

# Operational Review

*Next Magazine* marked history for the publishing industry when it was launched in Hong Kong in March 1990. Followed by *Apple Daily*, the first full-coloured newspaper in Hong Kong, that changed the entire Chinese-language print media industry when it was launched in the market in June 1995. Today, Next Media Limited (the “Company” or “Next Media”) and its subsidiaries (the “Group”), after its acquisition of the above two prominent publications in October 2001, has become the most established and most influential Chinese print media group in Hong Kong.

To a certain extent, Next Media has become a symbol, or even an icon, in Hong Kong. It is not merely a media company, but instead, it is an authoritative figure that created and shaped today’s Hong Kong print media market. Next Media celebrates and honors freedom of speech and freedom of the press with readers as its utmost priority. It is also willing to sacrifice short-term profit for truth and objectivity. Below is the Group’s attempt to explain the truths about its business philosophies and work ethics to offer total transparency to its readers and shareholders.

## Publishing Business

2001 may not have been the best year, but for Next Media, its numbers can verify how momentous and striking the year has been.

In October 2001, Next Media's acquisition of the entire issued share capital of Database Gateway Limited ("DGL") (the "Acquisition") was completed and immediately it contributed to improving the Group's business portfolio as well as strengthening its sound financial position. Today, the Group's publishing business and the printing business for newspaper and magazines in Hong Kong contributed immensely to its overall impressive performance during the year under review. Finally, Next Media has come together to leverage and complement on the strengths and resources of each division, so as to witness how its publications can continue to lead the market, surpass its expected target and satisfy different demographics and tastes.

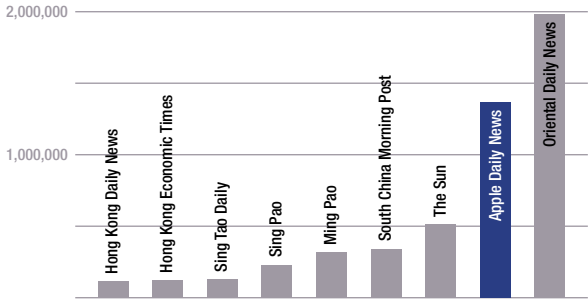
First, it reshaped the Chinese-language print media industry in Hong Kong by redefining industry formats and standards. Next, it secured a market leadership in Hong Kong and created an impact on the behaviours and expectations of the readers.

The Chinese-language print media did not play too influential a role in Hong Kong during the earlier days, until the launch of *Next Magazine* in 1990 and *Apple Daily* in 1995, did all that began to change.

With four of the market's most popular weekly magazines and the second most widely read newspaper, the Group's publishing business has always been the biggest revenue generator. Such enviable performance is the result of the synergetic effect of the Acquisition that led to an immediate turnaround and its clear and focused corporate philosophy and business strategies.



Top Nine Newspapers' Readership in Hong Kong for the period from October 2001 to March 2002



Source : 2002 March ACNielsen Hong Kong Media Index RARD Report



The Hong Kong economy is expected to witness the beginning of a recovery in 2002, and since advertising revenue is highly correlated to the economy, Next Media is optimistic that it will accomplish even more impressive results in the coming future. As the leader in Chinese-language magazines and a strong No. 2 amongst all newspapers in Hong Kong, it is the Group's unique yet truthful and daring content and immense popularity with readers and advertisers that successfully set it apart and ahead of others.

The largest Chinese-language print media group, and undeniably one of the most controversial, aims to be the most successful and the most profitable while abiding to its principle of delivering the truth and daring to reveal and report news and happenings that touch upon people's lives.

In Hong Kong, the Group publishes one newspaper, *Apple Daily*, and four magazines, including *Next Magazine*, *Easy Finder* and *Sudden Weekly* that is bundled with *Eat & Travel Weekly*.

For the five months since the Acquisition, *Apple Daily* accounted for approximately 48.5% or HK\$543.70 million of total sales for the Group. The segment results for newspaper publication is approximately HK\$104.06 million. Turnover for magazine publication amounted to approximately HK\$414.85 million as compared to approximately HK\$157.54 million of last year. Such increase in turnover is attributable by the five months results of the three magazines acquired from the Acquisition and the turnover of *Taiwan Next Magazine*. Segment results for magazine publication is at a loss of approximately HK\$98.53 million for year ended 31 March 2002 as compared to a profit of approximately HK\$29.27 million for year ended 31 March 2001 primarily due to the loss of *Taiwan Next Magazine* of approximately HK\$114.79 million and the amortisation of masthead of approximately HK\$16.37 million. The results of the Group's magazine publishing business was worsened due to the downturn of economy and set back of advertising revenue following the '911' incident in the U.S.

