

OPERATION STATEMENT

RESULTS

The Group recorded a turnover of HK\$2,031,854,000 for the year ended 31 March 2004, representing an increase of approximately 1.7% over the turnover of HK\$1,998,094,000 for the previous year, which was mainly due to the increase in advertising revenue. The audited profit attributable to shareholders amounted to HK\$438,797,000, representing an increase of approximately 27.7% over the restated profit of HK\$343,548,000 for the previous financial year. The increase in the Group's profit was mainly attributable to the outstanding performance of the Group's advertising operations and the success of the Group's policy of exploring new sources of income and retrenchment.

DIVIDENDS

The Board of Directors (the "Board") of the Company recommends a final dividend of HK 9 cents and a special dividend of HK 2 cents (2003: a final dividend of HK 7 cents and a special dividend of HK 2 cents) per share for the year ended 31 March 2004, payable to the shareholders whose names appear on the Register of Members on 25 August 2004. Together with the interim dividend of HK 3 cents (2003: HK 3 cents) per share paid, the total dividend for the whole year amounted to HK 14 cents (2003: HK 12 cents) per share. The proposed final and special dividends will be payable on 31 August 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 August 2004 to 25 August 2004, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final and special dividends proposed, all transfers accompanied by relevant share certificates must be deposited at the Company's share registrar, Friendly Registrars Limited, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on 18 August 2004.

BUSINESS REVIEW AND OUTLOOK

For the year under review, the Group's results were better than expected. The profit for the year rose 27.7% over that of the same period last year, which is very encouraging. Hong Kong experienced the outbreak of SARS during the period in March through June last year. At that time, the consumer sentiments shrank, the market was slack, and advertisers abruptly suspended their promotion plans for their commodities. All of these have had adverse impact on the Group's business. During the period, the Group's turnover dropped 9% as compared with the same period last year. Stepping into July, SARS came under control, and the Group seized the opportunity to introduce a number of new advertising packages that specifically fit in with the then market environment, and they were widely supported by the advertising customers. Thus, the adverse circumstances changed. Subsequently, the "Free Travel" scheme introduced by the Mainland China fuelled the territory's retailing sector. Advertisers also seized the chance to promote their

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products. As a result, the Group's advertising revenue has dramatically increased, which not only made up for the loss of the advertising revenue sustained during the outbreak of SARS in the first half of the year, but also recorded a significant growth for the whole year. In respect of the advertising revenue for last Christmas and the Chinese New Year this year, the increase was even more noticeable. As a whole, the advertising revenue for the year was approximately 5.3% more than that of last year.

During the year, the Group steadfastly implemented the policy of exploring new sources of income and retrenchment. On the advertising policy side, the Group targeted at high-end consumables. After making much efforts, the Group's two newspapers both accomplished satisfactory results in advertisement of motor vehicles, famous-brand fashionwear, jewelry and watches. In order to strengthen the advertisers' confidence in "Oriental Daily News" and "The Sun", the Group's two newspapers joined hands to stage the "Best Car Award 2003" in November 2003, and the prize giving ceremony was held in December the same year. The event had attracted the participation of dozens of car agencies, and was conducted in a lively atmosphere. It was a grand occasion for car-retailing sector, and had proved conducive to the Group's soliciting motor vehicles advertisements. As to retrenchment, the Group had implemented the rationalisation and consolidation of all departments and divisions, and succeeded in substantial savings in our operating costs. With the proven success of the policy of exploring new sources of income and retrenchment, the Group had attained the goal of cost-control in the year as scheduled.

"Oriental Daily News" has remained the best-selling newspaper in Hong Kong over the past 28 years with no exception. Through continuous self-enhancement and frequent reform, and with our commitment to be innovative, pioneering and fashionable, "Oriental Daily News" has actually become "the newspaper of the Hong Kong people". During the year, "Oriental Daily News" has carried out overall reform, focusing on improvement in news angle and layout design and coloration. After several layout changes to obtain the desirable effect, the present "Oriental Daily News" is richer and more substantial in contents, and with a more fashionable layout presentation. On 5 May 2004, "Oriental Daily News" recorded an actual sales volume on a single day of 536,614 copies, representing an excess of 156,614 copies, or more than 41.2%, over the claimed print-run of 380,000 copies (including wastage, complimentary copies and unsold copies) of "Apple Daily" on that day. The comparison figures are factual. In terms of readership, "Oriental Daily News" is still the number one newspaper. According to the "Readership and Consumption Survey" conducted by Hong Kong Polling and Business Research Company during the period from 20 March to 2 April 2004, from the regular readership of "Oriental Daily News" at 3,110,000 in November 2002, a historic record of over 3,430,000 was reached, outnumbering that of "Apple Daily" by approximately 37%. The Survey also revealed that the reader spectrum of "Oriental Daily News" spreads across all walks of life and different industries, of which the students readership leads far ahead of "Apple Daily" for over 90%, which proves that "Oriental Daily News" is a favorite of young intellectuals. In addition, businessmen, entrepreneurs and

