

Management Discussion and Analysis

Overview

Over the past year, the Group operated in a very competitive and challenging business environment. On one hand, the global economy continued to expand in 2005, especially in the United States and Mainland China. The Group has benefited from these favourable economic conditions and recorded increases in turnover for the year. On the other hand, the Group had to face the challenges of controlling costs, in particular the increase in newsprint prices and labour costs. The launching of several daily newspapers, including free newspapers, in both the local and overseas markets and the price cutting strategies of some newspapers during the year aggravated the already challenging media business environment. The Group's operating results for the past year were evidently affected by these factors. In addition, significant resources had been allocated in the past year to develop the Group's lifestyle magazine business operated through One Media Group Limited ("OMG") in Mainland China.

On 18th October 2005, OMG, a subsidiary of the Group that publishes lifestyle magazines, was successfully listed on the Main Board of the Stock Exchange in Hong Kong. A gain of HK\$33 million was recognised and included in the Group's consolidated income statement. The board believed that the successful spin-off and listing of OMG enabled the Group to tap into the fast growing Chinese-language lifestyle magazine market in Mainland China.

The Group acquired 50% equity interest in Yazhou Zhoukan, a weekly cultural and current affairs Chinese-language magazine, from TOM Group Limited effective January 2006 at a total consideration of HK\$16.2 million. The acquisition has resulted in Yazhou Zhoukan becoming a wholly-owned subsidiary of the Group. Following the change in control, a strategic reassessment of Yazhou Zhoukan's business plan was undertaken, with particular attention to its distribution channels, target advertisers and marketing strategies. The board believed that synergies

would be achieved through sharing and integrating operations between Yazhou Zhoukan and the different publications of the Group.

In March 2004, the Group and Redgate Media Inc. ("Redgate") entered into an agreement ("Redgate Agreement") such that 40% of the equity interest in Winmax Resources Limited ("Winmax"), a subsidiary of the Group that operates the Group's lifestyle magazine business, was transferred to Redgate. In return, Redgate transferred its 100% equity interest in Media2U Group together with a cash consideration of HK\$8.9 million to the Group. Details of the transaction was disclosed in the Company's announcement dated 9th March 2004. One of the conditions in the Redgate Agreement provided that if Media2U Group could not achieve an agreed pre-tax profit target for the two financial years commencing from 1st April 2004 to 31st March 2006 ("Pre-tax Profit") as prescribed therein, Redgate would at its discretion either pay to the Group a pre-determined cash amount or reduce its shareholding in Winmax. As Media2U Group did not achieve the Pre-tax Profit, a gain on disposal of partial interests in subsidiaries of HK\$28 million was recorded in the Group's consolidated income statement for the current year to reflect the probable adjustment to the value of consideration received on disposal of partial equity interests in Winmax in accordance with the Redgate Agreement.

Financial Highlights

Consolidated turnover amounted to HK\$1,249 million for the year ended 31st March 2006, an increase of HK\$80 million (7%) compared with that of last year. The increase was due largely to the HK\$54 million (9%) increase in the Group's advertising revenues and the HK\$30 million (8%) increase in the travel related revenues. The growth was fuelled by the generally favourable conditions in the global economy which has led to companies increasing their advertising spending and more people travelling for leisure and business.

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Despite the improvement in turnover, increased costs of newsprint, labour and operating costs kept the Group's gross profit at the same level as last year.

Other gains included the HK\$33 million gain from the spin-off of OMG in October 2005 and the HK\$28 million gain resulting from the disposal of partial equity interests in Winmax.

Operating expenses increased by HK\$53 million (19%) due primarily to the higher marketing and operating expenses amid more competitive market conditions and the rising labour costs. The development of the Group's lifestyle magazine business in Mainland China also led to an increase in the general operating expenses for the year.

Earnings per share for the year were HK17 cents as compared to HK11 cents for 2005.

Business Segment Results Review – Publishing

Turnover of the publishing business increased by 6% to HK\$829 million which was mainly attributable to the growth of the Group's advertising revenues which showed a 9% increase when compared to those of last year. The various editions of Ming Pao Daily News in both Hong Kong and North America as well as the Group's lifestyle magazines recorded growth in their advertising revenues because of the improving global economy. Despite the improvement in turnover, the segment results of the publishing business recorded a significant drop due largely to the increase in newsprint prices, labour costs and the development costs of the Group's lifestyle magazine business in Mainland China.

Ming Pao Daily News

Ming Pao Daily News (the "Daily"), the Group's flagship publication, experienced a challenging year. On one hand, it benefited from the improvement on Hong Kong's economy

and lower unemployment rate and recorded an increase in its advertising revenues. Satisfactory growth was seen in the advertisement sectors for the recruitment classified, education, consumer products and travel related businesses. On the other hand, the operating environment became more difficult with the launch of free newspapers, price wars and rising production costs. In the past year, the average newsprint cost increased by 21% and it is anticipated that the rising trend will continue. To meet the challenges, the Daily will continue its drive of efficiencies in all aspects and to enhance the quality of its layout design and enrich its content in order to meet the changing tastes and demand of the readers.

