

Directors' Report

The directors of the Company (the "Directors" or the "Board") have pleasure in submitting their report together with the audited accounts for the year ended 31 March 2003 (the "Accounts").

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Company'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. A discussion of the material factors underlying the Group's performance and its financial position are provided in the Operational Review and Financial Review on pages 23 to 46 of this annual report.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 73 of the annual report.

The Directors do not recommend the payment of any dividend.

Share Capital

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

Purchase, Sale or Redemption of Listed Shares

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

Reserves

In order to bring forward the time when the Company would be in a position to pay dividends, the Company undertook an exercise to reduce the share premium account such that the credit arising from the reduction would be applied against the Company's accumulated losses. Following the shareholders' approval at the Extraordinary General Meeting held on 23 December 2002 and confirmation from the High Court of the Hong Kong Special Administrative Region on 26 February 2003, the reduction of the share premium account became effective on 27 February 2003. As a result, an amount of approximately HK\$828.9 million was applied to eliminate the accumulated losses of the Company on the same day.

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

Distributable Reserves

As at 31 March 2003, distributable reserves of the Company, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$2.9 million (2002: Nil).

Fixed Assets

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

Five-Year 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 118.

Major Customers and Suppliers

The five largest customers of the Group accounted for approximately 38.2% of the Group's turnover and the five largest suppliers of the Group accounted for approximately 33.3% of the Group's total purchases for the year. The largest customer of the Group accounted for approximately 31.4% of the Group's turnover and the largest supplier of the Group accounted for approximately 9.8% of the Group's total purchases for the year.

None of the Directors, their associates or shareholders (which 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.

Donations

Donations for charitable and other purposes made by the Group during the year amounted to approximately HK\$7,170,000.

Share Options

(a) Share Option Schemes of the Company

The Company adopted a share option scheme on 20 September 1993 (the "1993 Share Option Scheme"). Upon adoption of the 2000 Share Option Scheme (details please refer below), the operation of the 1993 Share Option Scheme was terminated. However, options granted under the 1993 Share Option Scheme which remained unexpired shall continue to be exercisable in accordance with their terms of issue. The principal terms of the 1993 Share Option Scheme are summarized below:

- (1) The Board may, in its absolute discretion, grant options to any full-time employees (including full-time executive directors) of the Company or any of its subsidiaries.
- (2) No option may be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him which have been exercised or are subsisting and unexercised exceeding 25% of the number of issued ordinary shares of the Company.
- (3) The period within which an option must be exercised shall be such period as determined by the Board, which shall not be more than 10 years after the date upon which the option is granted and accepted.
- (4) The minimum period an option must be held before it can be exercised is six calendar months after the option is granted and accepted or such longer period as otherwise directed by the Board at the time of grant. HK\$10.00 is payable by the grantee as consideration for the grant of an option upon acceptance.
- (5) The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than 80% of the average of the official closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotation sheets 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.

Share Options *continued*

(a) Share Option Schemes of the Company *continued*

- (6) The 1993 Share Option Scheme will expire on 19 September 2003.

As at 31 March 2003, the total number of shares which are available for issue under the 1993 Share Option Scheme was 152,641, representing approximately 0.01% of the total issued ordinary share capital of the Company.

On 29 December 2000, the Company adopted a new share option scheme (the "2000 Share Option Scheme"), which will last for a period of 10 years from 29 December 2000. Since the adoption of the 2000 Share Option Scheme, no further options have been granted under the 1993 Share Option Scheme.

