

NOTES TO CONDENSED INTERIM FINANCIAL ACCOUNTS

1 Accounting policies

The Interim Accounts are prepared in accordance with SSAP No. 25, "Interim Financial Reporting" (as applicable to condensed interim accounts), and Appendix 16 of the Listing Rules.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended 31 March 2001 except for those changes as a result of adoption of the following SSAPs in preparing the Group's accounts for the six months ended 30 September 2001:

SSAP 14 (revised)	:	Leases
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets

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There are no changes in accounting policies that affect the Group's accounts resulting from the adoption of SSAPs 14 (revised), 26 and 28.

The major changes to the Group's accounting policies and their effect on the Group's accounts resulting from the adoption of SSAPs 29, 30 and 31 are summarised in note 2 below. These changes in accounting policies have been applied retrospectively and the comparatives presented have been restated to conform with the changes in these accounting policies.

2 Changes in accounting policies

(i) Goodwill

Under SSAP 31 and Interpretation No. 13, "Goodwill-continuing requirements for goodwill and negative goodwill previously eliminated against/ credited to reserves", the carrying amount of goodwill (including goodwill that has previously been taken directly to reserves and not restated in accordance with the transitional provisions in SSAP 30) has to be reviewed if there is an indication of impairment, and any impairment has to be dealt with in the consolidated profit and loss account.

As of 30 September 2001, the total amount of goodwill, arising from previous acquisitions of businesses and charged to reserves under the Group's previous accounting policy, was HK\$725.7 million. The directors consider that HK\$710.1 million of such goodwill has been impaired and accordingly adjustment has been made in the consolidated profit and loss account for the respective periods in which the impairment is considered to have occurred. The accumulated losses as at 1 April 2000 and 2001, as a result of these restatements, have increased by approximately HK\$227.9 million and HK\$710.1 million respectively representing the amount of impairment which occurred prior to these dates.

These restatements do not have any effect on the profit and loss account for the six months ended 30 September 2001 or on the comparative figures for the six months ended 30 September 2000. The impairment loss of HK\$482.2 million for the year ended 31 March 2001 is considered not to have been incurred within the six months period ended 30 September 2000.

(ii) *Intangible assets*

In the prior years, the Group's intangible assets representing the mastheads of certain of the Group's magazines were stated at valuation without amortisation. Under SSAP 29, mastheads are required to be amortised over their estimated useful lives. In this regard, the directors are of the opinion that the useful lives of the mastheads would be 20 years from the date of acquisition.

The effect of this change in accounting policy is to include an amortisation charge of mastheads of HK\$5.25 million in the consolidated profit and loss account for the six months ended 30 September 2001 (six months ended 30 September 2000: HK\$5.25 million) and a decrease of the corresponding balance of the mastheads as at 30 September 2001 by HK\$20.5 million (31 March 2001: HK\$15.2 million). The Group's accumulated losses as at 1 April 2000 and 2001, as a result, have increased by approximately HK\$4.7 million and HK\$15.2 million respectively, representing the cumulative effect of this change in accounting policy.

(iii) *Overall Financial impact*

The overall financial impact of these changes is summarized as follows :

- a. Increase the loss for the six months ended 30 September 2000 by HK\$5.25 million, from HK\$43.4 million to HK\$48.7 million;
- b. Increase the accumulated losses at 1 April 2000 and 2001 by HK\$232.6 million and HK\$725.3 million respectively from HK\$221.4 million and HK\$367.2 million to HK\$454.0 million and HK\$1,092.5 million;
- c. Reduce the carrying value of the intangible assets - mastheads at 31 March 2001 by HK\$15.2 million from HK\$210 million to HK\$194.8 million; and
- d. Reduce of goodwill reserve at 1 April 2000 and 2001 by HK\$227.9 million and HK\$710.1 million respectively from HK\$273.5 million and HK\$725.6 million to HK\$45.6 million and HK\$15.5 million.

3 Principal activities & geographical analysis of operations

The Group is principally engaged in the provision of printing and reprographic services, the publication of books and magazines, the delivery of internet content and the sale of advertising space in books and magazines and on websites.

