

directors' report

The Directors of the Company (the "Directors" or the "Board") present their report together with the audited financial statements for the year ended 31 March 2006 (the "Financial Statements").

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Company's principal subsidiaries are set out in note 38 to the Financial Statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 8 to the Financial Statements. A discussion of the material factors underlying the Group's performance and its financial position are provided in the Operational Review and Financial Review on pages 14 to 28.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 62.

An interim dividend of HK5.0 cents per ordinary share and a special dividend of HK25.0 cents per ordinary share, amounting to HK\$447.2 million, were paid to shareholders on 12 January 2006.

The Directors recommend the payment of a final dividend of HK18 cents (2005: Nil) per ordinary share to the shareholders whose names appear on the register of members on Wednesday, 19 July 2006, which together with the interim dividend and the special dividend per ordinary share will amount to a total of HK48 cents per ordinary share (2005: Nil).

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 30 to the Financial Statements.

Purchase, Sale or Redemption of Listed Shares

The Company has not redeemed any of its listed ordinary shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year.

Reserves

Details of the movements in the reserves of the Company during the year are set out in note 32 to the Financial Statements.

Distributable Reserves

As at 31 March 2006, distributable reserves of the Company, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$287,362,000 (2005: HK\$107,475,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 20 to the Financial Statements.

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 116.

Major Customers and Suppliers

The five largest customers of the Group accounted for 36.0% of the Group's turnover and the five largest suppliers of the Group accounted for 53.4% of the Group's total purchases for the year. The largest customer of the Group accounted for 30.9% of the Group's turnover and the largest supplier of the Group accounted for 23.5% of the Group's total purchases for the year.

None of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital), had an interest in any of the above mentioned suppliers and customers.

Donations

Donations for charitable and other purposes made by the Group during the year amounted to approximately HK\$2,353,000 (2005: HK\$3,410,000).

Share Options

(a) Share Option Scheme of the Company

The share option scheme of the Company was adopted on 29 December 2000 (the "2000 Share Option Scheme") and amended on 31 July 2002 to comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The limit of number of ordinary shares of HK\$1.00 each of the Company ("Shares") which may be issued upon exercise of all options to be granted was refreshed to 10% of the issued ordinary share capital of the Company as at 31 July 2002. Key terms of the 2000 Share Option Scheme are summarized below:

- (i) The purpose of the 2000 Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.
- (ii) The participants include any full-time employees and Directors (including Non-executive Directors and Independent Non-executive Directors) of the Company or any of its subsidiaries.
- (iii) The total number of Shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue and any further grant of options in excess of such limit must be subject to separate shareholders' approval in general meeting with such participant and his associates abstaining from voting.
- (iv) The option period under which the option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, provided that such period shall not expire later than 10 years from the adoption date of the 2000 Share Option Scheme.
- (v) The period for which an option must be held before it can be exercised shall be determined by the Board at the time of grant.
- (vi) An offer of share options may be accepted within 14 days from the date of offer, upon payment of HK\$10.00 by way of consideration.

Share Options *(continued)*

(a) Share Option Scheme of the Company *(continued)*

(vii) The exercise price shall be no less than the highest of: (i) the closing price of the Shares as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange of the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares on the date of grant.

(viii) The total number of Shares which may be issued upon exercise of all further options to be granted is 112,266,117 which represents approximately 7.5% of the issued ordinary share capital of the Company as at the date of this annual report.

(ix) The 2000 Share Option Scheme will expire on 29 December 2010.

The table below sets out movements in the share options under the 2000 Share Option Scheme during the year:

Name or category of participant	No. of options at 01/04/05	Date of grant	Exercise price per Share	Exercisable Period	No. of options granted during the year	No. of options exercised during the year	No. of options lapsed during the year	Outstanding as at 31/03/06
Directors								
Ting Ka Yu, Stephen	1,618,000	18/03/2002	HK\$1.67	19/03/2003 – 28/12/2010	–	–	–	1,618,000
Tung Chuen Cheuk	2,536,000	18/03/2002	HK\$1.67	19/03/2003 – 28/12/2010	–	2,536,000	–	–
	–	18/1/2006	HK\$3.75	19/01/2007 – 28/12/2010	3,000,000	–	–	3,000,000
Employees								
In aggregate	8,307,400	18/03/2002	HK\$1.67	19/03/2003 – 28/12/2010	–	6,333,800 <i>(Note)</i>	–	1,973,600
	–	24/08/2005	HK\$3.325	25/08/2006 – 28/12/2010	1,000,000	–	–	1,000,000
	–	18/01/2006	HK\$3.75	19/01/2007 – 28/12/2010	6,100,000	–	–	6,100,000
	–	01/03/2006	HK\$4.35	02/03/2007 – 28/12/2010	1,000,000	–	–	1,000,000
Total outstanding								14,691,600

Note: The weighted average closing price immediately before the dates on which the options were exercised was HK\$3.79.