## Apple Daily

Since its launch in June 1995, *Apple Daily* has successfully become the second most popular local newspaper within a year and eventually an essentiality amongst business executives. As evidenced by the latest Asia Business Readership Survey 2001 report, its readership of affluent business executives rose from 43.0% in 1999 to 49.0% in 2001, indicating that *Apple Daily* has successfully become the most popular newspaper amongst the elites of Hong Kong's population. Moreover, *Apple Daily* has become an essentiality amongst an extensive range of readers, including young professionals, college students as well as housewives. For the six months ended 31 December 2001, *Apple Daily* was audited by the Hong Kong Audit Bureau of Circulation ("HKABC") and recorded an average daily circulation of 361,134 copies.

According to statistics from the 2002 March ACNielsen Hong Kong Media Index RARD Report ("ACNielsen RARD Report"), *Apple Daily* is gradually appealing more and more to readers with higher education and earning power. 46% of *Apple Daily* readers are between the ages of 25 and 44 and an overwhelming

60% of the readers have completed secondary and post secondary education. All in all, it is not at all an exaggeration to claim that *Apple Daily* appeals to the broadest range of readers, despite different age and education background.

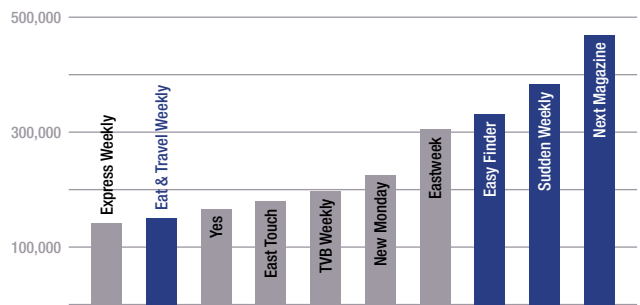
*Apple Daily* has also accomplished the first of many in numerous aspects. Never has there been a newspaper that could break even within its second year of operations. Never has there been a full coloured newspaper and such well-designed layout.

## Next Magazine

The Group's publications also continued to maintain its leadership roles during the year under review. *Next Magazine*, No.1 by readership in the all weekly magazine market as evidenced by the ACNielsen RARD Report, recorded encouraging results for the year under review. According to HKABC, it recorded 144,108 copies in average weekly circulation for the six months ended 31 December 2001. It is also worthy to note that the average monthly household income is higher for readers of *Next Magazine* than the other four publications in the top five weekly magazine readership, with 62% of its readers earning a monthly household income of HK\$20,000 or more.