An analysis of the Group's turnover and operating profit/(loss) for the six months ended 30 September 2001 by principal activity and market is as follows:

	Turnover		Operating profit/(loss)	
	6 months ended		6 months ended	
	30 September		30 September	
	<i>(As restated - see note 2)</i>			
	2001	2000	2001	2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
By principal activity:				
Printing and reprographic services	90,624,179	107,916,718	7,500,495	23,310,102
Books and magazines publishing and advertising	123,695,618	79,497,836	(51,146,038)	23,992,598
Internet content provision and advertising	3,881,389	3,806,976	(22,580,430)	(70,278,539)
	<u>218,201,186</u>	<u>191,221,530</u>	<u>(66,225,973)</u>	<u>(22,975,839)</u>
By principal market:				
Hong Kong	134,376,192	146,731,908	(4,247,387)	(29,916,356)
Taiwan	47,252,513	-	(67,989,147)	-
North America	20,424,944	16,991,012	3,687,670	3,177,727
Europe	9,850,405	10,694,043	1,411,799	1,723,397
Australasia	6,297,132	16,804,567	911,092	2,039,393
	<u>218,201,186</u>	<u>191,221,530</u>	<u>(66,225,973)</u>	<u>(22,975,839)</u>

4 Operating loss

Operating loss is stated after charging the following:

	6 months ended	
	30 September	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Depreciation:		
Assets owned by the Group	17,161,435	14,116,463
Assets held under finance lease	-	248,353
Cost of materials consumed in production	78,293,791	49,595,320
Provision for bad and doubtful debts	1,817,652	1,517,544
Operating lease expenses on:		
Properties	3,615,932	-
Other assets	1,996,257	4,915,419
	<u>102,885,067</u>	<u>60,807,099</u>

5 Taxation

The amount of taxation charged to the consolidated profit and loss account comprises:

	6 months ended	
	30 September	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong profits tax	3,000,626	3,742,000
Overseas profits tax	589,785	81,767
Deferred taxation	–	88,310
	<u>3,590,411</u>	<u>3,912,077</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits of certain group companies for the period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

6 Basic loss per consolidated share

The calculation of basic loss per consolidated share is based on the Group's loss for the period of HK\$74,079,359 (Restated 2000: HK\$48,688,817) and 647,638,762 shares (2000: weighted average of 589,271,518 shares). The number of shares in issue during the relevant period applied in the above calculation has been restated to take into consideration the share consolidation as set out in note 15(a).

No diluted loss per share has been presented as the exercise of the share options would be anti-dilutive.

7 Accounts receivable, deposits and prepayments

	30 September	31 March
	2001	2001
	<i>HK\$</i>	<i>HK\$</i>
Accounts receivable, net	63,669,268	43,404,064
Prepayments	11,540,239	10,575,380
Rental and other deposits	3,171,250	2,387,009
Others	4,454,257	3,748,906
	<u>82,835,014</u>	<u>60,115,359</u>

The Group's sales are made on credit terms as follows:

Magazine newsstand sales	7 – 60 days
Magazine advertising sales	60 – 120 days
Internet advertising sales and content licensing	90 days
Printing and reprographic services	30 – 120 days

At 30 September, 2001, the aging analysis of the accounts receivable of the Group was as follows:

	30 September 2001 HK\$	31 March 2001 HK\$
0 – 1 month	27,189,793	13,255,540
1 – 3 months	33,238,733	16,347,722
Over 3 months	<u>17,124,882</u>	<u>26,277,180</u>
	77,553,408	55,880,442
Less: Provision for bad and doubtful debts	<u>(13,884,140)</u>	<u>(12,476,378)</u>
	<u><u>63,669,268</u></u>	<u><u>43,404,064</u></u>

8 Accounts payable and accrued charges

	30 September 2001 HK\$	31 March 2001 HK\$
Accounts payable	28,543,480	24,085,273
Others	<u>48,126,406</u>	<u>37,675,557</u>
	<u><u>76,669,886</u></u>	<u><u>61,760,830</u></u>

At 30 September 2001, the aging analysis of the accounts payable of the Group was as follows:

	30 September 2001 HK\$	31 March 2001 HK\$
0 – 1 month	12,909,837	9,671,651
1 – 3 months	10,885,241	7,909,573
Over 3 months	<u>4,748,402</u>	<u>6,504,049</u>
	<u><u>28,543,480</u></u>	<u><u>24,085,273</u></u>

9 Long-term liabilities

	30 September 2001 HK\$	31 March 2001 HK\$
Loans:		
Secured (<i>note a</i>)	96,720,000	108,440,000
Unsecured	217,571,248	219,904,759
	314,291,248	328,344,759
Finance lease obligations	–	973,017
	314,291,248	329,317,776
Current portion of long-term liabilities	(21,510,428)	(27,936,956)
	292,780,820	301,380,820

