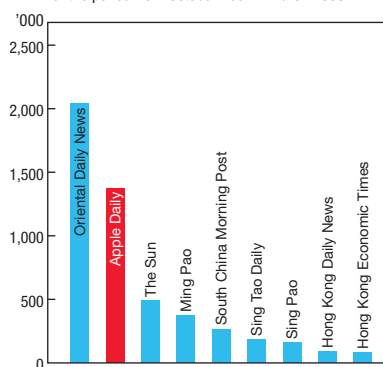
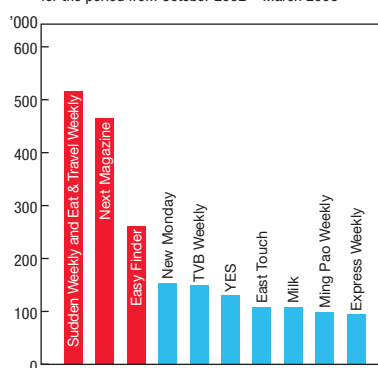


# Operational Review

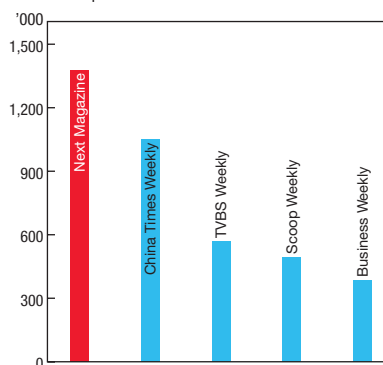
**Top Nine Newspapers' Readership in Hong Kong\***  
for the period from October 2002 – March 2003



**Top Ten Weekly Magazines' Readership in Hong Kong\***  
for the period from October 2002 – March 2003



**Top Five Weekly Magazines' Readership in Taiwan#**  
for the period from October 2002 – March 2003



\* Source: ACNielsen 2003 March Hong Kong Media Index RARD Report

# Source: ACNielsen (Taiwan) Ltd.

## Overview of the Chinese Print Media Market

### Hong Kong

Hong Kong offers a great variety of newspapers and magazines produced by local and international publishers in various languages. As at 31 March 2003, there were 54 newspapers and 799 periodicals registered with the Television and Entertainment Licensing Authority.

Hong Kong's newspaper and magazine publications industry is highly competitive. As evidenced by the ACNielsen 2003 March Hong Kong Media Index RARD Report ("ACNielsen Hong Kong"), the two largest newspapers in Hong Kong already accounted for 55% of the entire newspaper industry with a total readership of 3,414,000, while the top three weekly magazines accounted for approximately 20% of the total magazine industry with a total readership of 1,243,000.

During the year under review, the weak global economic climate continued to affect the advertising industry and undermined advertising rates in the Hong Kong market.

### Taiwan

Taiwan has a population of over 22 million, which is three times larger than that of Hong Kong. According to information from ACNielsen (Taiwan) Ltd. ("ACNielsen Taiwan"), total readership of all weekly magazines is 2,830,000 and accounted for approximately 17.6% of the population between ages 12 to 60 for the six months ended March 2003. *Taiwan Next Magazine*, the leading weekly magazine, has an average readership of 1,379,000, which is 8.6% of the population between ages 12 to 60 for the same period and is 30% and 140% higher than that of the weekly magazines that are ranked second and third respectively.

The advertising industry in Taiwan has been suffering as a result of a sluggish economy. According to statistics by Rainmaker International Group in Taiwan, the total advertising expenditure in 2002 decreased by approximately 1.1% when compared to 2001. Besides, advertising expenditure in newspapers and magazines amounted to approximately NT\$16,942.3 million and NT\$4,599.4 million respectively in 2002.

## About Next Media

### Business Performance

The year under review represented the first full year results since the Group's acquisition of Database Gateway Limited and its subsidiaries in October 2001 (the "Acquisition"). The businesses acquired through the Acquisition were *Apple Daily* and newspaper printing business, *Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly*. Accordingly, the results of these businesses this year reflected the full year contribution as compared to a five-month contribution in fiscal year 2002. The increases in turnover and profits of these businesses are mainly resulted from this full year impact. During the year, the Group recorded a total turnover of approximately HK\$2,150.1 million and a profit of approximately HK\$367.6 million, representing respective increases of 91.8% and 1,284.4% from 2002.

### Newspaper Publication and Printing Division

During the year under review, Newspaper Publication and Printing division, the Group's most profitable business division, recorded a turnover of approximately HK\$1,309.4 million, or a 135.0% increase from 2002.