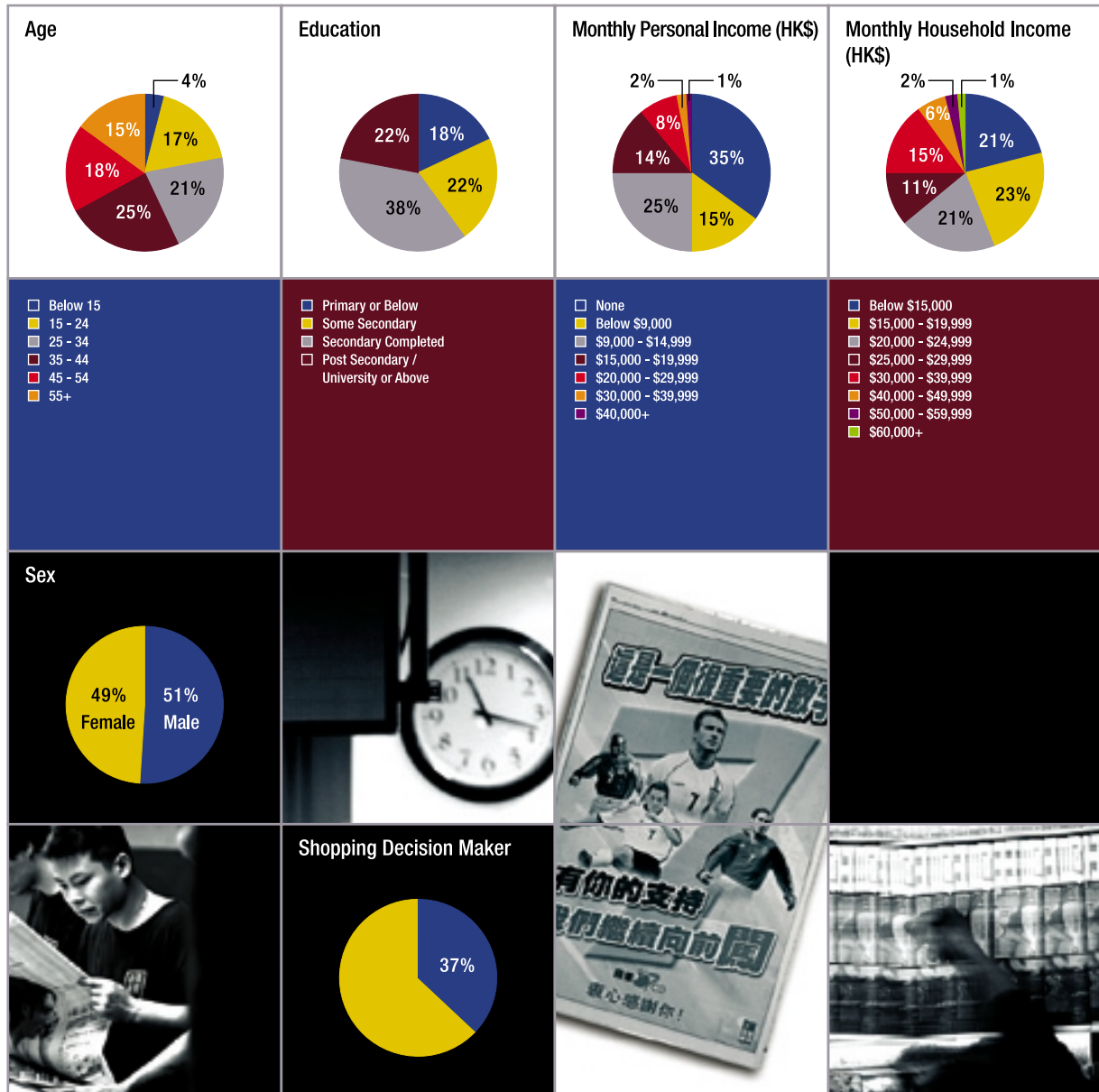


Top Ten Weekly Magazines' Readership in Hong Kong for the period from October 2001 to March 2002



