

Operation Statement

RESULTS

For the year ended 31 March 2006, the Group recorded a profit of HK\$316,000,000 before netting off the expenditure incurred for the newspaper promotion campaign of HK\$189,000,000. The audited consolidated profit attributable to shareholders amounted to HK\$127,000,000. The decrease in the Group's profit was mainly due to soaring production costs and the launch of newspaper promotion campaign.

DIVIDENDS

The Board of Directors recommend a final dividend of HK2 cents (2005: HK7 cents) and a special dividend of HK0.5 cent (2005: Nil) per share for the year ended 31 March 2006, payable to the shareholders whose names appear on the Register of Members on 23 August 2006. Together with the paid interim dividend of HK2.5 cents (2005: HK3.5 cents) per share, the total dividends for the year amount to HK5 cents (2005: HK10.5 cents) per share. The proposed final and special dividends will be payable on 28 August 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 August 2006 to 23 August 2006, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the proposed final and special dividends, all transfers accompanied with the relevant share certificates must be deposited at the Company's share registrar, Friendly Registrars Limited, whose address is 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on 16 August 2006.

BUSINESS REVIEW

"**Oriental Daily News**" continues to be the best-selling newspaper in Hong Kong for the 30th consecutive year. On 16 December 1995, the daily circulation had reached 838,487 copies, a record high in Hong Kong. During the past years, "Oriental Daily News" has been keen in carrying out reforms, leading the industry in terms of reporters' equipment and reporting techniques, over-performing in editing, layout and artistic designs, and maintaining its advanced character. Upon the occurrence of significant news events, "Oriental Daily News" would change its content accordingly to provide its readers with most timely, updated, accurate and detailed information. The "Oriental readers' opinion", through the use of tone-dialling telephone and street interviews, explores into popular current affair topics in order to understand public opinions and sentiments, and is highly regarded by all spectrums of the society. Readers have always expressed their opinion through this column, "Oriental Daily News" is a real "Paper for Hong Kong". Subscription of "Oriental Daily News" in Mainland China is growing steadily, which is favourable in broadening readership base and attracting advertisements.

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“The Sun” had achieved the second best-selling newspaper in Hong Kong during the year. After the upward adjustment of retail price to HK\$4 per copy on 13 May 2006, the Group’s circulation income has increased and the actual circulation on that day amounted to 500,171 copies, exceeding the amount of 345,000 printed copies (including wastage, complimentary and unsold copies) claimed by “Apple Daily” on the same day by 150,000 copies. According to the survey on readership conducted by Hong Kong Polling Services Ltd. during the period from 23 April to 29 April 2006, the readership of “The Sun” had reached a record of 2,956,168 readers. “The Sun” possesses a unique style and is a paper of liveliness and whose contents are full of colours and variety. “The Sun readers’ opinion” is well-received and stimulates young readers in their interests and concerns on current affairs. During the year, “The Sun” had specifically strengthen travelling information it would provide so to cater for the new young generation’s increasing preferences in travelling. The newspaper promotion campaign being launched in mid October last year was met with overwhelming responses and substantial increase in circulation and readership. On top of that, it also helped “The Sun” in absorbing substantial advertisements in the advertising market, contributing to an approximate growth of 30% during the period. Although the growth in advertising revenue was not sufficient to cover the expenditure for the promotional campaign, it had laid down important foundations of “The Sun” for its future development. Currently, “The Sun” has already achieved a breakthrough in its circulation. As the foundations strengthen, it is believed that the circulation, readership and the ability to attract advertisements will continue to increase. Subscription of “The Sun” in Mainland China is growing steadily, which is favourable in broadening readership base and attracting advertisements.

“The Sun Racing Journal”, since its first publication in 1991, has been highly cherished by horse racing fans for its detailed horse racing information and colour-print format on horse racing days. In addition to assisting horse racing fans in winning huge amount of reward last year, “The Sun Racing Journal” again accurately predicted a number of results of Double Trio, Six Up and Treble etc. this year. The horse racing information available in the archives of “The Sun Racing Journal” is the most comprehensive racing database in this genre, which is one of the most valuable assets of the Group.

