

Directors' Report

The directors of the Company (the "Directors" or the "Board") hereby submit their annual report together with the audited accounts for the year ended 31 March 2002 (the "Accounts").

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Group's principal subsidiaries are set out in note 30 to the Accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the Accounts.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 54 of the annual report. The Directors do not recommend the payment of a dividend.

Share Capital

Details of the movements in share capital of the Company are set out in note 21 to the Accounts.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 23 to the Accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$1,246,000.

Distributable Reserves

As at 31 March 2002, the Company had no distributable reserves, calculated under section 79B of the Hong Kong Companies Ordinance.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in note 14 to the Accounts.

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100.

Directors' Report (continued)

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Major Customers and Suppliers

The five largest customers of the Group accounted for approximately 42.9% of the Group's turnover and the five largest suppliers of the Group accounted for approximately 57.2% of the Group's total purchases for the year. The largest customer of the Group accounted for approximately 28.2% of the Group's turnover and the largest supplier of the Group accounted for approximately 19.5% of the Group's total purchases for the year.

One of the five largest customers, which accounted for approximately 2.4% of the Group's turnover, was beneficially owned by a director of the Company. The said customer had become a wholly-owned subsidiary of the Company after the completion of the acquisition of Database Gateway Limited ("DGL") (the "Acquisition") by the Company on 26 October 2001.

Save as disclosed above, none of the directors, their associates or shareholders who to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the above mentioned suppliers and customers.

Share Option

During the year, share options were granted to an executive director and employees under the share option scheme adopted by the Company on 29 December 2000 (the "2000 Share Option Scheme"). The 2000 Share Option Scheme co-exists with the share option scheme adopted by the Company on 20 September 1993 (the "1993 Share Option Scheme" which will remain in force until 19 September 2003). All options granted during the year were granted under the 2000 Share Option Scheme and no further option has been granted under the 1993 Share Option Scheme since the adoption of the 2000 Share Option Scheme. The 2000 Share Option Scheme will remain in force for a period of 10 years from 29 December 2000.

Under the 2000 Share Option Scheme, the total number of shares available for issue upon exercise of options granted is limited to 10% of the issued share capital of the Company from time to time, excluding for this purpose such shares of the Company allotted and issued upon the exercise of options granted under the 2000 Share Option Scheme and any other share option scheme of the Company, including the 1993 Share Option Scheme. The maximum number of shares issuable to each eligible participant is limited to 25% of the aggregate number of shares issued and issuable under the 2000 Share Option Scheme. An offer of share options may be accepted within 14 days from the date of offer, upon payment of HK\$10.00 by way of consideration. The exercise period of the share options granted under the 2000 Share Option Scheme shall be determined by the Board when such options are granted, provided that such period shall end not later than 29 December 2010, being the expiry date of the 2000 Share Option Scheme. The subscription price in relation to each option under the 2000 Share Option Scheme shall be determined by the Board in its absolute discretion but in any event will not be less than 80% of the average of the official closing price of the shares of the Company as

Directors' Report (continued)

stated in the daily quotation sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of grant of the option or the nominal value of the shares of the Company, whichever is the greater.

Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was amended in August 2001. In the circumstances, the Board will propose to the shareholders at the forthcoming annual general meeting to amend the rules of 2000 Share Option Scheme to comply with the requirements of the Listing Rules.

The amendments include (i) grantee of options may be non-executive Directors and independent non-executive Directors of the Company; (ii) the total number of shares issued and to be issued upon exercise of the options granted to any holder of options (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company and any further grant of options in excess of such limit must be subject to separate shareholders' approval in general meeting with such option holder and his associates abstaining from voting; (iii) any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period representing in aggregate over 0.1% of the issued share capital or having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million, must be approved (voting by way of poll) by the independent shareholders of the Company; and (iv) the subscription price shall be no less than the highest of: (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares of the Company on the date of grant.