(a) As at 30 September 2001, the Group's secured bank loans and overdrafts are secured by the following:

- a charge over the Group's land and buildings with an aggregate net book value of approximately HK\$189.6 million;
- charges over the Group's printing machinery with an aggregate net book value of approximately HK\$76.8 million;
- a charge over the Group's accounts receivable with an aggregate net book value of approximately HK\$30.2 million; and
- a corporate guarantee to the extent of approximately HK\$94.2 million given by Next Holdings, a related company, which is beneficially owned by Mr. Lai. Next Holdings has become a subsidiary of the Company by end of October 2001 following completion of the acquisition of the DGL Group.

The analysis of the long-term liabilities is as follows:

	30 September 2001 HK\$	31 March 2001 HK\$
Bank loan repayable:		
– within one year	21,510,428	26,963,939
– in the second year	17,200,000	17,200,000
– in the third to fifth year	59,800,000	68,400,000
	98,510,428	112,563,939
Shareholder's loans	215,780,820	215,780,820
Finance lease obligations repayable		
– within one year	–	973,017
	314,291,248	329,317,776
Less: Current portion	(21,510,428)	(27,936,956)
Amounts due after one year	292,780,820	301,380,820

10 Share capital

	Authorised	
	Ordinary shares of HK\$0.20 each	
	<i>No. of shares</i>	<i>HK\$</i>
At 1 April and 30 September 2001	4,500,000,000	900,000,000
	3,238,193,810	647,638,762

11 Reserves

	Share premium	Property revaluation reserve	Translation reserve	Goodwill reserve	Accumulated losses	Total
Note	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
1 April 2000 as previously stated	203,438,410	251,460	(276,447)	(273,476,336)	(221,410,792)	(291,473,705)
Impairment of goodwill resulting from the adoption of SSAP 31	2(i)	-	-	227,920,252	(227,920,252)	-
Amortisation of intangible assets resulting from the adoption of SSAP 29	2(ii)	-	-	-	(4,689,041)	(4,689,041)
1 April 2000, as restated	203,438,410	251,460	(276,447)	(45,556,084)	(454,020,085)	(296,162,746)
Issuing expenses	(3,317,674)	-	-	-	-	(3,317,674)
Conversion of convertible notes	58,333,333	-	-	-	-	58,333,333
Exercise of share option	1,487,102	-	-	-	-	1,487,102
Premium on issue of shares	427,536,231	-	-	-	-	427,536,231
Currency realignments	-	-	(150,614)	-	-	(150,614)
Goodwill arising from acquisition of a subsidiary	-	-	-	(482,159,967)	-	(482,159,967)
Goodwill written off upon termination of investment in Igloo Finance Limited	-	-	-	29,997,126	-	29,997,126
Impairment of goodwill resulting from adoption of SSAP 31	2(i)	-	-	482,159,967	-	482,159,967
Loss for the year (as restated-see (a) below)	-	-	-	-	(638,458,255)	(638,458,255)
At 31 March 2001	<u>687,477,402</u>	<u>251,460</u>	<u>(427,061)</u>	<u>(15,558,958)</u>	<u>(1,092,478,340)</u>	<u>(420,735,497)</u>
Company and subsidiaries	687,477,402	251,460	(427,061)	(15,558,958)	(1,085,720,746)	(413,977,903)
Associated companies	-	-	-	-	(6,757,594)	(6,757,594)
At 31 March 2001	<u>687,477,402</u>	<u>251,460</u>	<u>(427,061)</u>	<u>(15,558,958)</u>	<u>(1,092,478,340)</u>	<u>(420,735,497)</u>
1 April 2001 as previously stated	687,477,402	251,460	(427,061)	(725,639,177)	(367,209,080)	(405,546,456)
Impairment of goodwill resulting from the adoption of SSAP 31	2(i)	-	-	710,080,219	(710,080,219)	-
Amortisation of intangible assets resulting from the adoption of SSAP 29	2(ii)	-	-	-	(15,189,041)	(15,189,041)
1 April 2001, as restated	687,477,402	251,460	(427,061)	(15,558,958)	(1,092,478,340)	(420,735,497)
Currency realignments	-	-	(93,548)	-	-	(93,548)
Loss for the period	-	-	-	-	(74,079,359)	(74,079,359)
At 30 September 2001	<u>687,477,402</u>	<u>251,460</u>	<u>(520,609)</u>	<u>(15,558,958)</u>	<u>(1,166,557,699)</u>	<u>(494,908,404)</u>
Company and subsidiaries	687,477,402	251,460	(520,609)	(15,558,958)	(1,159,800,105)	(488,150,810)
Associated companies	-	-	-	-	(6,757,594)	(6,757,594)
At 30 September 2001	<u>687,477,402</u>	<u>251,460</u>	<u>(520,609)</u>	<u>(15,558,958)</u>	<u>(1,166,557,699)</u>	<u>(494,908,404)</u>

