

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2006

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Company and its subsidiaries’ (the “Group”) annual financial statements for the year ended 31 March 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the Group’s results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006

For the six months ended 30 September 2006

**4. REVENUE AND OTHER INCOME**

The Group is engaged in the publication of newspapers, books and magazines, the sales of advertising space in newspapers, books and magazines, the provision of printing and reprographic services, internet subscription, content provision and the sales of advertising space on websites. Revenue recognised during the period is as follows:

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Revenue		
Sales of newspapers	385,789	355,304
Sales of books and magazines	137,159	155,448
Newspapers advertising income	694,980	730,959
Books and magazines advertising income	288,660	322,267
Printing and reprographic service income	114,222	109,538
Internet subscription, content provision and advertising income	15,476	14,558
	<b>1,636,286</b>	1,688,074
Other income		
Sales of waste materials	9,960	9,400
Gains arising from changes in fair value of derivative financial instruments	–	453
Interest income on bank deposits	8,594	8,166
Rental income	796	810
Others	767	2,031
	<b>20,117</b>	20,860
Total	<b>1,656,403</b>	1,708,934

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**5. SEGMENTAL INFORMATION**

The Group's primary format for reporting segment information is business segments. The Group's major business segments and their corresponding regions of operations are summarised below:

<b>Business segments</b>	<b>Regions of operations</b>
Newspapers publication and printing	Hong Kong and Taiwan
Books and magazines publication	Hong Kong and Taiwan
Books and magazines printing	Hong Kong, North America, Europe and Australasia
Internet subscription, content provision and advertising	Hong Kong

All transactions between the different business segments are charged at market rates.

Six months ended 30 September 2006

	Newspapers publication and printing HK\$'000	Books and magazines publication HK\$'000	Books and magazines printing HK\$'000	Internet subscription, content provision and advertising HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	1,138,669	425,819	56,322	15,476	-	1,636,286
Inter-segment sales	-	-	85,426	-	(85,426)	-
	<b>1,138,669</b>	<b>425,819</b>	<b>141,748</b>	<b>15,476</b>	<b>(85,426)</b>	<b>1,636,286</b>
<b>RESULTS</b>						
Segment results	123,024	36,418	15,722	7,143	-	182,307
Other income						20,117
Finance costs						(3,845)
Profit before taxation						198,579
Income tax expense						(40,824)
Profit for the period						157,755

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**5. SEGMENTAL INFORMATION** – continued

Six months ended 30 September 2005

	Newspapers publication and printing HK\$'000	Books and magazines publication HK\$'000	Books and magazines printing HK\$'000	Internet subscription, content provision and advertising HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>						
External sales	1,128,315	477,715	67,486	14,558	–	1,688,074
Inter-segment sales	–	–	99,418	–	(99,418)	–
	1,128,315	477,715	166,904	14,558	(99,418)	1,688,074
<b>RESULTS</b>						
Segment results	126,314	100,127	24,595	5,874	–	256,910
Other income						20,860
Finance costs						(6,465)
Profit before taxation						271,305
Income tax expense						(47,078)
Profit for the period						224,227

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**5. SEGMENTAL INFORMATION** – continued**Secondary reporting format – geographical segments**

	<b>Six months ended 30 September 2006</b>		Six months ended 30 September 2005	
	<b>Revenue HK\$'000</b>	<b>Segment results HK\$'000</b>	Revenue HK\$'000	Segment results HK\$'000
Hong Kong	<b>908,468</b>	<b>131,813</b>	1,022,614	238,841
Taiwan	<b>683,713</b>	<b>33,284</b>	608,678	(5,110)
North America	<b>25,871</b>	<b>8,512</b>	37,452	14,009
Europe	<b>14,131</b>	<b>6,762</b>	13,845	6,494
Australasia	<b>3,713</b>	<b>1,802</b>	4,961	2,420
Others	<b>390</b>	<b>134</b>	524	256
	<b>1,636,286</b>	<b>182,307</b>	1,688,074	256,910
Other income		<b>20,117</b>		20,860
Finance costs		<b>(3,845)</b>		(6,465)
Profit before taxation		<b>198,579</b>		271,305

**6. FINANCE COSTS**

	Six months ended 30 September	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Interest expense on bank borrowings wholly repayable within five years	<b>3,845</b>	6,465

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**7. PROFIT BEFORE TAXATION**

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Cost of raw materials recognised as an expense	623,416	653,421
Impairment loss on accounts receivable	11,953	6,066
Operating lease expenses on:		
Properties	2,913	2,975
Plant and equipment	6,100	5,622
Depreciation of property, plant and equipment	68,340	72,956
Amortisation of prepaid lease payments (included in other expenses)	899	1,020
Impairment loss on prepaid lease payments	–	9,678
Loss on disposal of property, plant and equipment	393	153
Legal and professional fee	37,201	14,789

**8. INCOME TAX EXPENSE**

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	37,051	47,029
Other jurisdictions	649	–
Deferred tax:		
Current period	3,124	49
	<b>40,824</b>	<b>47,078</b>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

Taxation arising in other jurisdictions was calculated at the rates prevailing in the relevant jurisdictions.