The following share options were outstanding under the 1993 Share Option Scheme and the 2000 Share Option Scheme at 1 April 2001 and at 31 March 2002:

1993 Share Option Scheme

Name or category of participant	No. of options at 1/4/01	Date of grant	Exercise price	No. of options adjusted resulting from change in the Company's capital structure	Price after adjustment	Exercisable period	Outstanding as at 31/3/02
An employee	263,002	11/01/94	HK\$1.14	71,136	HK\$4.21	21/01/95 - 21/01/04	71,136
	301,338	10/06/99	HK\$0.20	81,505	HK\$1.00	15/01/00 - 15/06/09	81,505

Directors' Report (continued)

2000 Share Option Scheme

Name or category of participant	No. of options at 1/4/01	No. of options granted during the year	Date of grant	Exercise price	Exercisable period	Outstanding as at 31/3/02
Director						
Ting Ka Yu, Stephen	–	1,618,000	18/3/02	HK\$1.67	19/03/2003 – 28/12/2010	1,618,000
Employees						
In aggregate	–	23,692,000	18/3/02	HK\$1.67	19/03/2003 – 28/12/2010	23,692,000

The grant of options during the year under the 2000 Share Option Scheme was in compliance with the new rules of Chapter 17 of the Listing Rules.

There were no options cancelled or lapsed during the financial year ended 31 March 2002.

Notes:

- (1) At the date (being a business day) immediately before the options were granted on 18 March 2002, the closing price per share of the Company was HK\$1.66.
- (2) Options granted are vested as follows:

On 1st anniversary of the date of grant	30% vested
On 2nd anniversary of the date of grant	further 30% vested
On 3rd anniversary of the date of grant	remaining 40% vested

In assessing the value of the share options granted during the year ended 31 March 2002, the Black-Scholes option pricing model (the “Black-Scholes Model”) has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include, expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company, if any.

Directors' Report (continued)

In assessing the value of the share options granted during the period to both directors and employees, the following variables have been applied to the Black-Scholes Model:

- (a) The expected life is estimated to be 5 years from the date of grant (the "Measurement Date").
- (b) The risk-free rate applied to the Black-Scholes Model is 5.46%, which represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation is 84.90% and represents the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.
- (d) Based on historic pattern, it is assumed that no dividend would be paid out during the expected life of the options.

Using the Black-Scholes Model in assessing the value of share options granted during the year, the options would have an aggregate value of approximately HK\$29,359,600 represented as follows:

	Number of share options granted during the year	Estimated value per option HK\$	Estimated value of options granted during the year HK\$
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Director			
Ting Ka Yu, Stephen	1,618,000	1.16	1,876,880
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Employees	23,692,000	1.16	27,482,720
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Total			29,359,600
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In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the period.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the year. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

Summary details of the Company's share option schemes are also set out in note 22 to the Accounts.

Directors' Report (continued)

Directors

The Directors during the year and up to the date of this report are

Executive Directors:

Mr. Lai Chee Ying, Jimmy (Chairman)
Mr. Chow On Kiu, Andrew
Mr. Ting Ka Yu, Stephen
Mr. Kok Hon Kay, Peter
Mr. Ip Yut Kin (appointed on 30 November 2001)
Mr. Chan Chun Shing, Otto (resigned on 7 August 2001)
Mr. Yeung Wai Hong (resigned on 30 November 2001)
Mr. Pieter Lodewijk Schats (resigned on 30 November 2001)

Independent Non-executive Directors:

Mr. V-nee Yeh
Mr. Fok Kwong Hang, Terry
Mr. Hsu Chien-kuo, Gerald (resigned on 31 August 2001)

In accordance with Articles 79, 84 and 86 of the Company's Articles of Association, Mr. Ip Yut Kin and Mr. Fok Kwong Hang, Terry retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Each of the existing Independent Non-executive Directors has been appointed for a fixed term to be expired on 31 March 2003.

Directors' Service Contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group, which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Report (continued)

Connected Transactions and Directors' Interests in Contracts

Connected Transactions

Transactions between the Group and the following parties during the year constitute both related party transactions under Statement of Standard Accounting Practice ("SSAP") 20 issued by the Hong Kong Society of Accountants (the "HKSA") and connected transactions under the Listing Rules:

Next Media International Holdings Limited ("NMIHL") and its subsidiaries (collectively "Next Private Group")

Apple Daily Limited ("ADL") and its subsidiaries (collectively "Apple Daily Group")

Transactions with these parties have ceased to be connected transactions upon the completion of the Acquisition by the Company on 26 October 2001.