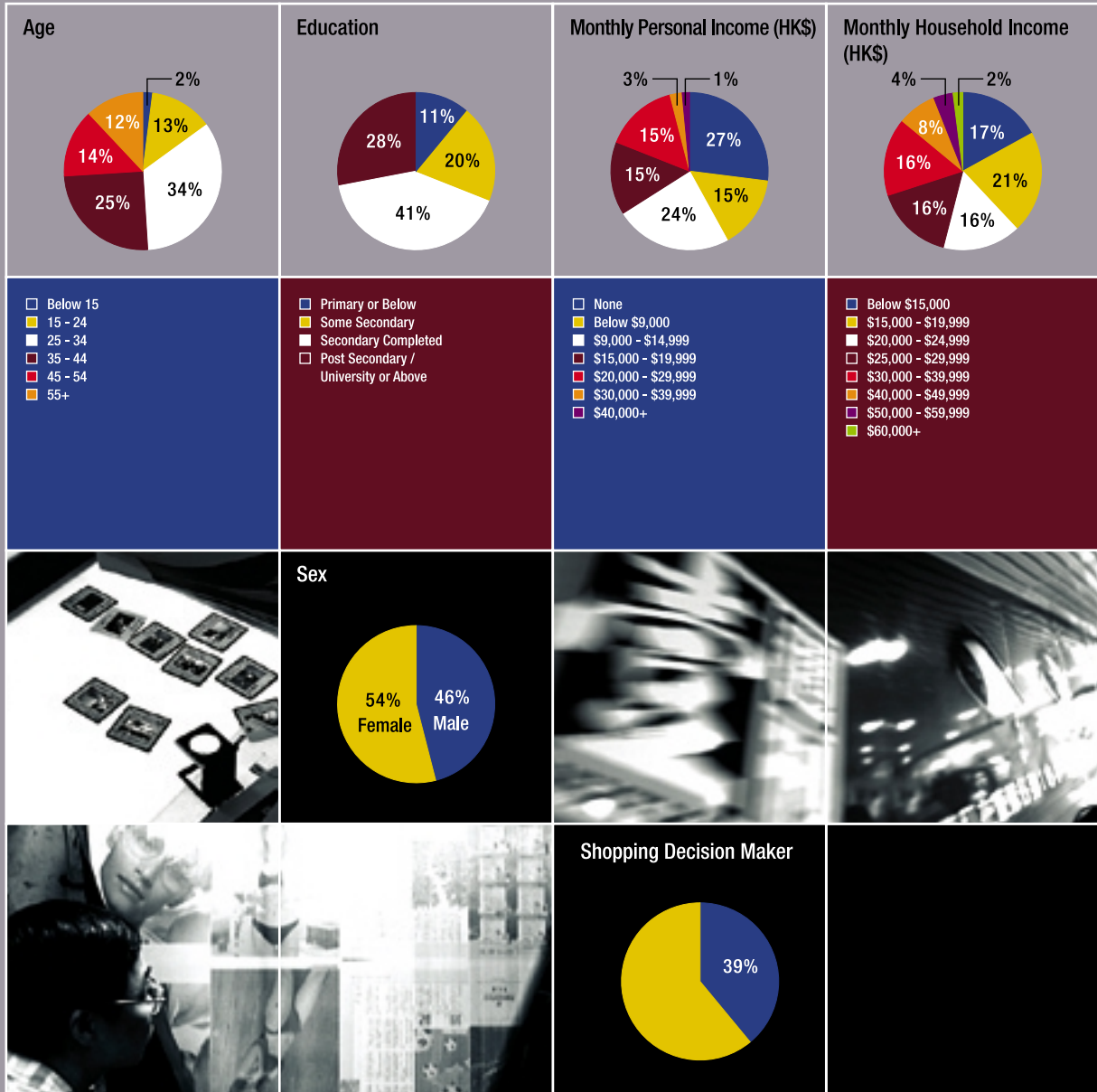
Source : 2002 March ACNielsen Hong Kong Media Index RARD Report

