.



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## Mainland China

In Mainland China, the Group has continued cautiously expanding its infrastructure and operation by recruiting new executives, adding new fixed assets and leasing more office spaces in order to ensure the effective usage of the Group's resources to further solidify the foundation for expansion.

In this financial year, the Group has the right to sell advertising space in and provide content to the magazines in Mainland China that incorporate content licensed from five internationally-renowned lifestyle magazines: *Popular Science*, *Digital Camera*, *Top Gear*, *T3 (Tomorrow's Technology Today)* and *Rolling Stone*. These titles contributed a turnover of HK\$16,093,000 (2005: HK\$10,787,000) to the Group, representing a 49% increase over the last financial year, but the operating loss was increased to HK\$14,959,000 (2005: HK\$1,604,000). The significant increase in operating loss in the Mainland China division attributed to the costs incurred in the expansion of the operational infrastructure and the pre-launch development for the two new magazines, MING and RS, which did not provide a significant contribution to the bottom line in this financial year because they were launched in March/April 2006. These pre-launch development costs were spent to insure that these new titles were anchored with a strong foundation for success. The preparation and development works included market researches, the establishment of content localization, the expansion of the advertising sales teams, circulation-related activities and marketing activities.

MING is an entertainment/celebrity/fashion title that incorporates some content from *Ming Pao Weekly* in Hong Kong, while RS is a music cultural icon magazine based on the internationally-renowned magazine, *Rolling Stone*, published by Wenner Media LLC in the United States. The first issues of MING and RS received very strong and positive responses from both readers and advertisers. The content of these two magazines appeals to a wide demographic which allows for a broad target readers and extensive cross-selling opportunities to advertisers. The addition of magazines such as these to the existing portfolio of titles serves to bring the Group's operation in Mainland China to the next level and to capitalise on the infrastructure that the Group has strategically engineered in preparation for future growth.

During the financial year, *Popular Science* and *Top Gear* recorded significant growth. *Digital Camera* and *T3 (Tomorrow's Technology Today)*, however, continued to face competitive pressure from the increasing number of gadget magazines in the electronics category. In view of this, the Group decided to discontinue the operation of *Digital Camera* starting from April 2006 and to extend the digital photography section in *T3 (Tomorrow's Technology Today)*. This strategic move will not only reduce operational costs, but also strengthen the competitiveness of *T3 (Tomorrow's Technology Today)* in the market.

## OUTLOOK

The Group aims to be the dominant Chinese language media group in the Hong Kong and Mainland China lifestyle magazine sectors by providing both high quality content to readers and a cross-selling platform to advertisers, and is well positioned to take advantage of the fast growing Chinese language lifestyle magazine market in Mainland China whilst maintaining its competitive position in Hong Kong. Currently, the Group is actively seeking acquisition opportunities in China and Hong Kong and to partner with additional international publishers to expand its portfolio of magazines. With a solid infrastructure and foundation, the Group believes it could insure future expansion and enhance returns to the shareholders.



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## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The currency risk of the Group arises mainly from its purchases of raw material denominated in US dollars. In addition, the Group also has investments in PRC subsidiaries whose net assets are exposed to currency risk. The Group does not presently hedge this currency exposure.

Since HK dollars are pegged to US dollars, the Group does not foresee any substantial exposure to US dollars in this regard.

The Group currently does not hedge transactions undertaken in Renminbi but manages its exposure through constant monitoring to limit as much as possible the amount of its Renminbi exposures.

## EMPLOYEES

As at 31st March 2006, the Group has approximately 270 employees (2005: approximately 253 employees) of which 154 and 116 were stationed in Hong Kong and in Mainland China, respectively. The Group remunerates its employees based on industry practice and performance of individual employees.

The emoluments of the directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. None of the directors, or their associates, is involved in determining his own remuneration. The Company has implemented share option schemes as an incentive to the directors and eligible employees, details of the schemes are set out on page 14.

In Hong Kong, the Group participates in the hybrid retirement benefit scheme operated by the Company's fellow subsidiary and the Mandatory Provident Fund scheme for its employees. In Mainland China, the Group provides to its employees social security plans in relation to retirement, medical care and unemployment and has made the required contribution to the local social insurance authorities in accordance with relevant laws and regulations in Mainland China.



## EVENTS OF THE YEAR

### Listing Ceremony

18th October 2005







Ming Pao Weekly Compact Edition Launch Party –  
13th September 2005



Showbiz Award – 17th November 2005



Ming Pao Weekly Compact Edition Launch Party –  
13th September 2005



Showbiz Awards – 17th November 2005



2006 SOPA Awards Presentation – 25th May 2006



City Children's Weekly  
"Multiple Intelligences For Kids" Program – 7th November 2005



Hi-TECH Weekly  
The Best of the Best Awards – 31st March 2006