The options granted under the 2000 Share Option Scheme (except those options granted on 1 March 2006) vest as follows:

On 1st anniversary of the date of grant	30% vested
On 2nd anniversary of the date of grant	further 30% vested
On 3rd anniversary of the date of grant	remaining 40% vested

Share Options (continued)**(a) Share Option Scheme of the Company** (continued)

The options granted under the 2000 Share Option Scheme on 1 March 2006 vest as follows:

On 1st anniversary of the date of grant	20% vested
On 2nd anniversary of the date of grant	further 20% vested
On 3rd anniversary of the date of grant	further 20% vested
On 4th anniversary of the date of grant	further 20% vested
The seven-month period after the 4th anniversary of the date of grant and before the expiry of the 2000 Share Option Scheme	remaining 20% vested

No options were cancelled during the year.

The Company has used the Binomial Model for assessing the fair value of the share options granted during the year ended 31 March 2006. It is an appropriate model to estimate the fair value of an option which can be exercised before the expiry of the option period. The assumptions in the calculation are:

	24 August 2005	18 January 2006	1 March 2006
Risk Free Rate	3.9% per annum	3.85% per annum	4.08% per annum
Expected Volatility	40% per annum	40% per annum	40% per annum
Expected Dividend Yield	2.5% per annum	2.5% per annum	2.5% per annum
Sub Optimal Early Exercise Factor	150%	150%	150%
Expected Rate of Post Vesting Withdrawal	5% per annum	5% per annum	5% per annum

According to the Binomial Model, the values of the respective options granted as at 31 March 2006 were as follows:

Date of Grant	No. of options granted	Value
24 August 2005	1,000,000	HK\$951,000
18 January 2006	9,100,000	HK\$10,053,000
1 March 2006	1,000,000	HK\$1,329,000

An amount of HK\$1,540,000 is recognised in the consolidated income statement for the year ended 31 March 2006 in respect of the value of the options granted during the year. For details please refer to note 31 to the Financial Statements.

In calculating the fair value of the options, no allowance has been made for forfeiture prior to vesting. It should be noted that the value of an option varies with different variables of certain subjective assumptions; and change in variables so adopted may materially affect the fair value estimate.

Share Options *(continued)*

(b) Share Option Schemes of subsidiaries

On 31 July 2002 (the "Adoption Date"), each of Apple Daily Publication Development Limited ("ADPDL") and Next Media Publishing Limited ("NMPL"), both are wholly-owned subsidiaries of the Company (each hereinafter referred to as "Subsidiary"), adopted a share option scheme (together the "Subsidiary Share Option Schemes"), which complied with the requirements under Chapter 17 of the Listing Rules. The key terms of the Subsidiary Share Option Schemes are summarized below:

- (i) The purpose of the Subsidiary Share Option Schemes is to provide participants with the opportunity to acquire proprietary interests in the Subsidiary and to encourage participants to work towards enhancing the value of the Subsidiary and its shares for the benefit of the Subsidiary and its shareholders as a whole.
- (ii) The participants of the Subsidiary Share Option Schemes include any of the full-time employees and directors of the Subsidiary or any of its subsidiaries.
- (iii) The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including both redeemed and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue from time to time. Any further grant of options (including redeemed, cancelled and outstanding options) to a participant exceeding 1% of the shares in issue shall be subject to approval of the shareholders of the Subsidiary and for so long as the Subsidiary remains a subsidiary of the Company, the approval of the shareholders of the Company in advance with such participant and his associates abstaining from voting.
- (iv) The option period under which the option must be exercised shall be such period as the board of directors of the Subsidiary may in its absolute discretion determine, provided that the expiry of such period shall not be later than the date falling one month prior to the lodgement of an application of listing of the Subsidiary or its intermediate holding company or such company holding the business conducted or to be conducted by the Subsidiary and its subsidiaries on an internationally recognised stock exchange whether in Hong Kong or elsewhere (the "Listing") or the expiry of the ten-year period from the Adoption Date, whichever is earlier.
- (v) The period for which an option must be held before it can be exercised shall be determined by the board of directors of the Subsidiary.
- (vi) An offer of share options may be accepted within 14 days from the date of offer, upon payment of HK\$10.00 by way of consideration.