# Readership Profile of *Apple Daily*



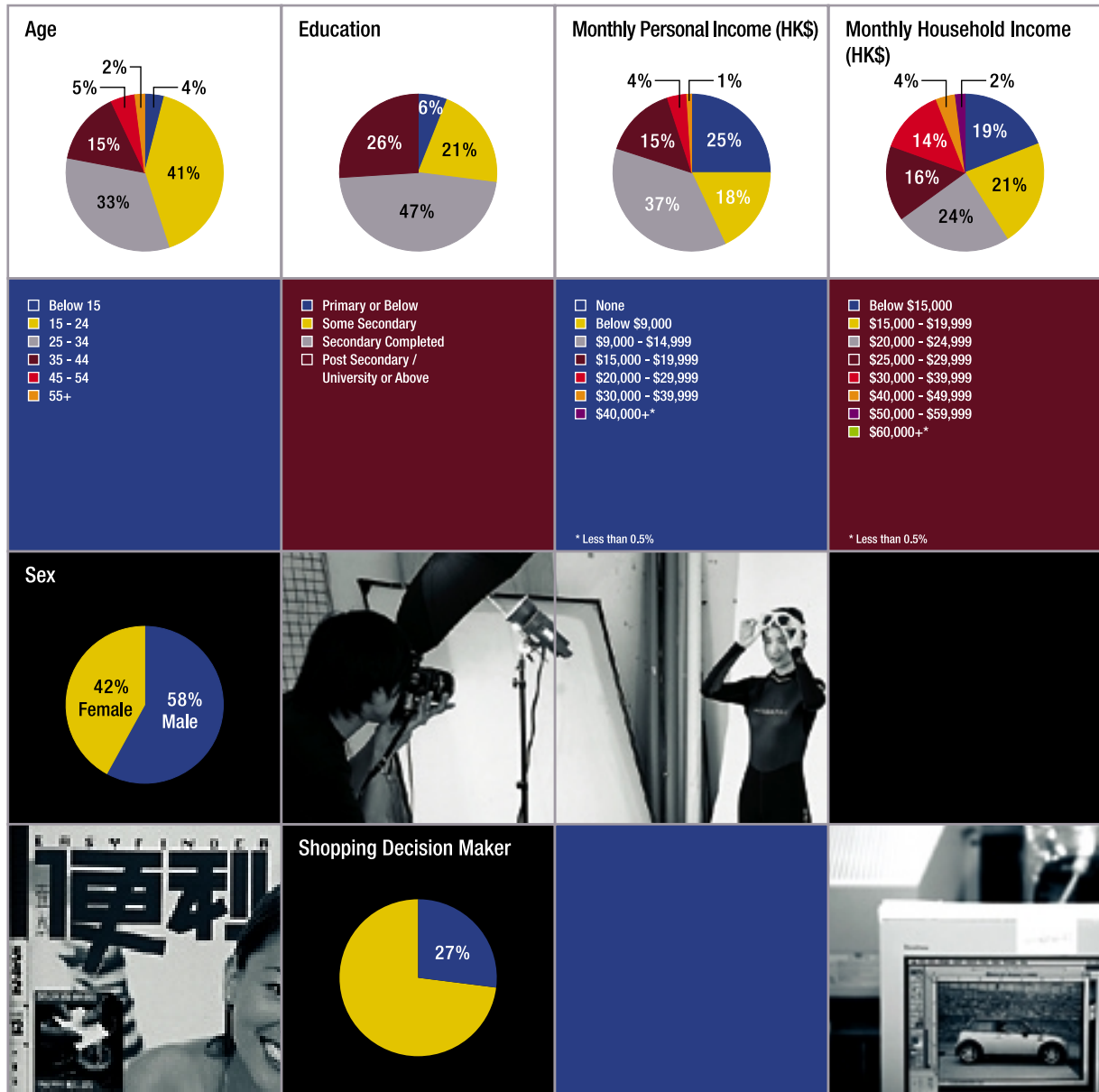
Source : 2002 March ACNielsen Hong Kong Media Index RARD Report

# Readership Profile of *Next Magazine*



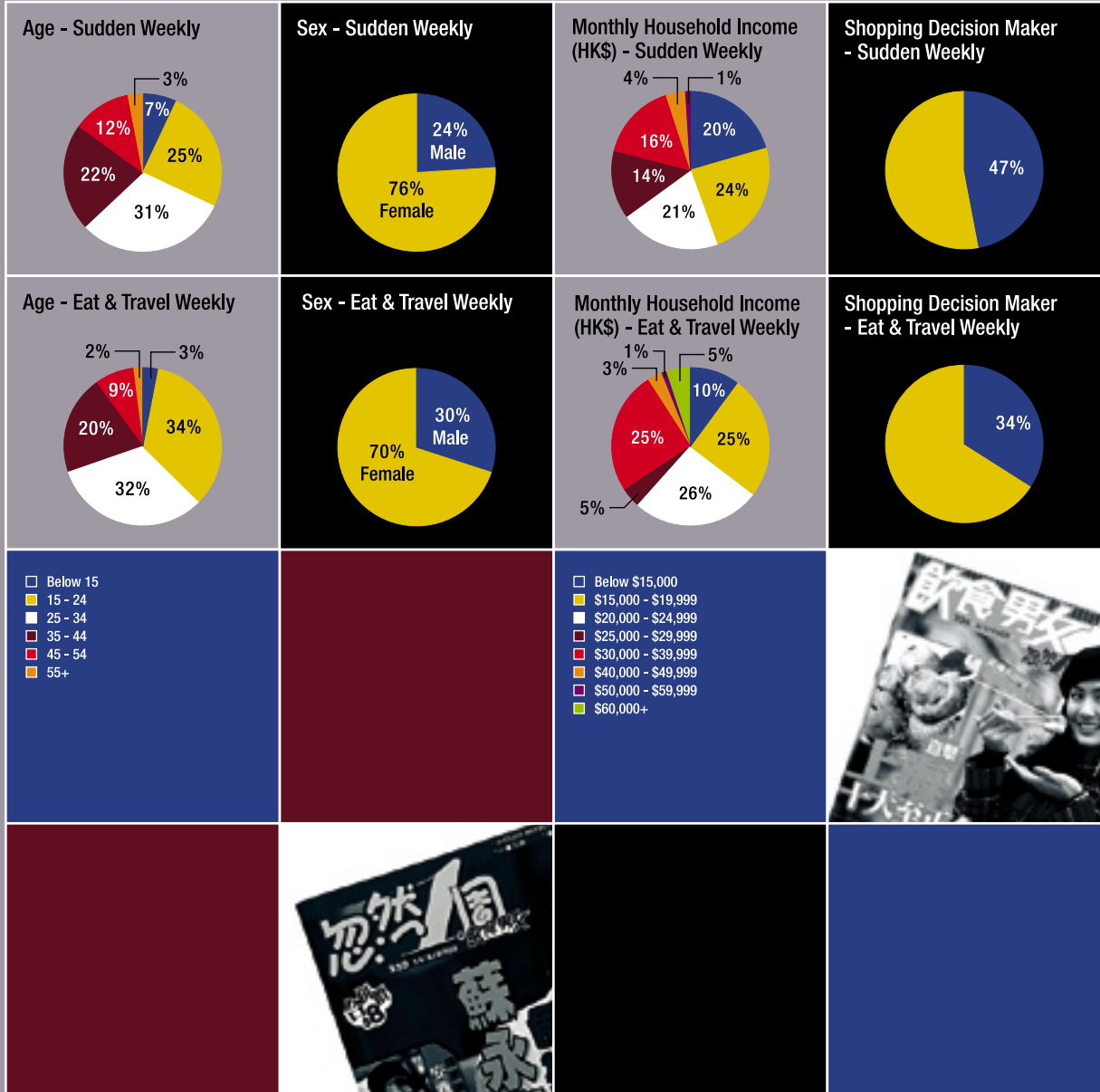
Source : 2002 March ACNielsen Hong Kong Media Index RARD Report