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## 9. SHARE OPTIONS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	<b>14,691,600</b>
Granted during the period	<b>1,000,000</b>
Exercised during the period	<b>(185,600)</b>
Outstanding at the end of the period	<b>15,506,000</b>

In the current period, share options were granted on 26 June 2006 and the exercise price was HK\$4.2. The fair value of the options determined at the date of grant using the Binomial model was HK\$1.276.

The closing price of the Company's shares immediately before 26 June 2006, the date of grant of the options, was HK\$4.15.

The weighted average closing price of the Company's shares immediately before the date on which the options were exercised was HK\$4.3.

The following assumptions were used to calculate the fair value of share options:

	26 June 2006
Closing share price	HK\$4.2
Exercise price	HK\$4.2
Expected volatility	40% p.a.
Expected dividend yield	2% p.a.
Risk free rate	4.65%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on a valuation obtained from an independent valuer.

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**10. DIVIDENDS**

Final and 2% convertible non-voting, non-cumulative, preference share ("Preference shares") dividends paid:

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
<b>Ordinary shares:</b>		
Final dividend for 2005/06 – HK18.0 cents per share (2004/05: Nil)	268,529	–
<b>Preference shares:</b>		
Preference share dividend for 2005/06 – HK3.5 cents per share (2004/05: Nil)	32,200	–
	<b>300,729</b>	–

Interim, special and preference share dividends declared and proposed after the balance sheet date of the interim period:

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
<b>Ordinary shares:</b>		
Interim dividend for 2006/07 – HK4.0 cents per share (2005/06: HK5.0 cents)	96,473	74,295
Special dividend for 2006/07 – Nil (2005/06: HK25.0 cents)	–	371,476
<b>Preference shares:</b>		
Preference share dividend for 2006/07 – Nil (2005/06: HK1.75 cents)	–	16,100
	<b>96,473</b>	461,871

The amount of the interim dividend declared for the six months ended 30 September 2006, which will be payable in cash, has been calculated by reference to the 1,491,828,881 issued ordinary shares as at 30 September 2006 plus 920,000,000 ordinary shares deriving from the conversion of 920,000,000 Preference shares on 5 October 2006. The total number of issued ordinary shares as at the date hereof is 2,411,828,881.

The dividends declared and proposed after the balance sheet date have not been recognised as a liability at the balance sheet date.

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**11. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
<b>Earnings:</b>		
Earnings for the purposes of basic and diluted earnings per share	<b>157,755</b>	224,227
	<b>No. of shares</b>	No. of shares
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,486,568,787</b>	1,484,386,500
Share options	<b>3,243,356</b>	4,767,324
Convertible preference shares	<b>920,000,000</b>	920,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>2,409,812,143</b>	2,409,153,824

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**12. CAPITAL EXPENDITURE**

	Intangible assets HK\$'000	Property, plant and equipment HK\$'000
<b>COST OR VALUATION</b>		
At 1 April 2006	1,482,799	2,250,417
Currency realignment	–	(14,444)
Additions	–	126,858
Disposals	–	(7,884)
At 30 September 2006	1,482,799	2,354,947
<b>ACCUMULATED AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>		
At 1 April 2006	181,918	653,421
Currency realignment	–	(3,379)
Charge for the period	–	68,340
Eliminated on disposals	–	(6,176)
At 30 September 2006	181,918	712,206
<b>CARRYING VALUES</b>		
At 30 September 2006	1,300,881	1,642,741
At 31 March 2006	1,300,881	1,596,996

Notes:

- (a) Intangible assets represent the masthead and publishing rights of the Group.
- (b) The carrying amount of the Group's property, plant and equipment includes an amount of HK\$1,801,000 (At 31 March 2006: Nil) in respect of assets held under finance leases.