### Apple Daily

As Hong Kong's second most popular newspaper, *Apple Daily* is a major profit contributor to the Group's overall results. During the year under review, *Apple Daily* recorded a total of approximately HK\$1,278.0 million in turnover, representing an increase of 135.1% from 2002. The rise in turnover reflected the full year contribution from the Acquisition.

*Apple Daily's* unique market positioning and mass appeal to the middle class also attracts a diverse range of advertisers. According to ACNielsen Hong Kong, *Apple Daily* recorded an average readership of 1,374,000 for the six months ended March 2003 and an average daily circulation of 343,660 for the six months ended December 2002 as audited by the Hong Kong Audit Bureau of Circulation ("HKABC"). Compared to the most popular newspaper in Hong Kong, *Apple Daily* appeals to a broad range of readers, with higher education levels and monthly household incomes, as well as advertisers of branded products and services.

During the year under review, circulation sales of *Apple Daily* amounted to approximately HK\$462.9 million, representing an increase of 136.7% from 2002. In addition, advertising revenue for *Apple Daily* amounted to approximately HK\$815.1 million, representing an increase of 134.2% from 2002.

**As Hong Kong's  
second most popular  
newspaper,  
Apple Daily is a  
major profit  
contributor to the  
Group's overall  
results.**

### **Apple Daily Printing Limited**

Apple Daily Printing Limited provides printing services to complement *Apple Daily's* business to ensure a smooth and efficient operation. In addition, to better utilize the Group's printing press, the Group also provides printing services to certain external customers. The revenue derived from the provision of printing services to external customers was approximately HK\$31.3 million. Such figure has increased by approximately 131.9% from 2002.

### **Books and Magazines Publication Division**

During the year under review, turnover of the Group's Books and Magazines Publication division increased by 72.5% to approximately HK\$715.6 million, as compared to approximately HK\$414.9 million in 2002. The Group's turnover growth reflected performances from the full year contributions from magazines that were acquired through the Acquisition, including *Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly*. All of these magazines continued to perform steadily by maintaining their market leaderships as well as sustaining their advertising revenue. The Group's magazines have successfully dominated the market of weekly magazines in Hong Kong as they are the top three weekly magazines in terms of readership according to ACNielsen Hong Kong. *Taiwan Next Magazine* also achieved an encouraging 28.6% rise in turnover mainly resulting from increasing advertising income.

### **Next Magazine**

According to ACNielsen Hong Kong, *Next Magazine* is No.2 by readership in the weekly magazine market. With an average readership of 465,000 for the six months ended March 2003 and an average weekly circulation of 153,459 for the six months ended December 2002 as audited by HKABC, *Next Magazine* continued to attract readers and advertisers, and recorded revenue of approximately HK\$298.0 million, up by 154.0% as compared to approximately HK\$117.3 million in 2002. Of the territory's top five weekly magazines, *Next Magazine* has the highest percentage of readers with post secondary / university education levels, indicating that the quality content of *Next Magazine* appeals not only to both genders, but also to the young, educated, managers and professionals.

**According to  
ACNielsen  
Hong Kong,  
Next Magazine is  
No.2 by readership  
in the weekly  
magazine market.**

**As evidenced by its sustained market leadership, Taiwan Next Magazine has established a reputation with its bold journalistic style and has quickly won widespread acceptance.**

### **Taiwan Next Magazine**

As evidenced by its sustained market leadership, *Taiwan Next Magazine* has established a reputation with its bold journalistic style and has quickly won widespread acceptance. For the year ended 31 March 2003, turnover from *Taiwan Next Magazine* amounted to approximately HK\$129.9 million, an encouraging increase of 28.6% from approximately HK\$101.0 million in 2002. As expected by the Group, *Taiwan Next Magazine* achieved break-even in May 2003, or two years after its launch.

According to ACNielsen Taiwan, *Taiwan Next Magazine* has an average readership of 1,379,000 for the six months ended March 2003, which is the highest amongst all weekly magazines in Taiwan. The total circulation of *Taiwan Next Magazine* for the six months ended December 2002, as audited by the Taiwan Audit Bureau of Circulation, is 3,715,371 copies giving an average weekly circulation of 142,898 copies. The Group is confident that there is further room for growth for *Taiwan Next Magazine*, especially in advertising. With an average editorial pages : advertising pages ratio of only 86:14 for its first year of publishing, *Taiwan Next Magazine* has improved this ratio to approximately 64:36 by the second half of this fiscal year. In comparison to the average editorial pages : advertising pages ratio of 52:48 in Hong Kong's *Next Magazine* for the same period, the Group believes that there is further room to increase the number of advertising pages and hence advertising income.