The 2000 Share Option Scheme has been amended in compliance with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Directors have been authorised to grant options and to allot and issue shares pursuant to the exercise of the options up to 10% of the issued ordinary share capital of the Company as at 31 July 2002 pursuant to an ordinary resolution passed by the shareholders of the Company on 31 July 2002. Key terms of the 2000 Share Option Scheme are summarized below:

- (i) The purpose of the 2000 Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.
- (ii) The participants include any full-time employees and directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries.
- (iii) The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the ordinary shares in issue and any further grant of options in excess of such limit must be subject to separate shareholders' approval in general meeting with such participant and his associates abstaining from voting.
- (iv) The option period under which the option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, in any event such period shall not expire later than 10 years from the adoption date of the 2000 Share Option Scheme.
- (v) The period for which an option must be held before it can be exercised shall be determined by the Board at the time of grant. 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.
- (vi) The exercise price shall be no less than the highest of: (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange of the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company on the date of grant.

Share Options *continued*

(a) Share Option Schemes of the Company *continued*

(vii) The 2000 Share Option Scheme will expire on 28 December 2010.

The total number of shares available for issue is 23,710,000 which represents approximately 1.9% of the existing issued ordinary share capital of the Company as at the date of this annual report.

The following share options were outstanding under the 1993 Share Option Scheme and the 2000 Share Option Scheme at the beginning and at the end of the financial year ended 31 March 2003:

1993 Share Option Scheme

Name or category of participant	No. of options as at 01/04/02	Date of grant	Exercise price per share	Exercisable period	No. of options lapsed during the year	Outstanding as at 31/03/03
An employee	71,136	11/01/1994	HK\$4.21	21/01/1995 – 21/01/2004	–	71,136
	81,505	10/06/1999	HK\$1.00	15/01/2000 – 15/06/2009	–	81,505
Total outstanding						152,641

2000 Share Option Scheme

Name or category of participant	No. of options as at 01/04/02	Date of grant	Exercise price per share	Exercisable period	No. of options lapsed during the year	Outstanding as at 31/3/03
Director						
Ting Ka Yu, Stephen	1,618,000	18/03/2002	HK\$1.67	19/03/2003 – 28/12/2010	–	1,618,000
Employees						
In aggregate	23,692,000	18/03/2002	HK\$1.67	19/03/2003 – 28/12/2010	1,600,000	22,092,000
Total outstanding						23,710,000

Share Options *continued*

(a) Share Option Schemes of the Company *continued*

The options granted under the 2000 Share Option Scheme vest 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

No options were granted, exercised or cancelled during the year.

(b) Share Option Schemes of subsidiaries

On 31 July 2002 (the "Adoption Date"), each of Apple Daily Publication Development Limited ("ADPDL") and Next Media Publishing Limited ("NMPL"), both wholly-owned subsidiaries of the Company (hereinafter referred to as the "Subsidiary"), adopted a share option scheme (together the "Subsidiary Share Option Schemes"), which complied with the requirements under Chapter 17 of the Listing Rules. The key terms of the Subsidiary Share Option Schemes are summarized below: –

- (i) The purpose of the Subsidiary Share Option Schemes is to provide participants with the opportunity to acquire proprietary interests in the Subsidiary and to encourage participants to work towards enhancing the value of the Subsidiary and its shares for the benefit of the Subsidiary and its shareholders as a whole.
- (ii) The participants of the Subsidiary Share Option Schemes include any of the Subsidiary's full-time employees and directors or of any subsidiaries.
- (iii) The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant (including both redeemed and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue from time to time. Any further grant of options (including redeemed, cancelled and outstanding options) to a participant exceeding 1% of the shares in issue shall be subject to approval of the shareholders of the Subsidiary and for so long as the Subsidiary remains a subsidiary of the Company, the approval of the shareholders of the Company in advance with such participant and his associates abstaining from voting.
- (iv) The option period under which the option must be exercised shall be such period as the board of directors of the Subsidiary may in its absolute discretion determine, in any event the expiry of such period shall not be later than the date falling one month prior to the lodgement of an application of listing of the Subsidiary or its intermediate holding company or such company holding the business conducted or to be conducted by the Subsidiary and its subsidiaries on an internationally recognized stock exchange whether in Hong Kong or elsewhere (the "Listing") or the expiry of the ten-year period from the Adoption Date, whichever is earlier.
- (v) The period for which an option must be held before it can be exercised shall be determined by the board of directors of the Subsidiary. 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.