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**13. PREPAID LEASE PAYMENTS**

	HK\$'000
<b>COST</b>	
At 1 April 2006 and 30 September 2006	<b>76,259</b>
<b>AMORTISATION AND IMPAIRMENT LOSS</b>	
At 1 April 2006	<b>2,124</b>
Charge for the period	<b>899</b>
At 30 September 2006	<b>3,023</b>
<b>CARRYING VALUES</b>	
At 30 September 2006	<b>73,236</b>
At 31 March 2006	74,135

Leasehold land situated in Hong Kong is amortised on a straight line basis over the lease terms of 50 years.

Analysed as:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Non-current assets	<b>71,439</b>	72,338
Current assets	<b>1,797</b>	1,797
	<b>73,236</b>	74,135

**14. RESTRICTED BANK BALANCES**

The amount was restricted for the use of settling certain debts and claims as stipulated as part of a share capital reduction exercise carried out in the year ended 31 March 2003.

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**15. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS**

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Accounts receivable, net	<b>542,340</b>	501,421
Prepayments	<b>37,304</b>	49,497
Rental and other deposits	<b>20,752</b>	18,746
Others	<b>24,468</b>	22,960
	<b>624,864</b>	592,624

The Group's sales are made on credit terms of 7 to 120 days.

An analysis of the accounts receivable of the Group by age was as follows:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 – 1 month	<b>224,645</b>	233,545
1 – 3 months	<b>281,892</b>	228,108
Over 3 months	<b>35,803</b>	39,768
	<b>542,340</b>	501,421

**16. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Forward foreign exchange contracts	–	170

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**17. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Accounts payable	<b>129,732</b>	151,164
Accrued charges	<b>350,211</b>	299,767
	<b>479,943</b>	450,931

An analysis of the accounts payable of the Group by age was as follows:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
0 – 1 month	<b>103,056</b>	112,562
1 – 3 months	<b>16,782</b>	26,517
Over 3 months	<b>9,894</b>	12,085
	<b>129,732</b>	151,164

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**18. OBLIGATIONS UNDER FINANCE LEASES**

	Minimum lease payments		Present value of minimum lease payments	
	<b>30 September</b>	31 March	<b>30 September</b>	31 March
	<b>2006</b>	2006	<b>2006</b>	2006
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Amounts payable under finance leases:				
Within one year	<b>1,064</b>	–	<b>1,028</b>	–
In the second to fifth years inclusive	<b>1,189</b>	–	<b>1,063</b>	–
	<b>2,253</b>	–	<b>2,091</b>	–
Less: future finance charges	<b>(162)</b>	–	<b>–</b>	–
Present value of lease obligations	<b>2,091</b>	–	<b>2,091</b>	–
Less: Amount due for settlement within twelve months (shown under current liabilities)			<b>(1,028)</b>	–
Amount due for settlement after twelve months			<b>1,063</b>	–

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**19. BANK BORROWINGS**

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Secured bank loans (Note)	<b>217,374</b>	260,404

An analysis of the above is as follows:

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Secured bank loans repayable		
– within one year	<b>78,647</b>	79,570
– in the second year	<b>79,262</b>	80,165
– in the third year	<b>58,815</b>	80,787
– in the fourth year	<b>650</b>	19,882
	<b>217,374</b>	260,404
Less: Current portion	<b>(78,647)</b>	(79,570)
Non-current portion	<b>138,727</b>	180,834

Note:

At 30 September 2006, the Group's banking facilities were secured by the following:

- Certain of the Group's freehold land and buildings situated outside Hong Kong with an aggregate carrying value of approximately HK\$355.3 million (At 31 March 2006: HK\$362.9 million); and
- Certain of the Group's plant and machinery with an aggregate carrying value of approximately HK\$288.8 million (At 31 March 2006: HK\$306.3 million).

For the six months ended 30 September 2006

**20. SHARE CAPITAL**

	Authorised			
	Preference shares		Ordinary shares	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Preference shares of HK\$1.75 each and ordinary shares of HK\$1.00 each				
At 1 April 2005, 1 April 2006 and 30 September 2006	1,160,000,000	2,030,000	2,570,000,000	2,570,000
	Issued and fully paid			
	Preference shares		Ordinary shares	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1 April 2005	920,000,000	1,610,000	1,482,773,481	1,482,774
Exercise of share options	–	–	8,869,800	8,869
At 31 March 2006 and 1 April 2006	920,000,000	1,610,000	1,491,643,281	1,491,643
Exercise of share options	–	–	185,600	186
At 30 September 2006	920,000,000	1,610,000	1,491,828,881	1,491,829
			<b>30 September 2006 HK\$</b>	31 March 2006 HK\$
Total issued and fully paid share capital			<b>1,491,829</b>	1,491,643
Ordinary shares of HK\$1.00 each			<b>1,610,000</b>	1,610,000
Preference shares of HK\$1.75 each			<b>3,101,829</b>	3,101,643

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## 20. SHARE CAPITAL – continued

Preference shares of HK\$1.75 each were allotted to a shareholder of the Company in October 2001. The holder of the Preference shares shall have the right to convert the preference shares, exercisable during the period of five years from the date of the issue of the Preference shares, into fully paid ordinary shares of HK\$1.00 each. On the day following the last day on which the conversion rights may be exercised any Preference shares then outstanding shall automatically be redesignated as Preference shares of HK\$1.75 each without any requirement to alter or substitute the existing certificates in respect of the Preference shares.

