

revenue of “The Sun” will be achieved. In the long run, it could have a long lasting and positive impact to the Group’s overall development, and so are the shareholders’ returns. Having carried out an overall reform, the news content of “The Sun” has been enriched and the layout design has been enhanced, which is favourably received by readers. Following the steady growth in circulation, the Group believes that “The Sun” will steadily rank as the second best-selling newspaper in Hong Kong in the near future.

Since its publication in 1991, “The Sun Racing Journal” has been committed to provide horse racing fans with comprehensive horse racing information and attain a high rate of hits. In the last horse racing season, it repeatedly predicted the horse racing results with accuracy, including the results of Triple Trio, Double Trio, Six Up and Treble etc., which helped horse racing fans winning huge amount of reward. The colour printing format on horse racing days aims at making “The Sun Racing Journal” a favourite racing journal among horse racing readers. “The Sun Racing Journal” has established the most extensive racing database among similar publications, which is one of the most valuable assets of the Group.

Revenue growth of “orisun.com” continued at a high pace during the first half of this year. During the period, “orisun.com” has reached agreements with various mobile operators and service providers (SPs) to launch mobile infotainment products in Mainland China as well as Singapore and Malaysia. The Group’s proprietary products “Oriental Daily News© Paper” and “The Sun© Paper”, which publish online at 4:30 a.m. every morning, provide latest information to world-wide readers and have earned critically acclaim. During the period, the membership of the “© Paper” has steadily increased to 550,000 and brought sustainable income for “orisun.com”.

## **BUSINESS OUTLOOK**

In these past few years, Hong Kong economy had been enjoying a run of sustained recovery and the local property market conditions have improved. Consequently, consumers have become more willing to spend, contributing to significant business growth in retailing, tourism and hotels. It will thus benefit the Group’s advertising business. On the other hand, subscriptions of “Oriental Daily News” and “The Sun” in Mainland China have been encouraging, with number of subscribers increase steadily. With increased readership and widened reader spectrum, the Group is well positioned to secure more advertising orders.

Currently, newsprint price has risen by approximately 10% from that of a year ago. This, associated with the soaring oil price, directly leads to increase in the operating cost of the Group. High production cost notwithstanding, improvement in overall operating efficiency following the Group’s relocation to the new headquarters in Tai Po, has enabled substantial saving of resources by the Group, thereby achieving a certain level of cost control. While such special offer campaigns since October 2005 have affected the circulation revenue, this will be partly offset by the increase in advertising revenue during the time of these campaigns. We expect that the circulation of these two newspapers will increase steadily and there is room for upward adjustment of advertisement rates. Thus, we believe that as a result of these campaigns, the foundation of the Group will be more concrete and with reasonable revenue from advertising and circulation.

In the view that the population of immigrants from the Mainland, Hong Kong and Taiwan to overseas continuously increases, the Group considers that it is the appropriate time to develop the overseas edition of “Oriental Daily News” and “The Sun”. Australia is selected as the first overseas market to explore. Once the Australian market has been firmly established, the second market for overseas edition of these two newspapers will be North America. With vast experience in newspaper publication, the Group believes that the overseas edition will achieve remarkable results.

In mid November, “Oriental Daily News© Paper” and “The Sun© Paper” will launch a free trial promotion to attract a broader range of readership. For mobile business, the Group will become the first newspaper group in Hong Kong to launch its own brand name mobile platform which positions itself as ‘The Strongest Chinese Infotainment Mobile Center’. The Group is committed to expand into multimedia business in Greater China by capitalizing its leading position in media industry. “orisun.com” will focus in 3G and broadband television (IPTV) markets in Mainland China. In addition, benefit from the fast growing internet advertising market, “orisun.com” is now considering to adjust advertising rates upwards. It is expected that the advertising revenue for the second half of the year will record substantial growth. “orisun.com” is one of the major drives for the Group’s long term growth, the Group will keep investing on it to ensure its robust development. After the consolidation of the Internet market, investor has regained confidence in TMT (technology/media/telecom) stocks. The Group predicts that a new boom in TMT stocks is round the corner. In order to take advantage of the coming prospectus, “orisun.com” has undergone a complete reorganization and has well-equipped itself with contents enrichment, hardware and relevant network equipment upgrade. The Group is considering soliciting strategic investors for “orisun.com” to establish global presence and broaden business scope. Further announcement will be made to the public when appropriate. Moreover, the Group does not rule out the possibility of spinning-off “orisun.com” for a separate listing on the Hong Kong Stock Exchange or NASDAQ when time is propitious.

Following the disposal of the old Tai Po factory, the Group has engaged a well known international property management firm to manage the Oriental News Building situated in Kowloon Bay and to take charge of the rental matters. It is believed that, with the vast experience and professional knowledge of that firm, the rental business could achieve satisfactory results. Units in the building, if fully rented, would generate a stable rental income to the Group. However, the Group would also consider to have it disposed of should the property market prevail.

In respect of the hotel operation in Australia, it had recorded a satisfactory occupancy rate, and the overall income had also met our expectation. In July 2005, the Group has further acquired at a consideration of approximately HK\$45,294,000 a commercial shopping arcade in Australia for investment purpose. That property has been fully rented and has contributed a stable income to the Group.

## **FINANCIAL RESOURCES AND LIQUIDITY**

At 30 September 2005, the Group’s working capital increased about 15.1% to HK\$1,314,867,000 (31 March 2005: HK\$1,142,137,000), which mainly attributable from operating income and the proceeds from disposal of the old Tai Po factory of HK\$180,000,000. At 30 September 2005, the Group’s cash and cash equivalents amounted to HK\$911,246,000 (31 March 2005: HK\$770,806,000).

At 30 September 2005, the Group’s gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders’ equity, was 3.2% (31 March 2005: 3.3%).

During the period, the Group’s capital expenditure was approximately HK\$62,085,000.