Apart from financial news coverage, the Finance Section endeavors to enhance its coverage of financial management services through the introduction of "Money Monday", a weekly insertion that is published every Monday, as well as two additional pages in "Money Daily", providing readers with timely and insightful investment advice. The Daily has also established the MP Investor Club in May 2006. Members of the club can have easy access to real-time financial and investment updates and other interactive and customised services through the website "mpfinance.com".

The "Lifestyle 時尚生活", a supplement published every Thursday, is a pioneering concept amongst Chinese-language newspapers, featuring infotainment content on fashion and lifestyle trends. Another new addition, the "Weekender 周末狂熱", is published as a supplement every Saturday, focusing on introducing top holiday destinations in Hong Kong.

The Daily has also introduced a number of innovative columns to its International News Section including a series of "Interviews with Consulate Generals in Hong Kong 外國駐港總領事專訪系列", which were well received by the readers.

With high journalistic standards, the Daily has sustained its leadership in the newspaper industry and secured a solid readership base. During the year, it received a number of

prestigious journalists' awards as presented by The Newspaper Society of Hong Kong, the Society of Publishers in Asia and Ifra Asia.

Overseas Editions of Ming Pao Daily News

Benefiting from Canada's strong economy and prospering property market, the Group's Toronto and Vancouver editions enjoyed steady growth during the year. However, the launch of a daily newspaper in Toronto in October 2005 intensified the already fierce competition in the local Chinese-language newspaper market. Aggressive marketing and promotional strategies, including publication of free supplements, competitive advertising packages and various circulation drives, were adopted by the overseas editions to capture readers and advertising customers. With well established foundations and a strong management team, the Group's two editions managed to dominate their peers with an impressive growth in combined turnover and maintained satisfactory performance.

Both New York and San Francisco editions recorded growth in revenues during the year. However, due to rising newsprint and production costs, the operations have yet to break-even. In the coming year, more measures such as adding experienced senior executives to the management team will be taken to strengthen and to streamline the operations in order to improve the operating results of these editions. With a large Chinese population in the United States, the Group is confident that the prospects of these two editions shall remain promising.

Mingpao.com

With the growing usage of online information services, mingpao.com, the Group's Internet portal, has seen its registered active users grow to more than 700,000 and enjoyed a steady growth in revenues. During the year, mingpao.com launched two new portals, namely "life.mingpao.com" and "lifestyle.mingpao.com" which targeted at students and young web users. Response to the new portals has been enthusiastic. The Group's cross-media strategy to combine advertising sales forces of both

the Daily and mingpao.com has also contributed to the strong growth in the Internet's revenues and operating profit.

With a new generation of readers who are increasingly reliant on digital information and the growing acceptance of Internet commerce, the Group will continue to make further investment in producing quality online information services to strengthen its position in the Internet industry.

Publications under OMG

For the year ended 31st March 2006, the turnover of OMG and its subsidiaries increased by 6% to HK\$188 million when compared to the last financial year and profit after income tax decreased by 69% to HK\$7 million. The drop in profit was due primarily to additional resources allocated during the year for the marketing and promotion of two new lifestyle magazines in Mainland China, namely, "MING" 《青春之星》 and "Rolling Stone" 《音像世界》. The addition of magazines such as these to the existing portfolio of titles served to bring OMG's operation in Mainland China to the next level and to capitalise on the infrastructure that it has strategically engineered in preparation for future growth.

Currently, OMG is actively seeking acquisition opportunities in Mainland China and Hong Kong and to partner with additional international publishers to expand its portfolio of magazines.

Ming Pao Monthly

Ming Pao Monthly commemorated its 40th anniversary this year with a series of celebration events, including hosting a grand gala dinner and co-organising a forum on "Achieving Neutral Ground in the Cultural Arena 價值中立的文化空間" with the Hong Kong Baptist University. The events were attended by distinguished guests and renowned writers.

In the coming year, Ming Pao Monthly will continue to explore new distribution channels to expand its readership, with particular emphasis on schools and universities in Hong Kong and Mainland China.

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Yazhou Zhoukan

Yazhou Zhoukan is an authoritative Chinese current events weekly and is well acclaimed for its outstanding editorials. It is an international Chinese-language newsweekly with a broad coverage of current economic and international issues and it has subscribers in all major cities in the Southeast Asia region. In the year under review, Yazhou Zhoukan has organised and jointly sponsored a number of economic and trade forums which were well received. Yazhou Zhoukan became a wholly-owned subsidiary after the Group concluded the acquisition of its 50% equity interest from TOM Group Limited effective from January 2006.

Ming Pao Publications/Crystal Window Books/Ming Man Publications

To celebrate its 20th anniversary, our publishing houses re-published a book-lovers' collection, including "Wesley Scientific Fiction Series" 《衛斯理故事珍藏版》, the 2005 best-seller "On the Road towards Enlightenment, a Walker" 《哲道行者》, and "Six Speeches on Wits of Life" 《心通識六講》. Together with the books published under Ming Man Publications which is a channel to aspiring writers for publishing their work, over 180 titles were published and a double-digit growth on revenue was achieved during the year.