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self-employed readership of “Oriental Daily News” also outnumber those of “Apple Daily” by some 60%, which indicates that “Oriental Daily News” fits the reading taste of the social elites. In the analysis of monthly household income of readers, it is further found that readership with monthly household income of over HK\$80,000 is far more than that of “Apple Daily” by approximately 30%, which once again proves that the readers of “Oriental Daily News” are of high consumption ability, who have intention to buy high-end consumables, electrical appliances, famous-brand fashionwear, real estate and investments in the next 12 months. As to advertising revenue, it once dropped in the first quarter of the year under review as adversely affected by SARS, but it rebound significantly in the second quarter. This not only recovered from the slump, but the overall advertising revenue for the year was approximately 7.8% more than that of the same period last year. The results are brilliant.

“**The Sun**” maintains its strong position as the third best-selling newspaper in Hong Kong. In these 5 years since it was first published, “The Sun” has not only become the favorite amongst young readers, but are also welcome by intellectual readers. There are no lack of university students, professionals and executives amongst its readers. As “a newspaper for the young generation”, an image of vitality and the provision of quality news content are basic requirements in meeting the demand of these social elites. In this regard, “The Sun” has carried out an overall reform to strengthen the news content, especially in relation to financial information, focusing on the current affairs and trends in relation to the local economy of Hong Kong. In addition, their concerns on education and campus would also be identified and explored. “The Sun” has now become a newspaper that fits into the reading taste of the young and middle-aged readers. “The Sun” has a healthy image and enjoys substantial patronage of advertisers, which helps soliciting advertisement of high-end consumables. In the past year, “The Sun” reported marked increase in the advertising volume of education, tourism and similar related sectors. As to circulation revenue, “The Sun” has, with effect from 24 September 2003, cancelled its start-up discounted price and resumed to the normal retail price of HK\$6 per issue, resulting in additional revenue for the Group.

“**The Sun Racing Journal**”, highly cherished by horse racing fans, is renowned for its professional standard and its circulation stands as one of the top three best sellers. During the year, “The Sun Racing Journal” has also been reformed to give a more flexible and modern layout presentation, offering to the horse racing fans the joy of reading in addition to accurate and substantial information. According to track record, the horse racing tips of “The Sun Racing Journal” has maintained high rate of hits and has become a beacon of the fans. Over years of devoted efforts and comprehensive data collection, “The Sun Racing Journal” has established a very extensive racing database, which is one of the most valuable assets of the Group.

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“**orisun.com**” has achieved encouraging results. During the year, the business of on-line advertisement, subscription and content sales all posted remarkable surge. Appreciating the vast advertising market in Mainland China, “**orisun.com**” has taken the lead in liaising with many advertising customers in various parts. With the experience in successfully exploring content sales business in Hong Kong, “**orisun.com**” is expanding its business into the Mainland China and other regions in the South East Asia. The page-view of “**orisun.com**” is also increasing in line with the number of page-view readers, of which 85% comes from the Great China regions. This lays a solid development foundation for our business development strategy of “basing ourselves in Hong Kong and opening our eyes to the Great China”

“**Oriental Daily News © Paper**” and “**The Sun © Paper**” are the first on-line page-flipping newspapers in the website industry. The number of subscribed readers in the two years since their launch has been soaring. With the spirit of constant innovation, “**orisun.com**” endeavors to further perfect e-paper, a brand-new product. During the year, the “old paper archives” function of the e-paper was enhanced to provide quality service to the subscribed users. The “Football” site of “**orisun.com**” is well received by the readers and advertising customers, and has established its leading position among the local on-line football information media. The Group has also launched various theme websites in view of current affairs changes, such as the theme website of “**Legendary Pop Queen**” in memory of Anita Mui, where vast readers have left their messages to mourn the death of a superstar. On 30 December 2003, “**orisun.com**” registered a record high number of page-view as many as 12,000,000.

In line with its dedication to charity, the Group has, through the “Oriental Daily News Charitable Fund” and “The Sun Charitable Fund”, donated in total of over HK\$2,300,000 to those in need during the outbreak of SARS. The donations were used to distribute anti-epidemic items and equipment, to organize the “Cleaning up the homes of the elderly” Campaign, etc. During the year, both of the Funds have in aggregate donated HK\$14,834,924 to those in need, giving play to the spirit of helping and aiding the old and the poor. The Group has been supporting the “Oriental Daily News Charitable Fund” and “The Sun Charitable Fund” by, inter alia, bearing all daily administrative fees, seeking for more volunteer workers and regularly reporting on charitable activities for raising donations in the specific sections of the two newspapers. At 31 March 2004, the accumulated number of donors of “Oriental Daily News Charitable Fund” amounted to 550,528 with a total donation of HK\$363,732,641. The funds amounting to HK\$355,842,128 which have been allocated to 14,709 case, and 482,446 persons have benefited. The accumulated number of donors of “The Sun Charitable Fund” amounted to 20,820 with a total donation of HK\$12,507,624. The funds amounting to HK\$10,506,354 have been allocated to 1,633 cases, and 46,870 persons have benefited.