More importantly, the magazine's increasingly strong brand is attracting increasingly prominent advertisers. Its advertisers currently span various industries, including cosmetics and perfume, car, watches, tobacco and other fast-moving consumer goods. This is an indication that there is vast scope for the Group to diversify its advertiser base.

**The Sudden Weekly and Eat & Travel Weekly bundle (the "Bundle") continued to attract a broad range of readers and is now the No.1 selling magazine in the weekly magazine market.**

### **Sudden Weekly and Eat & Travel Weekly**

The *Sudden Weekly* and *Eat & Travel Weekly* bundle (the "Bundle") continued to attract a broad range of readers and is now the No.1 selling magazine in the weekly magazine market. For the six months ended March 2003, the Bundle has an average weekly readership of 516,000.

Of its readership, 75% are females and approximately 76% of its readers falls between the ages of 15 to 44. Such diversity in demographics is strong evidence that the Bundle is well marketed and positioned, coupled with its trendy, up-to-date and informative articles that appeal to the mass market.

During the year under review, revenue for the Bundle increased by 194.3% to reach approximately HK\$185.7 million, up from approximately HK\$63.1 million for the previous year as a result of the full year effect of the Acquisition and the bundling effect of the two magazines. Due to the immense popularity and mass appeal of the Bundle, advertising rates for both *Sudden Weekly* and *Eat & Travel Weekly* rose notably year-on-year. In addition, the Group also increased the retail price of the Bundle from HK\$8 to HK\$10 since the last issue in November 2002. The increase in retail price did not affect the sales performance of the Bundle, but in fact, its circulation increased to an unaudited average of 196,562 copies for the four months ended April 2003, as compared to an audited average of 179,299 copies for the six months ended June 2002.

### **Easy Finder**

*Easy Finder*, with an average readership of 262,000 for the six months ended March 2003, maintained its No.3 ranking in the weekly magazine market by targeting young readers with the latest updates on fashion and trends. Amongst the readers, 80% are between ages 15 to 34. Because its readers are younger and more brand-focused, trendy brand names dominate its advertiser base. During the year under review, revenue amounted to approximately HK\$99.9 million in 2003, or a fall of 23.7%, from approximately HK\$130.9 million in the previous year, reflecting tough competition.

### **Books and Magazines Printing Division**

Turnover of the Books and Magazines Printing division increased by 11.0% from approximately HK\$218.2 million for the year ended 31 March 2002 to approximately HK\$242.1 million for the year ended 31 March 2003. Segment results for the division also improved by 107.0% due to reduced operating costs.

The turnover growth was attributable to the rise in commercial printing for external customers. Amongst the external customers, overseas customers from North America, Europe and Australasia contributed a revenue in the amount of approximately HK\$90.4 million for the year ended 31 March 2003 as compared to an amount of approximately HK\$60.6 million for the year ended 31 March 2002. The Group expects to continue to enjoy a steady income stream from commercial printing. Inter-segment printing accounted for approximately HK\$131.4 million or 54.3% of the turnover of this division.

During the year under review, the Group has production facilities including eight sheet-fed machines and three commercial offset web-printing machines. The Group has purchased one additional refurbished commercial offset web-printing machine in order to cope with the increasing demand from the Group's magazines and discontinue the use of contract printing. This added press will provide more flexibility to the printing capacity and generate some cost savings.

### **Internet Division**

During the year under review, revenue from the Internet division increased by 35.8% to approximately HK\$14.4 million. From a segment loss of approximately HK\$31.7 million in fiscal year 2002, the Internet division recorded an encouraging segment profit of approximately HK\$3.6 million in 2003.

Revenue of the Internet division is derived from content licensing fees, subscription fees and advertising revenue. The impressive increase in revenue is mainly due to the increase in number of subscribers and advertising revenue for the year ended 31 March 2003.

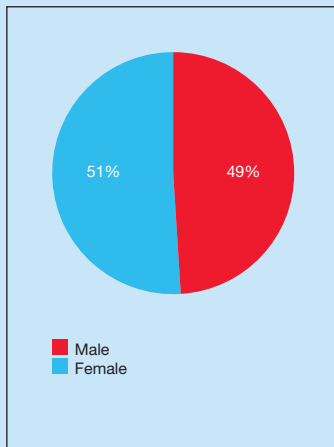
The Group is confident that the profitability of the Internet division will be sustained. The subscriber base demonstrates room for further growth, as evidenced by the increase in the number of daily page views from 5.6 million in 2002 to 7.1 million in 2003. By leveraging on its established infrastructure, the Group will focus on strengthening its business model and will seek opportunities to expand the income stream.