- (a) The loss for the year ended 31 March 2001 has been adjusted by HK\$482.2 million, representing the goodwill impairment as referred to in note 2(i), and HK\$10.5 million, representing the amortisation of mastheads for the year as referred in note 2(ii).

12 Contingent liabilities

At 30 September 2001, the Group was involved in litigation proceedings in Hong Kong and Taiwan arising in the normal course of its publishing business. Although the final outcome of these proceedings is uncertain, the Directors of the Company are of the opinion that the ultimate liability, if any, under these proceedings would not have a material impact on the financial position of the Group.

13 Commitment

(a) *Capital commitments for property, plant and machinery*

	30 September 2001 HK\$	31 March 2001 HK\$
Contracted but not provided for	<u>1,824,161</u>	<u>2,747,598</u>

(b) *Commitments under operating leases*

At 30 September 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Other assets	
	30 September 2001 HK\$	31 March 2001 HK\$	30 September 2001 HK\$	31 March 2001 HK\$
		<i>(As restated- see note 2)</i>		<i>(As restated- see note 2)</i>
Within one year	7,957,070	7,237,185	1,699,815	3,349,379
In the second and fifth years inclusive	3,033,126	5,676,205	297,186	311,993
	<u>10,990,196</u>	<u>12,913,390</u>	<u>1,997,001</u>	<u>3,661,372</u>

14 Related party transactions

During the period, the Group had the following material transactions with related parties:

Nature and terms of transactions	Revenue/ (Expenses or payments) 6 months ended 30 September	
	2001 HK\$	2000 HK\$
(a) Transactions with Mr. Lai		
Interest on shareholder's loan payable by the Company calculated at interest rate of prime rate minus 1% per annum	-	(7,682,192)

Nature and terms of transactions	Revenue/ (Expenses or payments) 6 months ended 30 September	
	2001 HK\$	2000 HK\$
(b) Transactions with Next International and its subsidiaries:		
Interest on convertible notes payable by the Company calculated at HIBOR+2% per annum	–	(882,308)
Printing income at market rate	37,034,429	44,119,917
Colour separation charge paid at market rate	(1,063,737)	(1,772,046)
Advertising expenses paid at market rate	–	(1,044,955)
(c) Transactions with Apple Daily Limited and its subsidiaries:		
Printing income at market rate	1,160,829	1,634,965
Advertising expense paid at market rate	(374,290)	(11,255,641)
Sales of fixed assets at market value	258,153	–

Next International and Apple Daily Limited were companies controlled and beneficially owned by Mr. Lai who is a director and the Chairman of the Company.

Next Holdings, a wholly owned subsidiary of Next International, has given corporate guarantee for the Group's banking facilities, see note 9(a)

The parties set out above are also connected persons in accordance with Chapter 14 of the Listing Rules.

By end of October 2001, Next International and Apple Daily Limited have become wholly owned subsidiaries of the Company following the completion of the acquisition of DGL, their holding company, by the Company. The details of this acquisition are set out in note 15(c) below.

15 Subsequent events

- (a) By an ordinary resolution passed on 22 October 2001, every five shares of HK\$0.20 each of the Company were consolidated into one share of HK\$1.00 ("Consolidated Share").
- (b) By an ordinary resolution passed on 22 October 2001, the authorised share capital of the Company was increased from HK\$900,000,000 to HK\$4,600,000,000 by the creation of 1,670,000,000 Consolidated Shares of HK\$1.00 each and 1,160,000,000 preference shares of HK\$1.75 each.
- (c) On 26 October 2001, the Group acquired the entire issued share capital of DGL from Mr. Lai and other persons for a consideration of HK\$2,620,000,000. Details of this acquisition are set out in the circular issued by the Company on 28 September 2001.