Share Options *continued*

(b) Share Option Schemes of subsidiaries *continued*

- (vi) The exercise price shall be the higher of (i) such amount representing not more than four times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes and (ii) the nominal value of a share of the Subsidiary. For any option granted during the period commencing six months before the lodgement of an application with the relevant stock exchange for the Listing and at any time thereafter, the subscription price of a share shall not be less than the higher of (i) the issue price of a share at the Listing; (ii) such amount representing not more than four times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes and (iii) the nominal value of a share of the Subsidiary.
- (vii) The life of the Subsidiary Share Option Schemes is until the earlier of (a) the date of the Listing or (b) the tenth anniversary date of the Adoption Date, after which period no further options will be granted and no options shall be exercisable.
- (viii) In the event the relevant stock exchange prohibits the exercise of the option by the grantee at the exercise price set out above, or upon occurrence of certain circumstances as stipulated in the Subsidiary Share Option Schemes, before the Listing and subject to the participant having fulfilled the terms and conditions of the option, the Subsidiary shall redeem the option at a cash consideration being not more than five times the "Latest Earnings Per Share" as defined in the Subsidiary Share Option Schemes.

As at 31 March 2003, the total number of shares available for issue under the Subsidiary Share Option Schemes of ADPDL and NMPL were 805,000 and 275,000 respectively, representing 8.05% and 2.75% of the issued share capital of ADPDL and NMPL.

Share Options *continued*

(b) Share Option Schemes of subsidiaries *continued*

The following share options were outstanding under the Subsidiary Share Option Schemes at 1 April 2002 and at 31 March 2003:

Apple Daily Publication Development Limited

Name or category of participant	No. of options as at 01/04/02	No. of options granted during the year	Date of grant	Exercise price per share	Exercisable period	Outstanding as at 31/3/03
Director						
Ting Ka Yu, Stephen	–	50,000	22/1/03	Refer to above (b)(vi)	Not yet determined	50,000
	–	25,000	26/3/03	Refer to above (b)(vi)	Not yet determined	25,000
Ip Yut Kin	–	100,000	22/1/03	Refer to above (b)(vi)	Not yet determined	100,000
Employees						
In aggregate	–	435,000	8/1/03	Refer to above (b)(vi)	Not yet determined	435,000
	–	45,000	22/1/03	Refer to above (b)(vi)	Not yet determined	45,000
	–	150,000	26/3/03	Refer to above (b)(vi)	Not yet determined	150,000
Total outstanding						805,000

Next Media Publishing Limited

Name or category of participant	No. of options as at 01/04/02	No. of options granted during the year	Date of grant	Exercise price per share	Exercisable period	Outstanding as at 31/3/03
Employees						
In aggregate	–	275,000	8/1/03	Refer to above (b)(vi)	Not yet determined	275,000

No options, in relation to either scheme, were exercised, cancelled or lapsed during the year.

Details of the Company's share option schemes and the Subsidiary Share Option Schemes are also set out in note 22 to the Accounts.

Directors

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

Executive Directors:

Mr. Lai Chee Ying, Jimmy (Chairman) ("Mr. Lai")

Mr. Ting Ka Yu, Stephen

Mr. Kok Hon Kay, Peter

Mr. Ip Yut Kin

Mr. Chow On Kiu, Andrew (resigned on 6 December 2002)

Independent Non-executive Directors:

Mr. Yeh V-nee

Mr. Fok Kwong Hang, Terry

In accordance with Article 85 of the Company's Articles of Association, none of the executive directors are subject to retirement by rotation. The non-executive directors are subject to retirement in accordance with Article 84 of the Company's Articles of Association. Mr. Yeh V-nee retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

Subject to the abovesaid retirement by rotation for all non-executive directors, each of the existing independent non-executive directors has been appointed for a fixed term expiring on 31 March 2005.