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Looking ahead, the Group's policy is to consolidate the local market, to explore overseas business opportunities, and to put into practice the philosophy of "constant improvement and re-investments". Since the second half of last year, Hong Kong retailing sector resumed growth and subsequent to the introduction of "Free Travel", the retailing industry saw significant recovery. With the leading status of "Oriental Daily News" and "The Sun" in Hong Kong newspaper industry, the Group will with full effort seize the opportunity to secure the advertising budget of advertisers. In particular, the budget for advertisement of high-end consumer goods, such as brand-name fashionwear and digital technology products where there is room for increase. The Group's two newspapers will procure cooperative opportunities with relevant advertisers in the future, and it is believed that, with such plans, the Group's two newspapers will broaden their reader base.

The average price of newsprints for the year rose by 7% as compared with previous year. The Group expects that the price of newsprints will keep increasing for the coming year, which will directly increase the Group's operating costs. However, the Group believes that, with the current policy of exploring new sources of income and retrenchment, together with the strengthening of our advertising policy and increase in advertising revenue, part of the rise in newsprint cost can be cushioned and offset, and the prospects of the Group's results for next year are still encouraging.

In May this year, organizations or residents in Mainland China can apply via China National Publications Import and Export Group and its 5 branches in various cities for subscription of "Oriental Daily News" and "The Sun". The response is encouraging. In aid of the expansion of 22 subscription offices, it enlarges the subscription network of the Group's two newspapers all around most of the cities in Mainland China. The economy of China is in a period of rapid development, and domestic residents are keen on external information. "Oriental Daily News" and "The Sun", with their substantial information and attractive page layout, are exactly what they are looking for. Having considered the advantages that "Oriental Daily News" and "The Sun" have, advertisers would choose the two newspapers as a means to promoting their products to the people in Mainland China. This breakthrough of "Oriental Daily News" and "The Sun" will help their growth in terms of readership, sales volume and advertising revenue. The prospect for the two newspapers in Mainland China is promising.

The North American Version of "Oriental Daily News" and "The Sun" will be an overseas investment project of the Group, the study and research of which are still in progress. The Group's most up-dated medium-sized color-printing machines not only can cope with the printing of the North American Version of "Oriental Daily News" and "The Sun", but also can undertake printing of various local publications. With the principle of low cost and high yield, it will increase the revenue source of the Group. Therefore, other than operating overseas versions, undertaking of printing overseas publications is another investment under consideration, with an aim to diversifying its business.

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In the near future, the Group will mark another milestone—the commencement of the operation of our Tai Po new headquarters with a total floor area of 500,000 square feet which is, from construction to interior design, well-designed and arranged, equipped with advanced production equipment and brand-new office facilities, and a complex that incorporates both the production and administration arms, which will be the new base of the Group's staff of over 2,000 members. In a more comfortable and well-equipped working environment, it is believed that the staff is well prepared to meet new challenges ahead. After the Group's moving into the new headquarters, the Group will no longer have to pay for the rental of the existing printing factory in Yuen Long and the operating cost will be reduced; the Group's self-owned old printing factory in Tai Po will also be disposed of and the present head office in Kowloon Bay will be let out to increase revenue for the Group. The Group is confident as of its future development.

FINANCIAL RESOURCES AND LIQUIDITY

The Group always maintains a strong liquidity. The working capital at 31 March 2004 amounted to HK\$1,268,087,000 (31 March 2003: HK\$1,439,568,000 (as restated)), which includes time deposits, bank balances and cash amounted to HK\$1,167,371,000 (31 March 2003: HK\$1,378,418,000). The decrease in the working capital is mainly due to the expenditure incurred on the construction of Tai Po new head office.

At 31 March 2004, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.9% (2003: 2.3%).

During the year, the Group's capital expenditure was approximately HK\$312,670,000.

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2004, the Group employed 2,392 employees. Remuneration for employees including medical benefits is determined based on industry practice, the performance and working experience of the employees, and the current market conditions. The Group has implemented a training scheme to groom a new generation of journalists.

EXPOSURE TO FOREIGN EXCHANGE

Since the revenue of the Group is mainly denominated in Hong Kong Dollars and the production cost is denominated in US and HK Dollars, the Group is therefore not exposed to any foreign currency exchange risk provided Hong Kong's pegged exchange rate system remains unchanged.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters.

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PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board

Shun-chuen LAM
Chairman

28 June 2004