Subsequent to the balance sheet date, all Preference shares were converted into ordinary shares as detailed in note 22(a).

## 21. CONTINGENCIES AND COMMITMENTS

### Contingent liabilities

As at 30 September 2006, the Group had contingent liabilities in respect of a number of legal proceedings in Hong Kong and Taiwan arising in the normal course of its publishing business. In addition, the Group had a dispute with UDL Contracting Limited (“UDL”) as contractor for the construction of a printing facility of a subsidiary of the Company, Apple Daily Printing Limited, over amounts payable in respect of the construction of the facility, which is currently under arbitration.

The information required by HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” is not disclosed on the ground that the outcome of the case are of uncertainties. The Directors are of the opinion that the claims can be successfully defended by the Company.

### Guarantees received

In connection with the acquisition of Database Gateway Limited (“DGL”) and its subsidiaries on 26 October 2001, Mr. Lai Chee Ying, Jimmy (“Mr. Lai”), Chairman and a major shareholder of the Company, has undertaken to provide unlimited personal indemnities to the Company and DGL and its subsidiaries (the “Acquired Group”) against all payments, claims, suits, damages and settlement payments and any associated costs and expenses arising, made or incurred after 26 October 2001 arising out of or connected with (1) any third party claims made against the Acquired Group on and before 26 October 2001, (2) defamation claims, claims for infringement of intellectual property rights and other proceedings and claims which may in the future arise from the content of the newspaper and magazines published by the Acquired Group on and at any time before 26 October 2001 and (3) the Contractor Dispute with UDL (the “Indemnity”). In relation to the Indemnity, Mr. Lai also procured a bank guarantee of HK\$60,000,000 for a term of three years from 26 October 2001 and renewed on 25 October 2004 for another three years in favour of the Company and the Acquired Group in respect of his obligations under the Indemnity.

The Directors of the Company, having taken into consideration advice from the Group's legal counsels and the Indemnity given by Mr. Lai, are of the opinion that any ultimate liability under these proceedings would not have a material impact on the financial position of the Group.

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**21. CONTINGENCIES AND COMMITMENTS – continued****Commitments**

(a) Capital commitments in respect of the acquisition of property, plant and equipment

	<b>30 September 2006 HK\$'000</b>	31 March 2006 HK\$'000
Authorised but not contracted for	<b>100</b>	140
Contracted but not provided for	<b>8,135</b>	91,791
	<b>8,235</b>	91,931

(b) Commitments under operating leases

At 30 September 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>30 September 2006</b>			31 March 2006		
	<b>Properties HK\$'000</b>	<b>Plant and equipment HK\$'000</b>	<b>Total HK\$'000</b>	Properties HK\$'000	Plant and equipment HK\$'000	Total HK\$'000
Not later than one year	<b>3,961</b>	<b>7,211</b>	<b>11,172</b>	4,494	9,631	14,125
Later than one year but not later than five years	<b>730</b>	<b>5,052</b>	<b>5,782</b>	2,039	7,354	9,393
	<b>4,691</b>	<b>12,263</b>	<b>16,954</b>	6,533	16,985	23,518

Leases are negotiated for an average term of 2 years and rentals are fixed during lease period.

**22. SUBSEQUENT EVENTS**

- (a) On 5 October 2006, Mr. Lai, the Chairman of the Company, converted 920,000,000 Preference shares into 920,000,000 ordinary shares at the conversion price of HK\$1.75 each. As a result of the conversion, the total number of issued ordinary shares has been increased to 2,411,828,881 and Mr. Lai's shareholding in the Company has been increased from approximately 57.86% of the issued ordinary share capital of the Company immediately before the conversion to approximately 73.93% of the issued ordinary share capital of the Company as enlarged by the conversion.
- (b) On 9 October 2006, the Group arranged a syndication loan of HK\$240.0 million, to which property and printing equipment with a carrying value as at 30 September 2006 of HK\$362.2 million were pledged. The purpose of the loan is to cater future development of the Group.