**By leveraging on its established infrastructure, the Group will focus on strengthening its business model and will seek opportunities to expand the income stream.**

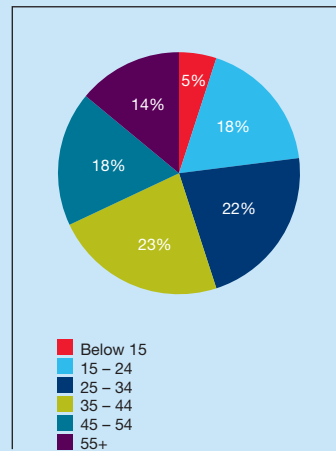
# Readership Profile

## Apple Daily

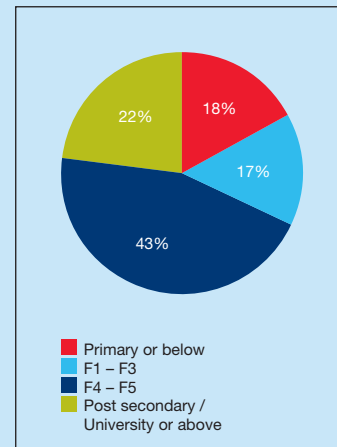
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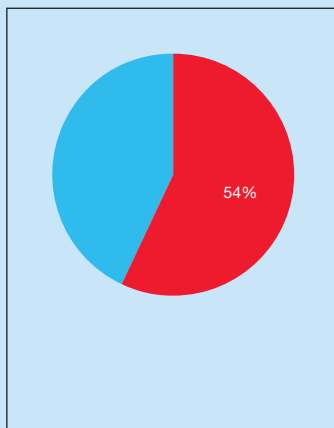
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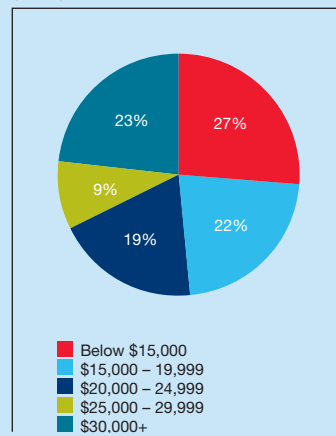
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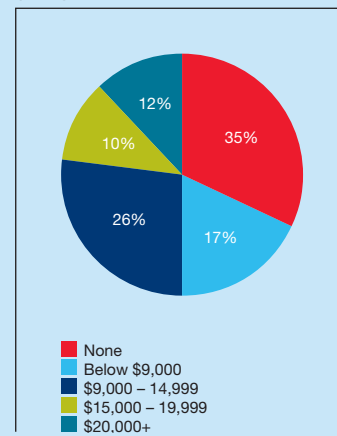
Shopping Decision Maker



Monthly Household Income (HK\$)



Monthly Personal Income (HK\$)