# Readership Profile of *Easy Finder*



Source : 2002 March ACNielsen Hong Kong Media Index RARD Report

# Readership Profile of *Sudden Weekly* and *Eat & Travel Weekly*



Source : 2002 March ACNielsen Hong Kong Media Index BARD Report



## Easy Finder

*Easy Finder*, a weekly magazine targeting those who stay abreast of latest fashionable trends, continued to attract mostly readers between the ages of 15 and 34. *Easy Finder* is currently ranked third in terms of weekly magazine readership in Hong Kong according to ACNielsen RARD Report and its average weekly circulation for the six months ended 31 December 2001 is 101,714 copies. The readers of *Easy Finder* are slightly younger, as 74% of them are between the ages of 15 and 34 and 73% have completed secondary education or above.

## Sudden Weekly and Eat & Travel Weekly

*Sudden Weekly* and *Eat & Travel Weekly* recorded an average weekly circulation of 126,377 copies and 48,062 copies respectively for the six months ended 31 December 2001. *Sudden Weekly* is ranked second in readership according to ACNielsen RARD Report. The two publications merged on 4 January 2002, and the Group slashed the price to HK\$8 for the bundle. The cut in price was a strategy to capture market share and to increase readership, advertising revenue and long-term profitability. 56% of *Sudden Weekly* readers and 66% of *Eat & Travel Weekly* readers are between the ages of 15 and 34. It is worthy to note that 25% of *Eat & Travel Weekly* readers earn a monthly household income of HK\$30,000 to HK\$39,999, which represents the highest percentage amongst all Next Media's magazines for this income bracket.

To capture the young executives and senior management, Next Media has done so with its *Apple Daily*. For the young, trendy and fashionable, it has *Easy Finder*. Those who want leisure and lifestyle have already become loyal patrons of the *Sudden Weekly* and *Eat & Travel Weekly* bundle. For all others, whether they be retirees, students, CEOs, housewives, elderly or social elites,

there is *Next Magazine* that incorporates news, fashion, gossips, current affairs or leisure articles, both domestically and internationally. The readership profiles according to ACNielsen RARD Report have clearly illustrated that publications of Next Media have successfully captured all segments of the mass market, regardless of age, household income or education background.

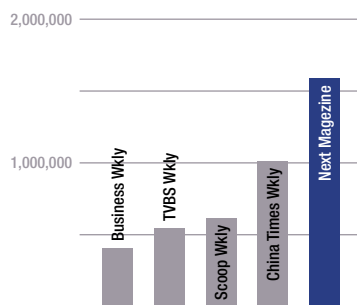
## Next Media is confident of repeating history in the Taiwan market as it did with the successful *Next Magazine* and *Apple Daily*.