Share Options *(continued)*

(b) Share Option Schemes of subsidiaries *(continued)*

- (vii) The exercise price shall be the higher of (i) such amount representing not more than four times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes and (ii) the nominal value of a share of the Subsidiary. For any option granted during the period commencing six months before the lodgement of an application with the relevant stock exchange for the Listing and at any time thereafter, the subscription price of a share shall not be less than the higher of (i) the issue price of a share at the Listing; (ii) such amount representing not more than four times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes and (iii) the nominal value of a share of the Subsidiary.
- (viii) The number of shares which may be issued upon exercise of all options to be granted is 10% of the issued share capital of the Subsidiary on the Adoption Date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Subsidiary Share Option Schemes shall not be counted for the purpose of calculating the Scheme Mandate Limit. However, the Scheme Mandate Limit may be refreshed at any time subject to prior shareholders' approval of the Subsidiary and for so long as the Subsidiary remains a subsidiary of the Company, the prior approval of the shareholders of the Company. On 28 July 2004, the shareholders of ADPDL and the shareholders of the Company approved to refresh the Scheme Mandate Limit of ADPDL up to a new 10% limit. As at the date of this annual report, the total number of shares which may be issued upon exercise of all further options to be granted under the Subsidiary Share Option Schemes of ADPDL and NMPL are 885,000 and 550,000 respectively, representing 8.85% and 5.50% of the issued share capital of ADPDL and NMPL. Please refer to below tables for movements in the share options during the year ended 31 March 2006.
- (ix) The term of the Subsidiary Share Option Schemes will expire on the earlier of (a) the date of the Listing or (b) the tenth anniversary date of the Adoption Date, after which period no further options will be granted and no options shall be exercisable.
- (x) In the event the relevant stock exchange prohibits the exercise of the option by the grantee at the exercise price set out above, or upon occurrence of certain circumstances as stipulated in the Subsidiary Share Option Schemes, before the Listing and subject to the participant having fulfilled the terms and conditions of the option, the Subsidiary shall redeem the option at a cash consideration being not more than five times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes.

Share Options *(continued)***(b) Share Option Schemes of subsidiaries** *(continued)*

The tables below set out movements in the share options under the Subsidiary Share Option Schemes during the year:

Apple Daily Publication Development Limited

Name or category of participant	No. of options at 01/04/05	No. of options granted during the year	Date of grant	Exercise price per share	Exercisable period	No. of options lapsed during the year	Outstanding as at 31/03/06
Directors							
Ting Ka Yu, Stephen	50,000	–	22/01/03	Refer to above (b)(vii)	Not yet determined	–	50,000
	25,000	–	26/03/03	Refer to above (b)(vii)	Not yet determined	–	25,000
	–	25,000	11/01/06	Refer to above (b)(vii)	Not yet determined	–	25,000
Ip Yut Kin	100,000	–	22/01/03	Refer to above (b)(vii)	Not yet determined	–	100,000
	50,000	–	26/01/04	Refer to above (b)(vii)	Not yet determined	–	50,000
	–	50,000	11/01/06	Refer to above (b)(vii)	Not yet determined	–	50,000
Tung Chuen Cheuk	50,000	–	26/03/03	Refer to above (b)(vii)	Not yet determined	–	50,000
Employees							
In aggregate	230,000	–	08/01/03	Refer to above (b)(vii)	Not yet determined	25,000	205,000
	50,000	–	26/03/03	Refer to above (b)(vii)	Not yet determined	–	50,000
	50,000	–	23/04/03	Refer to above (b)(vii)	Not yet determined	–	50,000
	25,000	–	05/11/03	Refer to above (b)(vii)	Not yet determined	–	25,000
	50,000	–	19/04/04	Refer to above (b)(vii)	Not yet determined	–	50,000
	–	40,000	28/12/05	Refer to above (b)(vii)	Not yet determined	–	40,000
In aggregate and total outstanding							770,000

Next Media Publishing Limited

Name or category of participant	No. of options at 01/04/05	No. of options granted during the year	Date of Grant	Exercise price per share	Exercisable Period	No. of options lapsed during the year	Outstanding as at 31/03/06
Employees							
In aggregate	175,000	–	08/01/03	Refer to above (b)(vii)	Not yet determined	100,000	75,000
	150,000	–	12/01/04	Refer to above (b)(vii)	Not yet determined	50,000	100,000
	200,000	–	03/01/05	Refer to above (b)(vii)	Not yet determined	25,000	175,000
In aggregate and total outstanding							350,000

No options, in relation to either scheme, were exercised or cancelled during the year.

The Company has assessed the fair value of the share options granted under the Subsidiary Share Option Schemes and considered it to be minimal and has had no effect on the Group's net profit for the year ended 31 March 2006.

Details of the Company's share option scheme and the Subsidiary Share Option Schemes are also set out in note 31 to the Financial Statements.

Directors

The Directors during the year and up to the date of this report are:

Executive Directors:

Mr. Lai Chee Ying, Jimmy (*Chairman*) ("Mr. Lai")

Mr. Ting Ka Yu, Stephen

Mr. Ip Yut Kin

Mr. Tung Chuen Cheuk

Independent Non-executive Directors:

Mr. Yeh V-Nee

Mr. Fok Kwong Hang, Terry

Dr. Kao Kuen, Charles

In accordance with Articles 84 and 85 of the Company's Articles of Association, Mr. Ip Yut Kin and Mr. Yeh V-Nee will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Subject to the provision for retirement by rotation in Article 84 of the Company's Articles of Association, each of the existing Independent Non-executive Directors has been appointed for a fixed term expiring on 31 March 2007.