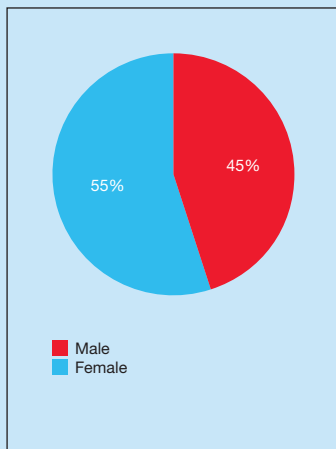


Source: ACNielsen 2003 March Hong Kong Media Index RARD Report

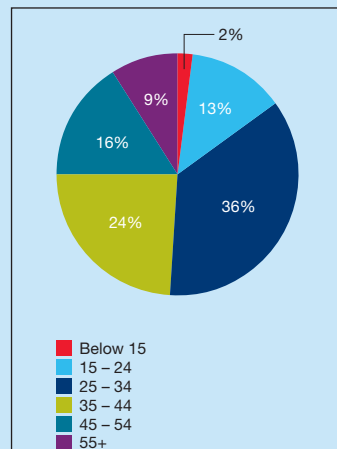
Readership Profile

# Next Magazine

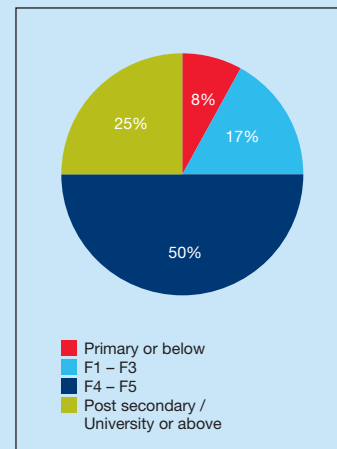
Sex



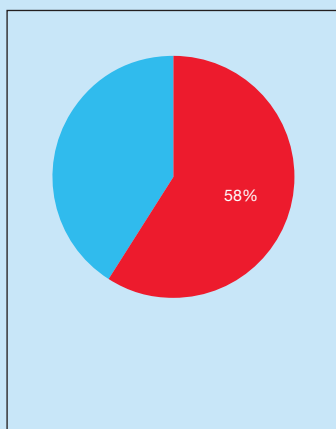
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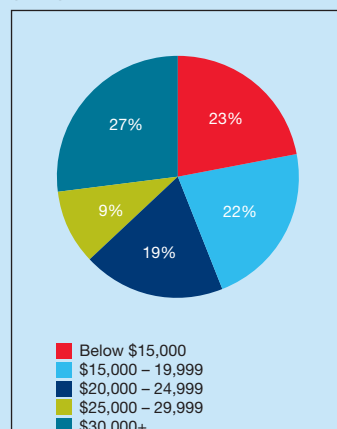
Education



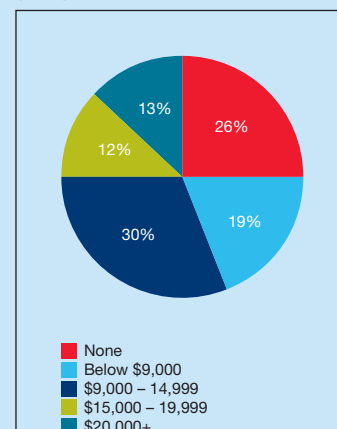
Shopping Decision Maker



Monthly Household Income (HK\$)



Monthly Personal Income (HK\$)



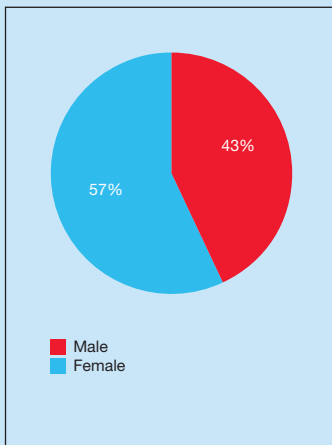
Source: ACNielsen 2003 March Hong Kong Media Index RARD Report



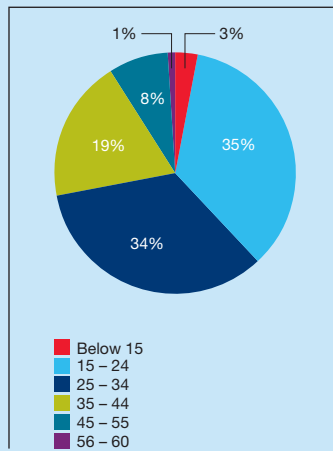
Readership Profile

# Taiwan Next Magazine

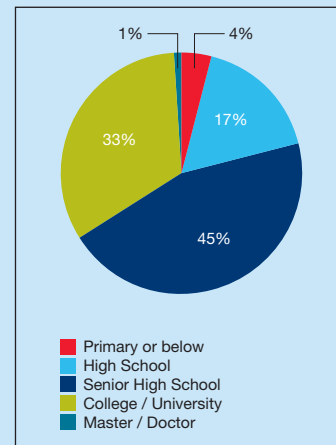
Sex



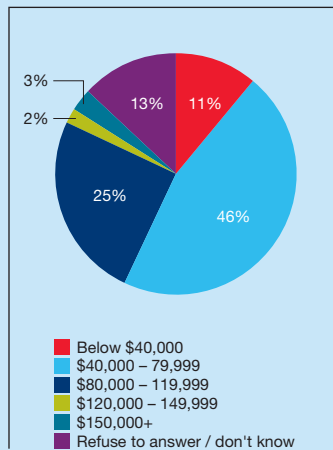
Age



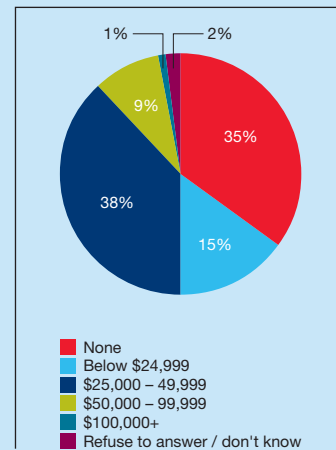
Education



Monthly Household Income (NT\$)



Monthly Personal Income (NT\$)

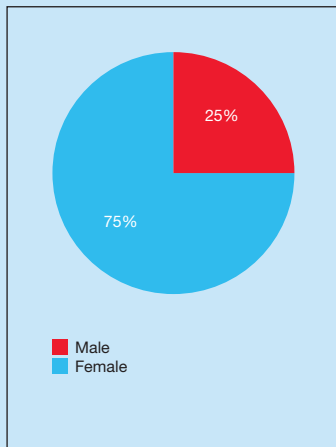


Source: ACNielsen (Taiwan) Ltd.