Hong Kong is the world's third largest Chinese print media market, with Taiwan as second and the PRC as the largest. Witnessing success in the Hong Kong market, it is a logical step for the Group to venture into the second largest market - Taiwan. With sheer confidence in the impressive track record of its publications, the Group has high hopes for the fragmented Taiwan market that is gradually opening up and stabilizing. Although the Taiwan market has an ill-defined perception of the publication business, the market is highly divided by an overwhelming number of publications with very small market share each. Yet, time is the best remedy and the Group is optimistic of accomplishing equal, if not even better, results than what it has done for the Hong Kong market.

Only launched in Taiwan on 31 May 2001, *Taiwan Next Magazine* is already No.1 in the weekly magazine readership, as verified by the ACNielsen report for the period of October 2001 to March 2002. According to the Taiwan Audit Bureau of Circulation, the average weekly circulation of *Taiwan Next Magazine* is 186,989 copies for the period from 31 May 2001 to 31 December 2001 and its mid term target is 200,000 copies.



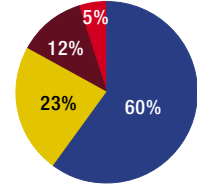
Top Five Weekly Magazines' Readership in Taiwan for the period from October 2001 to March 2002



Source : ACNielsen (Oct., 2001 - March., 2002 database)



External Printing Income Breakdown for the Year ended 31 March 2002 by Geographical Area



- Hong Kong
- North America
- Europe
- Australasia

The fact that 37% of its readers are between the ages of 15 and 24 indicates that *Taiwan Next Magazine* appeals to the younger readers. While nearly 50% of its readers are of senior high school educational level, the fact that another 31.9% are of college/university education level verify that *Taiwan Next Magazine* has quality content to attract the educated readers. In addition, 22.5% of its readers make a monthly household income between NT\$60,000 and NT\$79,999 (approximately HK\$14,100 and HK\$18,800), which represents a similar percentage and income range as those *Next Magazine* readers in Hong Kong.

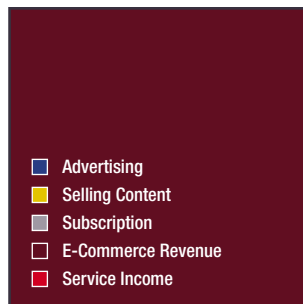
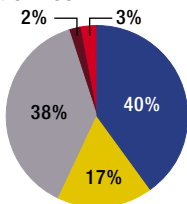
Turnover of *Taiwan Next Magazine* amounted to approximately HK\$101.05 million during the ten months since launch until 31 March 2002, and the advertising revenue is below expectations. Looking ahead, the Group believes that the Taiwan economy will continue to improve and *Taiwan Next Magazine* will break even by the end of fiscal year 2003. The Group intends to venture into the Taiwanese newspaper market with *Apple Daily* in the second quarter of 2003. While it has been ridiculed that no foreign publications have ever been successful in the Taiwanese market, the Group is confident that its impressive and speedy entrance into the Hong Kong market seven years ago can be witnessed again for the Taiwan market. Next Media understands that it is difficult to enter the Taiwan market, but nothing is deemed impossible for the Group.

## Printing Business

The printing business serves to complement the Group's core business and contribute to a stable cash flow.

The Group's printing business, known as Paramount, was one of its core businesses until the completion of the Acquisition in October 2001. At present, the printing business serves to complement the Group's publishing business with its state of the art printing equipment that produces high printing quality. The printing business is mostly used for the Group's newspaper and magazine printing as well as some magazine and book printing for outside clients in the US, Europe and Australasia. The Group's printing business contributed approximately HK\$347.41 million in turnover for the year ended 31 March 2002. Approximately HK\$129.20 million came from newspaper printing (five months effect for the current year) and approximately HK\$218.21 million came from books and magazine printing. In addition, approximately HK\$347.41 million printing income represented inter-segment printing of approximately HK\$195.72 million and approximately HK\$151.69 million from external customers. Segment results for newspaper printing for the five months since the Acquisition is

**Internet Revenue Breakdown  
for the year ended  
31 March 2002**



approximately HK\$56.28 million while magazine printing contributed to approximately HK\$13.32 million as compared to approximately HK\$10.29 million last year. In total, the segment results for printing business increased by approximately HK\$59.31 million. The Hong Kong market accounted for approximately HK\$91.10 million, or 60.1%, of the total external printing income. Followed by the North America market, the second largest contributor, that brought forth approximately HK\$34.36 million in revenue, or approximately 22.7%. Through achieving economies of scale, the printing business serves as an additional steady income stream as well as offer convenience to the Group.