The biographical details of the current directors as at the date of this report are set out on pages 54 to 55 of this annual report. Details of directors' remuneration are provided under note 12 to the Accounts.

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 Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's businesses to which the Company, its 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 year.

Directors' Interests in Equity or Debt Securities

At 31 March 2003, the interests of the Directors and their associates in the shares and options 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:

(a) Interests in the Ordinary Shares of the Company

Directors	Number of shares				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Mr. Lai	733,902,535	–	4,692,400	–	738,594,935
Mr. Ting Ka Yu, Stephen	5,790,314	–	–	–	5,790,314
Mr. Kok Hon Kay, Peter	14,123,152	–	–	–	14,123,152
Mr. Ip Yut Kin	18,558,386	3,140,000	–	–	21,698,386
Mr. Yeh V-nee	300,000	–	–	26,000 (Note)	326,000
Mr. Fok Kwong Hang, Terry	500,000	–	–	–	500,000

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 V-nee 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.

(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

Note: The preference shares are convertible into ordinary shares of HK\$1.00 each of the Company at an initial conversion price of HK\$1.75 during a period of five years from 26 October 2001.

(c) Interests in Share Options of the Company and its subsidiaries

As at 31 March 2003, Mr. Ting Ka Yu, Stephen had options to subscribe for 1,618,000 shares of the Company at an exercise price of HK\$1.67 per share. During the year, Mr. Ting Ka Yu, Stephen and Mr. Ip Yut Kin were granted options to subscribe for 75,000 shares and 100,000 shares respectively of ADPDL. Details of these share options are set out under the section headed "Share Options" above.

Save as disclosed above, none of the Directors or their associates had any interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 March 2003.

Substantial Shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 March 2003, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares
Mr. Lai	738,594,935

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 of the Company" under "Directors' Interests in Equity or Debt Securities" above.

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 Mr. Yeh V-nee and Mr. Fok Kwong Hang, Terry, both being independent non-executive directors of the Company.

The Audit Committee is responsible for providing an independent review of the financial reporting, internal controls and audits of the Company. During the year, the Audit Committee reviewed the interim and annual financial statements of the Company before submission to the Board. With the assistance of the auditors, the Audit Committee also reviewed the adequacy and effectiveness of the Company's systems of internal control and made recommendations to the Board.

Codes of Conduct

The Group has adopted a set of codes of conduct including preventing conflict of interests, declaration of interests, practices against corruption and data privacy etc. to promote the integrity of the business ethics of the Group. 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.

The Company has stringent internal control policies and procedures to ensure that there will be no unauthorized use or misappropriation of the Company's assets. Transactions are carried out through proper procedures and with instructions from management.

(b) Connected and Related Party Transaction Committee

The committee comprises senior staff of the Company and finance heads of the main operating subsidiaries for the purpose of conducting reviews on all possible connected and related party transactions. The committee meets as and when required to consider and review any ad hoc possible related party transactions. If such transactions would constitute connected transactions for the Company, the committee would determine the necessary actions to be taken to ensure compliance with the Listing Rules requirements.

(c) Securities Transactions by Directors

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

Disclosure and Dissemination of information

The Company discloses details of major activities, price sensitive information and transactions in accordance with the requirements of the Listing Rules. The Company has formally adopted a set of procedures in communicating with analysts and the media by reference to the Guide on disclosure of price-sensitive information issued by the Stock Exchange. Designated officers have been appointed as the Company's representatives in communicating with analysts and the media.

To enhance transparency, the Company has made use of various channels to ensure effective disclosure of information. These include dissemination of news through press release and press announcements, interim reports and annual reports. Shareholders and the public may also access these information from the Group's website at <http://www.nextmedia.com>.

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.

Provident Fund Schemes

Details of the provident fund schemes of the Group are set out in note 25 to the Accounts.

Auditors

The Accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ting Ka Yu, Stephen

Director

Hong Kong, 9 June 2003