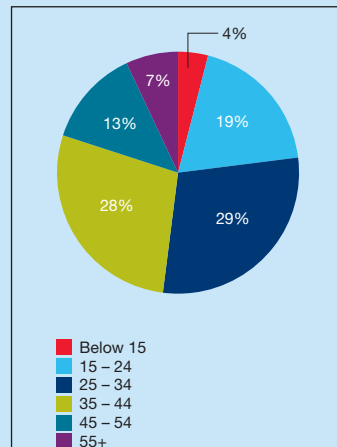
Readership Profile

# Sudden Weekly and Eat & Travel Weekly

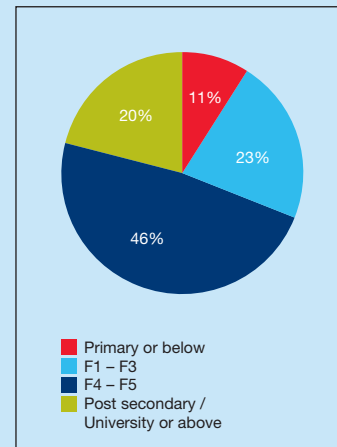
Sex



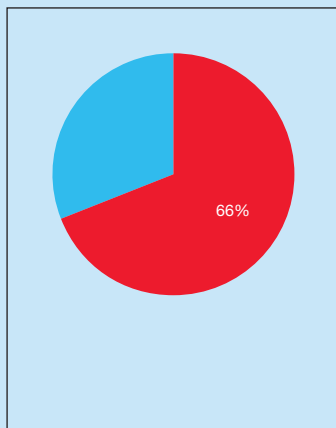
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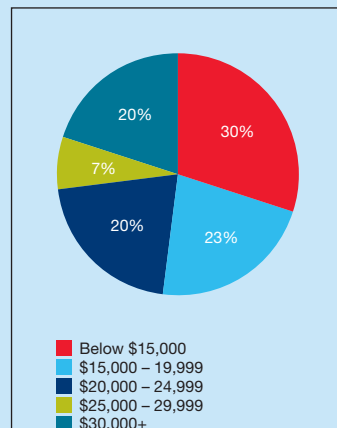
Education



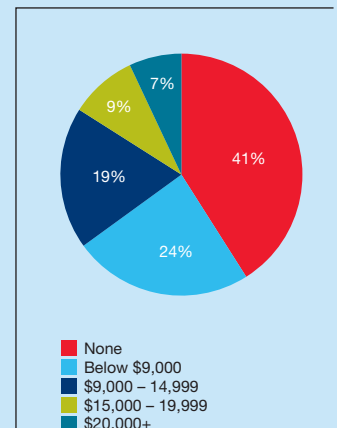
Shopping Decision Maker



Monthly Household Income (HK\$)



Monthly Personal Income (HK\$)