“orisun.com” had its revenue significantly increased last year. Online advertising revenue continued its strong growth and doubled its revenue from the previous year. Innovative advertising solutions including content sponsorship, integrated banner campaigns and iTVC have consolidated the position of “orisun.com” as a leader in the online advertising market. During the year, “orisun.com” launched Hong Kong’s first media wap site, wap.orisun.com, which provides news content and pay to download services. The wap site has been well received by users with daily page views reaching 530,000. wap.orisun.com has not only emerged as the most popular wap portal in Hong Kong, but it has also served as an innovative marketing platform with great potential for advertisers.

In relation to content sales, “orisun.com” continued to provide news content to a number of large portals. Successful launches of mobile news and picture download products in the Mainland and Malaysia during the year were an important milestone in exploring the huge Greater China and overseas value added service markets. News content of “orisun.com” has already been available through three major 3G operators in Hong Kong. Together with the developed local and overseas channels, news content of the Group has an extensive reach to 48 million mobile users through 2.5G / 3G network services and mobile SMS, providing an broader income base for “orisun.com”.

“orisun.com” posted a stable subscription income in this year. Its websites such as “Oriental Daily News Web”, “The Sun Web”, “orisun Racing” and “orisun Football” have all received encouraging feedback from its readers and advertisers. During the year, the Group has made functionality upgrades to its proprietary products “Oriental Daily News © Paper” and “The Sun © Paper” in order to improve their user-friendliness and to strengthen its user base.

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In relation to charitable activities, the Group continues its sponsorship of the activity expenses of “Oriental Daily News Charitable Fund” and “The Sun Charitable Fund”, including their human resources and administrative expenses, and reserves spaces in the two papers to raise funds for those in need. In August last year, in response to a seriously attacked 7-year-old child, namely SHUM Ho-yin, a “SHUM Ho-yin’s Medical and Educational Account” was immediately set up by “Oriental Daily News Charitable Fund”, in which donations exceeding HK\$610,000 were raised to subsidize his medical and education expenses. During the year, “Oriental Daily News Charitable Fund” and “The Sun Charitable Fund” respectively made donations of HK\$1.5 million to Pok Oi Hospital and around HK\$300,000 to over a hundred of poor students with outstanding academic and conduct performance. As at 31 March 2006, the accumulated number of donors of “Oriental Daily News Charitable Fund” amounted to 592,183 with a total donation of HK\$398,092,333 received by the fund. A total amount of HK\$387,522,103 has been allocated to 15,473 cases, benefiting 617,406 persons. Since its establishment in 1999 and up to 31 March 2006, the accumulated number of donors of “The Sun Charitable Fund” was 26,618 with a total donation of HK\$16,183,223 received by the fund. A total amount of HK\$13,986,212 has been allocated to 2,574 cases, and 67,583 persons have been benefited.

In respect of the overseas investments, the hotel and commercial shopping centre investment projects in Australia have achieved satisfactory results and will provide the Group with stable revenues.

BUSINESS OUTLOOK

Looking ahead, crude oil and newsprint prices are expected to increase the production costs of the Group. The newspaper industry will remain highly competitive and persistently challenging in the future. Nevertheless, in view of the advantages provided by the existing market positions and the abilities to securing advertisements of our two newspapers, the Group believes that they will bring more advertising income to the Group. Upon the resumption of its normal retail price of HK\$6 per copy together with its recognition secured, “The Sun” will contribute a considerable amount of revenue to the Group. Moreover, it is predicted that the US rate hike has peaked and is believed that such will encourage investment and spending in Hong Kong, allowing higher promotion budgets of the advertisers and hence, enabling the Group to generate more income.