## Internet Business

**The Group took a hard fall when it ventured into the Internet business, but now the portal is EBITDA positive and likely to break even by 2003.**

The Group's Internet operation serves as a channel to reach out to the overseas market and offer them its valuable content. During the period under review, the portal contributed to

approximately HK\$10.64 million of the Group's total sales, partly due to the implementation of a subscriber model. Advertising revenue witnessed a slight increase from the previous year and amounted to approximately HK\$4.25 million, while selling content increased by three folds over 2001 and reached approximately HK\$1.84 million. Most important of all, the new subscriber model has contributed to a revenue of approximately HK\$4.05 million for its Internet business as compared to approximately HK\$0.73 million of revenue for the previous year. Revenue from the existing nearly 17,000 subscribers accounted for approximately 38.1% of total Internet sales. The Internet business recorded a loss of approximately HK\$31.67 million for year 2002. Along with its aggressive cost control measures and enlarged revenue base, the Group will ensure that its Internet business becomes self-sufficient and continue to offer convenience for its subscribers.

**For Next Media, the sky is the limit.**

Following the success of *Apple Daily* and *Next Magazine*, the Group will again strive to mark history for the Taiwan market and achieve the same, if not even greater, success than the Hong Kong market. Simultaneously, the Group will continue to further strengthen the market share of its publications.

Next Media aims for the best in all of its attempts, and hence its mission is to be the most profitable and successful in every target segment of the industry. From what used to be a black and white newspaper publishing to today's full coloured *Apple Daily*, and from the traditional approach where media might hesitate publishing sensitive topics or vivid graphics and photos to Next Media's daring and total transparent and open approach, it is evident that the Group has altered readers' expectations and mentality of the print media.

**Next Media will never sacrifice nor neglect its business philosophy and ethics of truth, honesty and democracy. Every attempt is aimed at being the best and the most successful to benefit the end users - the valuable readers.**

## Employees Relation

The media industry is a people's industry. It is created by the people and for the people. That is the reason why Next Media carefully selects its daring, eccentric and witty team of players. Under the guidance of the bold and visionary management, everyone in the workforce with 2,037 staff is given the opportunity to excel, to grow, to speak out, and needless to say, to search and discover while preserving the truth.

Next Media has adopted performance-based employment and remuneration policies to fully recognize and reward every individual's unique and valuable contribution to the Group's success. Employees' remuneration policies are regularly reviewed in the context of individual and business performance,

market practice, internal relativities and competitive market pressures. Generous fringe benefits are also provided to give employees greatest protection at all times. Staff cost, including retirement benefits, amounted to approximately HK\$409.18 million for the year. Commencing 1 April 2002, employee performance bonuses are determined annually based on two key factors: individual performance and Group performance as measured by operating profit before tax.

To reward employees for their continuous support and dedication towards the Group and to provide them with an incentive to continue contributing to its success, a total of approximately 16.8 million shares in the Company were given by Mr. Lai Chee Ying, Jimmy ("Mr. Lai") and certain directors and senior management of the Company to around 1,500 employees of the Group at nil consideration by the way of gift in May 2002.

For an industry that demands for 24-hour alertness and quick reflexes, Next Media aims to provide a congenial, open and harmonious working atmosphere for its committed and dedicated employees, from the most basic facilities that include staff cafeteria, fitness center and swimming pool to a share option scheme where all full-time employees (including executive directors) may be granted the option to subscribe for shares in the Company. Please refer to the relevant section in the Directors' Report for details of the share option scheme.

Next Media understands the importance of recognizing and nurturing creativity, productivity and dedication of its employees in order to maintain competitive and the No. 1 in the market. By committing to employees' personal and career development, they in turn will contribute their best effort and capabilities to maximize efficiency - and feel proud to be a member of Next Media.

Number of staff as at 31 March 2002