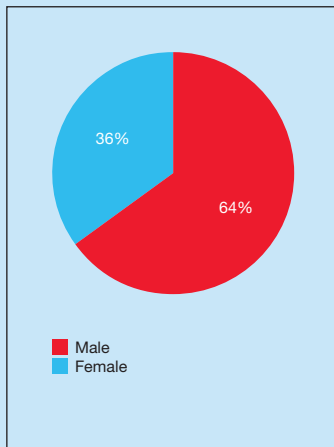


Source: ACNielsen 2003 March Hong Kong Media Index RARD Report

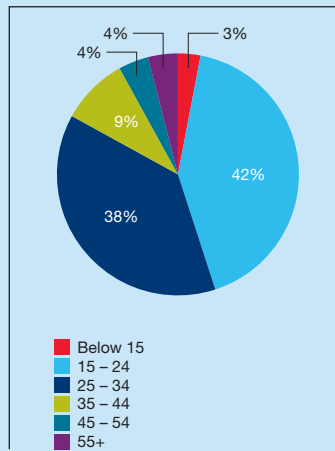
# Readership Profile

## Easy Finder

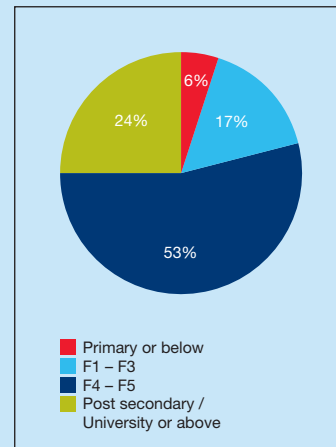
Sex



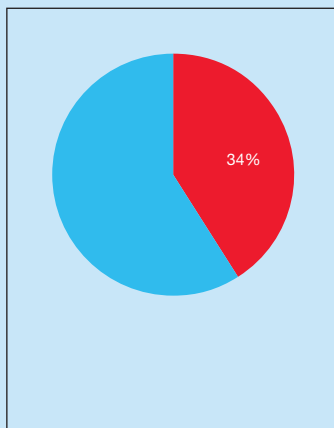
Age



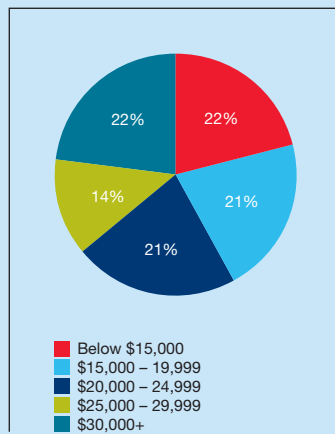
Education



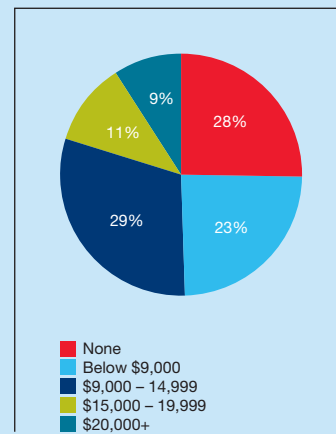
Shopping Decision Maker



Monthly Household Income (HK\$)



Monthly Personal Income (HK\$)



Source: ACNielsen 2003 March Hong Kong Media Index RARD Report



Next Media **seizes an opportunity** when it sees fit. Under the leadership of the **experienced management**, the Group expanded into the second largest Chinese print media market - Taiwan - and is confident of winning the vote of confidence and applause from its Taiwanese readers.



open the door...



**to a world  
of opportunities**



**NEXT MEDIA**



*Taiwan*



IMMIGRATION  
MAY 22 2003  
TAIWAN

**Taiwan Apple Daily distinguishes itself with its fact-driven journalistic style, and the initial response from readers and advertisers has been encouraging.**

## **The Next Step**

### **Taiwan Apple Daily**

Following the success of *Taiwan Next Magazine*, the Group is excited about the launch of *Taiwan Apple Daily*. The year under review was a year of preparation to ensure the launch of this eagerly anticipated newspaper on 2 May 2003.

### **Investment Amount**

During the year under review, the Group invested approximately HK\$708.0 million in *Taiwan Apple Daily*, including the purchase of equipment and production facilities, the acquisition of an office building and establishment of two printing factories.

### **Production Facilities**

Approximately HK\$83.6 million was spent on purchasing an office building for the headquarters of *Taiwan Apple Daily* and approximately HK\$55.1 million for other fixtures and office equipment. Approximately HK\$389.0 million was spent on acquiring six printing machines and other auxiliary equipment to ensure sufficient production capability to satisfy the expected enormous demand. The printing machines are placed in two printing factory premises, which cost the Group approximately HK\$180.3 million on land and buildings.

### **Editorial Teams**

The Group has always considered people to be its key asset. As such, the Group focuses on recruiting high calibre local staff with in-depth market knowledge and local expertise, so that they can deliver up-to-date, informative and quality content. Under the guidance of the Hong Kong management team, the Taiwan editorial team has also learned to embrace the Group's values and principles, while pursuing excellence in all their endeavours and maintaining the highest moral and professional standards. As at 31 March 2003, the Group has already hired 482 experienced editorial staff, including 286 reporters and 59 photographers.

### **Market Testing**

After completing fundamental works for the Newspaper division, the Group tested the market response in Taiwan by giving out complimentary "Apple Daily – Extra" that provided immediate coverage on groundbreaking news and current affairs. *Taiwan Apple Daily* distinguishes itself with its fact-driven journalistic style, and the initial response from readers and advertisers has been encouraging.

### **Advertising and Promotional Campaign**

In order to strengthen the Group's foothold in the Taiwan market, it has launched a series of effective brand building measures to accelerate the growth of *Taiwan Apple Daily*. One week prior to the launch of *Taiwan Apple Daily*, the Group launched an advertising campaign with "A Bite to Addition" as the slogan, and displayed through various advertising formats, including TV, billboards, buses and outdoor banners, etc.