Looking ahead, our publishing houses will continue to publish high quality books and educational publications on a broad range of practical and general interest topics targeting at young readers.

Business Segment Results Review – Travel and Travel Related Services

Charming Holidays and Delta Group

Turnover and results of the Group's travel business segment improved by 8% and 47% respectively when compared to those of last year. The improvement was mainly attributable to the continued growth in global economy which resulted in growing business and consumer confidence and increases in both leisure and business travelling. Introduction of quality services and new tour packages also contributed to the improvement in revenues and results of this business segment.

The growth was particularly impressive for the Group's tour operations in the United States which reported a 29% increase in turnover during the year due to the strong American economy. Innovative tour packages and new sightseeing spots designed by the Group's tour operator, Charming Holidays, have also contributed to these good results. In addition to its strength in long-haul tours, Charming Holidays has diversified its business to provide study tour programs and commercial group tours which were well received by the customers. However, profit margin of the travel business remains thin due to increasing labour costs, intense price wars amongst local travel agents and competition from discounted fares offered by airlines.

Going forward, the Group's focus will be on formulating alternatives that can provide the best value on price and service for the travellers. Besides that, Charming Holidays will allocate resources to develop its tour business in the vast and fast growing China market. It plans to start an office in Southern China and work with local tour operators in order to expand its reach in the local market.

Community Services

School Activities

The "School Reporters Scheme" 「校園記者計劃」 is now in its 9th year since it was first introduced by the Daily in 1997. The scheme is highly regarded by the local community and the secondary schools in particular. This year's activity theme was "Understand the Media, Enhance General Knowledge" 「認識傳媒 掌握通識」, a series of training activities on news gathering, photography and newspaper production process were organised to groom the next generation of elite journalists.

Readers' Donations

This is the 3rd year that the Daily has co-organised the "Guangdong Province Remote Area Education Relief Fund" 「廣東省偏遠地區育苗助學計劃」 in association with several educational groups in Hong Kong to provide assistance to the development of education in remote and deprived areas in Guangdong Province. Approximately HK\$1.2 million was raised and distributed to 13 schools in these affected areas during the year.

“Project Blossom” [茁壯行動] was jointly set up by the Daily and the Hong Kong Performing Artistes Guild in May 2003 with the purpose of raising funds for the children of SARS victims. In the past year, a total of HK\$4.6 million was appropriated from the fund to subsidise the educational expenditures of qualified applicants.

Outlook

It is anticipated that the sustained improving global economy and advertising markets will fuel the Group's growth in the coming year. The Group will focus on providing better products and services for its advertisers and customers in order to expand our market share and readership base. With Internet usage growing at an unstoppable rate, the Group will continue to develop the electronic editions of its publications and to increase revenues from its online businesses. It also plans to continue to invest in Mainland China through OMG to take advantage of the fast growing Chinese-language lifestyle magazine market there.

At the same time, keen competition in the publication industry and the rising costs are challenging factors for the Group to overcome. The management will continue to assess the Group's operations and to explore opportunities with the aim to optimise efficiency and productivity in order for the Group to remain competitive in the global market.

Contingent Liabilities

The contingent liabilities of the Group as at 31st March 2006 are set out in note 36 to the financial statements.

Pledge of Assets

The details of the pledge of the Group's assets are set out in note 31 to the financial statements.

Exposure to Fluctuations in Exchange Rates

The Group's financial management policies and practices relating to the exposure to fluctuations in exchange rates are described in note 3(c) to the financial statements.

Liquidity, Financial Resources and Gearing Ratio

As at 31st March 2006, the Group's net current assets amounted to HK\$388 million (31st March 2005: HK\$277 million, as restated) and the shareholders' funds were HK\$634 million (31st March 2005: HK\$557 million, as restated). Total bank borrowings and finance lease obligations were HK\$58 million (31st March 2005: HK\$58 million) and the gearing ratio, which is defined as the ratio of total borrowings to shareholders' funds, was 0.091 (31st March 2005: 0.104, as restated).

The Group has a solid financial position and maintains a strong and steady cash inflow from operating activities. As at 31st March 2006, total cash balance was HK\$309 million (31st March 2005: HK\$190 million) and net cash position was HK\$251 million (31st March 2005: HK\$132 million) after deducting the total borrowings.

Capital Structure

During the year, the Company repurchased a total of 1,201,000 ordinary shares at an aggregate purchase consideration of HK\$1.8 million and issued 12,000,000 ordinary shares as consideration for the acquisition of Yazhou Zhoukan's 50% equity interest, details of the repurchases and issue of shares are set out in note 26 to the financial statements.

Employees and Emolument Policy

As at 31st March 2006, the Group has approximately 1,600 employees (31st March 2005: approximately 1,470 employees), the majority of whom are employed in Hong Kong. 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. No director, or any of his associates, and executive is involved in dealing his own remuneration. The Group has share option schemes as an incentive to directors and eligible employees, details of the share option schemes are set out on pages 18 to 21 of the Report of Directors.