The biographical details of the current Directors as at the date of this report are set out on pages 42 to 43. Details of Directors' remuneration are provided under note 13 to the Financial Statements.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

No contracts of significance in relation to the Group's businesses to which the Company, its subsidiaries or associated companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2006, the Directors and the chief executive of the Company and their associates had the following interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

(a) Interests in the Company

The table below sets out the long positions in the Shares and underlying shares of each Director and the chief executive of the Company:

Name of Director/ chief executive	Number of Shares				Interests in underlying shares/equity derivatives	Total Shares	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
1. Ordinary Shares							
Mr. Lai	973,902,535	–	4,692,400	–	920,000,000 <i>(Note 1)</i>	1,898,594,935	127.28 <i>(Note 4)</i>
Mr. Ting Ka Yu, Stephen	90,314	–	–	–	1,618,000 <i>(Note 2)</i>	1,708,314	0.11
Mr. Ip Yut Kin	9,432,377	2,540,000	–	–	–	11,972,377	0.80
Mr. Tung Chuen Cheuk	3,472,800	30,000	–	–	3,000,000 <i>(Note 2)</i>	6,502,800	0.44
Mr. Yeh V-Nee	300,000	–	–	–	–	300,000	0.02
Mr. Fok Kwong Hang, Terry	1,500,000	–	–	–	–	1,500,000	0.10
2. Preference Shares							
Mr. Lai	920,000,000 <i>(Note 1)</i>	–	–	–	–	920,000,000	100.00

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

(b) Interests in Associated Corporations

The table below sets out the long positions in underlying shares of the Company's associated corporations (within the meaning of Part XV of the SFO) of each Director and the chief executive of the Company:

Apple Daily Publication Development Limited

Name of Director/ chief executive	Number of shares				Interests in underlying shares/equity derivatives	Total shares	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Ordinary Shares							
Mr. Ting Ka Yu, Stephen	–	–	–	–	100,000 (Note 3)	100,000	1.00
Mr. Ip Yut Kin	–	–	–	–	200,000 (Note 3)	200,000	2.00
Mr. Tung Chuen Cheuk	–	–	–	–	50,000 (Note 3)	50,000	0.50

Notes:

- (1) These interests represented the 2% convertible non-voting non-cumulative preference shares of HK\$1.75 each held by Mr. Lai which are convertible into fully paid ordinary shares of HK\$1.00 each at the conversion price of HK\$1.75 per new share during a period of five years from 26 October 2001.
- (2) These interests represented the share options granted by the Company to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options".
- (3) These interests represented the share options granted by Apple Daily Publication Development Limited to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options".
- (4) This percentage figure is calculated on the assumption that upon the conversion of 920,000,000 2% convertible non-voting non-cumulative preference shares of HK\$1.75 each into 920,000,000 ordinary shares of HK\$1.00 each of the Company by Mr. Lai, his ordinary shareholding would be increased to 1,898,594,935 Shares, representing approximately 127.28% of the total issued ordinary share capital of 1,491,643,281 Shares as at 31 March 2006 and approximately 78.73% of the pro forma issued ordinary share capital of 2,411,643,281 Shares as enlarged by the conversion.

Save as disclosed above and those as disclosed in the section headed "Discloseable Interests and Short Positions of Shareholders under the SFO" below, none of the Directors and chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 March 2006.

Discloseable Interests and Short Positions of Shareholders under the SFO

As at 31 March 2006, the following persons (other than a person who is a Director or chief executive of the Company) had interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares/ underlying shares held	Percentage of issued share capital
Li Wan Kam, Teresa	1,898,594,935 <i>(Note)</i>	127.28
Marathon Asset Management Ltd.	108,065,912	7.24

Note: These represent the same total number of shares held by Mr. Lai as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures". Ms. Li Wan Kam, Teresa is the spouse of Mr. Lai and is deemed to be interested in these shares.

Save as disclosed above, the Company had not been notified of any other person (other than Directors or the chief executive of the Company) who had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 March 2006.

Arrangements to Purchase Shares or Debentures

Other than the option holdings disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the Shares in public hands exceed 25% as at 31 May 2006, the latest practicable date to ascertain such information prior to the issue of this annual report.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Provident Fund Schemes

Details of the provident fund schemes of the Group are set out in note 29 to the Financial Statements.

Post Balance Sheet Events

Details of significant events occurring after balance sheet date are set out in note 36 in the Financial Statements.

Auditors

The Financial Statements have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Jimmy Lai

Chairman

Hong Kong, 15 June 2006