Significant transactions with these parties during the period from 1 April 2001 to 26 October 2001 are disclosed in note 29 to the Accounts.

A waiver from strict compliance with the relevant requirements under Chapter 14 of the Listing Rules in relation to the following transactions has been granted by the Stock Exchange:

1. The provision of printing services for the printing of *Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly* by the Group to Next Private Group. The aggregate printing fees payable to the Group by Next Private Group in respect of the provision of printing service by the Group should not exceed HK\$90 million for a financial year, and
2. The placing of advertisements by the Group in *Apple Daily*, *Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly*. The aggregate advertising fees payable by the Group to ADL and Next Private Group for placing of advertisements should not exceed HK\$25 million for a financial year.

During the year, paid announcements have been issued in compliance with the relevant requirements under Chapter 14 of the Listing Rules in relation to the following transactions:

1. The provision of printing services for the printing of various documents (excluding the printing of magazines under the waiver granted by the Stock Exchange) pursuant to two replacement printing agreements both dated 16 July 2001 entered into between Paramount Printing Company Limited, one of the subsidiaries of the Company, and each of ADL and Next Media (Holdings) Limited, which were companies controlled by Mr. Lai Chee Ying, Jimmy ("Mr. Lai"), for a term of one year from 1 April 2001.

Directors' Report (continued)

2. The procurement of the pre-production output and scanning services in respect of certain publications of the Group pursuant to three replacement production agreements dated 23 January 2001 entered into between three subsidiaries of the Company, namely Easy Finder Limited, Easy Finder Marketing Limited and Next Media Interactive Limited, and Next Media Group Management Limited, a company controlled by Mr. Lai, for a term of one year from 20 October 2000. The replacement production agreements were not renewed upon their expiry on 20 October 2001 in view of the imminent completion of the Acquisition at that time.

The Directors (including the independent non-executive directors) have reviewed all connected transactions for the period from 1 April 2001 to 26 October 2001 and confirmed that:

- (a) All the connected transactions were in the ordinary and usual course of business of the Group;
- (b) All the connected transactions were on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties;
- (c) All the connected transactions were fair and reasonable so far as the shareholders of the Company are concerned; and
- (d) In respect of the connected transactions where waivers have been obtained from the Stock Exchange, the requirements under the waivers have been complied with.

There were no other connected transactions for the period from 27 October 2001 to 31 March 2002.

Directors' Interests in Contracts

Mr. Lai was interested in the transactions between the Group and the Next Private Group and Apple Daily Group during the period from 1 April 2001 to 26 October 2001 to the extent that he was a beneficial shareholder of NMIHL and ADL. Upon the completion of the Acquisition on 26 October 2001, Mr. Lai was no longer interested in these transactions as the companies concerned had become wholly-owned subsidiaries of the Group.

Except for the above, no other contracts of significance in relation to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or associated companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the period from 1 April 2001 to the date of this report.

Directors' Interests in Competing Business

None of the directors of the Company had any interest in any business which competes with the Group.

Directors' Report (continued)

Directors' Interests in Equity or Debt Securities

(a) Interests in the Ordinary Shares and Share Options of the Company

At 31 March 2002, the interests of the directors and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

Directors	Personal interests	Family interests	Number of shares Corporate interests	Other interests	Total interests
Mr. Lai	732,391,087	–	4,692,400	–	737,083,487
Mr. Chow On Kiu, Andrew	28,927,398	–	–	–	28,927,398
Mr. Ting Ka Yu, Stephen	5,740,314	–	–	–	5,740,314
Mr. Kok Hon Kay, Peter	15,524,520	–	–	–	15,524,520
Mr. Ip Yut Kin	23,010,284	140,000	–	–	23,150,284
Mr. V-nee Yeh	300,000	–	–	26,000 (Note)	326,000

Note: These shares are held by VP Special Situations I Limited ("VPSS") to which VP Private Equity Ltd. ("VPPE") is the fund manager.