“orisun.com” will actively work to broaden its business base. Capitalizing on the market dominance of “Oriental Daily News” and “The Sun” in Hong Kong, the Group will drive technological advancements to carry its leadership in newspaper publishing into the “Display Screen” world. The imminent introduction of the high-speed HSDPA (3.5G) mobile network, which is comparable to fixed-line networks, and the increasing popularity of QVGA/VGA resolution displays are expected to drive the integration of mobile networks and broadband platforms. PC based household multi-media centers will also fuel the integration of computer displays and television screens. Outdoor television screens for displaying video content and commercials will become more popular.

Viable business plans have been formulated for “orisun.com”. A multimedia and video division and a Greater China business development team were established under “orisun.com” in order to produce and market timely current affairs, lifestyle and entertainment multimedia content, expanding into the 3G and IPTV market in Greater China. “orisun.com” positions itself as a cross-platform content provider targeting the Greater China users of different broadcasting platforms including mobile, personal computers, televisions and outdoor displays. Investments in the content team, hardware and network equipment have also been finalized and it will actively identify acquisition and strategic partners in China.

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With the increasing focus on interactive and real-time experience for online users brought about by the new features of Web 2.0, the Group is planning to build a global Chinese content portal to provide local and international real-time news through web and mobile platforms. This will be targeted at Chinese users in the United States, Canada, Europe, Australia and South-east Asia. With the Group's extensive media network and powerful marketing resources, it has the ultimate goal of creating a global Chinese online community with features such as a global opinion platform to enhance the interaction between the new portal and users. The new portal will be able to create popular and profitable products in a short period of time through powerful inter-personal communication among internet users. The Group plans to rebrand orisun.com to reposition itself in preparation for the upcoming expansion.

The Group will proactively equip itself to meet the challenge presented by the new development blueprint. It will constantly remain alert to stay ahead of the ever changing media market in order to maintain its vigorous business growth. In a bid to strengthen the technical and business scope of "orisun.com", the Group is considering to seek suitable strategic partners for "orisun.com". The Group does not rule out the possibility of seeking a separate listing of "orisun.com" on the Hong Kong Stock Exchange or NASDAQ when opportunities arise to extend the Group's business objectives.

Our Oriental News Building in Kowloon Bay recorded satisfactory occupancies, with its occupancy rate reaching 50%. The Group is in negotiation with several potential tenants for the leasing of the remaining vacant units. It is believed that the building would bring in a stable rental income to the Group. However, the Group does not rule out the possibility of disposing of the building should the prosperous property market prevail.

The Group will make constant efforts to develop itself into a further diversified business portfolio by actively looking into other quality investments opportunities, ultimately creating greater returns to our shareholders.

FINANCIAL RESOURCES AND LIQUIDITY

The Group always maintains a strong liquidity. The working capital at 31 March 2006 amounted to HK\$1,229,000,000 (2005: HK\$1,142,000,000), which includes time deposits, bank balances and cash amounting to HK\$997,000,000 (2005: HK\$771,000,000).

At 31 March 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 3.1% (2005: 3.3%). The bank loan of HK\$73,000,000 is secured by a pledge of bank deposit of HK\$102,000,000.

During the year, the Group's capital expenditure was approximately HK\$97,000,000.

CONTINGENT LIABILITY

At 31 March 2006, the Group has no material contingent liability.

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2006, the Group employed 2,439 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.

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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.

CORPORATE GOVERNANCE

The Company has complied, throughout the financial year, with the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, except that independent non-executive directors of the Company were not appointed for a specific term, but are subject to retirement by rotation in accordance with the article of the Company's Articles of Association.

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. The Audit Committee had also reviewed the annual results of the Group for the year ended 31 March 2006 in conjunction with the Company's external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiries by the Company, all Directors have confirmed that they have achieved full compliance with the required standards as laid down in the Model Code for the year ended 31 March 2006.

PURCHASE, SALE OR 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

Ching-fat MA
Chairman

7 July 2006