**The Group is looking forward to increasing its share of the Taiwan newspaper market with Taiwan Apple Daily.**

### **Seeing is Believing**

Following the tradition, the Group repeated its apple give-away campaign in Taiwan two weeks prior to the launch of *Taiwan Apple Daily*. Thanks to the bold advertising campaign, together with a promotional selling price of NT\$5 per copy, *Taiwan Apple Daily* recorded impressive sales with approximately 80% sold out on its first day of launch. Such encouraging market response is a major achievement for the Group's business expansion in Taiwan.

### **May 2003...**

On 2 May 2003, 600,000 copies of *Taiwan Apple Daily*'s debut edition rolled out from six printing presses in our two printing factories and an impressive demand was witnessed. Since then, the newspaper continued to generate growing market acceptance and readership. For the month of May 2003, print-run maintained at 500,000 copies to 600,000 copies of which an average 85% were sold out. Judging from the improved sold-out rate, *Taiwan Apple Daily* is well-received by the public and increasing its popularity amongst a diverse group of readers. Eyeing the encouraging response, the Group increased its retail price from NT\$5 to NT\$10 on 1 June 2003.

With the combination of good production capabilities, an able editorial team, abundant resources and its newly completed Taiwan headquarters, the Group is looking forward to increasing its share of the Taiwan newspaper market with *Taiwan Apple Daily*.

### **Going Forward**

With the launch of *Taiwan Apple Daily*, it is expected that the Group's results will be affected and it may not be able to attain similar results as in the fiscal year 2003. However, every cent and dollar incurred will be contributed in paving the future success of *Taiwan Apple Daily*, and the Group is confident that all of its hardwork and investment into *Taiwan Apple Daily* will generate return in the future.

### **Future Strategies of Next Media**

Next Media sets itself clear goals and clearly defines the steps to achieve them. That is how its publications manage to be the leaders in their respective markets. But Next Media will not rest on its laurels. It will continue to set goals to entrench its market position and to expand as a media empire in Hong Kong and Taiwan.

### **Goal 1: To maintain market leadership for its publications**

Next Media is renowned for its successful brand building. Well aware that content is the most important factor in this business, the Group incorporates its values and principles into its publications and newspapers to ensure that it provides timely, relevant and factual news to its readers. It will continue to build on its proven track record of lifting readership and circulation figures to maintain its market leadership.

**With the Group's previous track record, Taiwan Apple Daily is targeted to become one of Taiwan's top three newspapers within 12 months of launch. This is only the beginning.**

In April 2003, the Group repositioned *Easy Finder* by bundling it with a new teenager edition of *Eat & Travel Weekly* that is tailored for the younger market of *Easy Finder*. Eyeing the success of the *Sudden Weekly* and *Eat & Travel Weekly* bundle, the new *Easy Finder* bundle is being attractively priced. The Group expects this to enlarge its customer base and maintain customer loyalty.

**Goal 2: To increase advertising revenue and circulation for both newspapers and magazines in HK and Taiwan to increase profitability**

Advertising revenue is the major profit contributor to newspapers and magazines. However, the Group believes only market leaders with high readership and circulation can attract advertisers and generate growth. With this in mind, the Group will exert further efforts to empower its brand name as well as to implement a compelling set of proactive marketing strategies, in order to reinforce the leadership positions for its publications, thereby increasing advertising revenue and expanding advertiser base.

**Goal 3: To further cement the geographical expansion of Next Media into Taiwan**

It is always difficult and challenging to enter a new market. When the Group entered the Taiwan market, it was confident that its unconventional journalistic style, comprehensive information, skilled teams and appealing publication would succeed. With the Group's previous track record, *Taiwan Apple Daily* is targeted to become one of Taiwan's top three newspapers within 12 months of launch. This is only the beginning.

**Concluding Statement**

The launch of *Taiwan Apple Daily* is a key milestone for Next Media. Taiwan, a market with immense room for growth, will continue to open up under the new era of democracy, offering huge opportunities to industry leaders like Next Media.

Having achieved conspicuous success in Hong Kong, it is time to duplicate that in Taiwan. When *Taiwan Apple Daily* achieves its targets, the Group will become the most influential Chinese print media group in both Hong Kong and Taiwan, with the best selling newspapers and publications. While readers are always our top priority, the Group is also committed to maximizing returns for its supportive shareholders. With the combination of rising advertising revenue, expanding customer base and continuous market leaderships, NEXT will be the window to the world.