Mr. Yeh is deemed to be interested in these shares by virtue of the fact that he has more than one third of the voting rights in VPPE and a 0.486% attributable interest in VPSS.

During the year, Mr. Ting Ka Yu, Stephen was granted options to subscribe for 1,618,000 shares of the Company at an exercise price of HK\$1.67 per share. Please refer to details as contained in the section headed "Share Option" above.

Save as disclosed above, none of the directors or chief executive of the Company, or their associates, had any interest in the equity or debt securities of the Company or any associated corporation as defined in the SDI Ordinance as at 31 March 2002.

Directors' Report (continued)

(b) Interests in the 2% Convertible Non-voting Non-cumulative Preference Shares of HK\$1.75 each of the Company

Director	Number of shares	
	Personal interests	Total interests
Mr. Lai	1,160,000,000	1,160,000,000

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Audit Committee

Current members of the Audit Committee are the two independent non-executive directors: Mr. V-nee Yeh and Mr. Fok Kwong Hang, Terry.

The Audit Committee reviews the interim and annual financial statements of the Company. And with the assistance of the auditors and Connected and Related Party Transaction Committee, the Audit Committee reviews the adequacy and effectiveness of the Company's system of internal control and made recommendations to the Board.

Code of Conduct

A set of codes of conduct including preventing conflict of interests, declaration of interests, practices against corruption and data privacy etc. has been adopted to promote the integrity of the business ethics of the Company. Details are set out either in the Employees' Handbook or internal memos. Those Codes apply to all employees and Directors.

Internal Control

(a) Management Meeting

To review financial performance and strategic planning, monthly management meetings are held with the participation of various senior officers/management staff from marketing, sales, operations, editorial, finance and the Board.

Directors' Report (continued)

(b) Connected and Related Party Transaction Committee

The committee was formed in September 2000 comprising senior staff of the Company and finance heads of the main operating subsidiaries for the purpose to conduct reviews on all connected and related party transactions. Monthly meetings were held to review all related party transactions undertaken by all members of the Group and monthly reports were prepared and circulated to all directors including the independent non-executive directors for review. Any possible related party transactions would be brought to the attention of the committee in advance, from time to time. Any ad hoc related party transactions or transactions of a continuous nature would be identified at an early stage before entering into any such transactions in order to determine if such transaction constitutes connected transactions for the Company. If such transaction constitutes a connected transaction, the committee would determine the necessary actions to be taken to ensure compliance with the Listing Rules requirements. The committee may also seek legal advice to confirm if any disclosure and approval requirements would arise under the Listing Rules to ensure that the Company complies with such requirements. Upon completion of the Acquisition, all existing connected transactions ceased to constitute connected transactions of the Group. The above said monthly meeting has then been changed to ad hoc meeting where any ad hoc possible related party transaction will be considered and reviewed. Report to Directors will be made when necessary.

(c) Securities Transactions by Directors

The Company has a set of control procedures in respect of notification and reporting securities transactions by Directors pursuant to the Stock Exchange's Model Code for Securities Transactions set out in Appendix 10 of the Listing Rules.

Substantial Shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 March 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Mr. Lai	737,083,487

Note: These represent the same lot of shares as disclosed under "personal interests" and "corporate interests" of Mr. Lai in the section headed "Interests in the Ordinary Shares and Share Options of the Company" under "Directors' interests in Equity or Debt Securities" above.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Directors' Report (continued)

Subsequent Events

Details of significant post balance sheet events are set out in note 31 to the Accounts.

Other Matters

Acquisition of DGL

On 26 October 2001, the Company completed the Acquisition at a total consideration of HK\$2,620,000,000. Details of the Acquisition have been set out in the Company's circular dated 28 September 2001. DGL and its subsidiaries are principally engaged in newspaper and magazine publishing and newspaper printing in Hong Kong.

Changes in Accounting Policies

The Group adopted new or revised SSAPs issued by the HKSA which became effective during the financial year and which were applicable to the Group. The adoptions of SSAP 29 and 31 had a significant financial impact on the accounts. Please refer to note 2(d) to the Accounts for details.

Auditors

The Accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Chow On Kiu, Andrew
Director

Hong Kong, 21 June 2002