

# management discussion and analysis

Next Media again achieved satisfactory financial results during the year ended 31 March 2006. Against a backdrop of fierce competition in the marketplace, it maintained its unchallenged position as Hong Kong's largest print media group. Meanwhile, its Taiwan operation became profitable for the first time during the year.

## Operational Review Overview of Major Markets

### Hong Kong

Hong Kong's economy grew steadily during the year under review. The unemployment rate declined and market sentiment strengthened. Meanwhile, the city's print media industry grew increasingly mature. With few opportunities to achieve significant growth in new directions, publishers vied with each other to increase their shares of the existing market, in terms of readership and advertising revenue.

Despite this strong rivalry, Next Media remained by far the biggest Chinese-language print media conglomerate in Hong Kong. All its publications retained the solid market shares they have built up over the years.

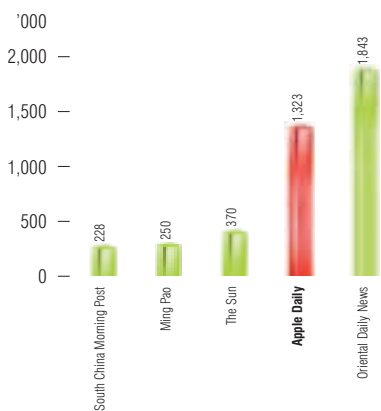
According to the 2005 Nielsen Media Index: Hong Kong Report (January – December 2005) (the "2005 Nielsen Report"), the two top dailies continued to dominate the market. Their combined readership of 3,166,000 accounted for 60 percent of the total Hong Kong population aged 12 or over – a marginal increase in their 2005 market share.

*Apple Daily* remained one of Hong Kong's bestselling newspapers, despite the launch of several new free dailies and the decision by one of its competitors to cut its cover price. Its advertising revenue also held steady.

*Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly* ("*Sudden Weekly Bundle*"), and *Easy Finder* and *Eat & Travel Weekly* ("*Easy Finder Bundle*") all kept their firm

**Top Five Newspapers' Readership in Hong Kong**

for the period from Jan 2005–Dec 2005



grips on leadership status in their respective markets in the face of challenges from other publications and the growing popularity of online media. The 2005 Nielsen Report confirmed that they were three of the five most widely read weeklies in Hong Kong, and their combined weekly readership of 1,476,000 accounted for 28 percent of the population aged between 12 and 64. Next Media's titles also continued to exert a strong appeal among advertisers.

**Taiwan**

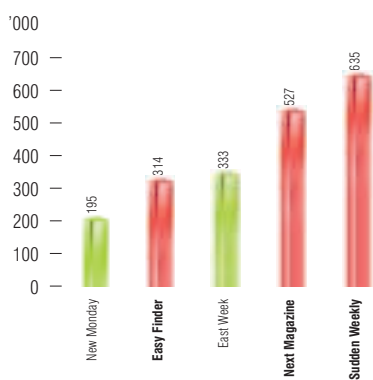
Taiwan is a vibrant society. By Asian standards, its 23 million people are well educated and affluent. They have enthusiastically embraced democracy in recent years, and established vigorous traditions of free speech and a free press.

In contrast, Taiwan's print media remained rather conservative and dull. Many of its publications presented the news in an uninteresting way, whereas others served as biased mouthpieces for individuals, and the special interests of different business and political sectors.

This has changed greatly since the arrival of *Taiwan Next Magazine* in 2001 and the launch of *Taiwan Apple Daily* in 2003. Their incisive journalistic style and colourful and lively layouts – adapted from their Hong Kong counterparts but with 100 percent local content – have caused a major transformation in the way news is reported and presented on the island. Taiwan's information-hungry public have given them a hearty welcome.

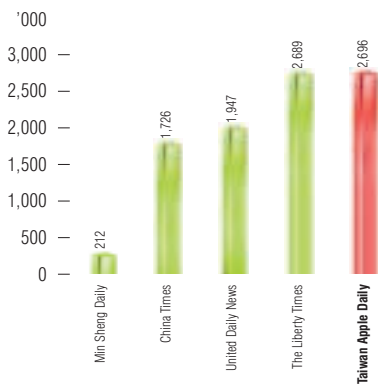
**Top Five Chinese Weekly Magazines' Readership in Hong Kong**

for the period from Jan 2005–Dec 2005



Top Five Newspapers' Readership in Taiwan

for the period from Jan 2005 – Dec 2005



According to ACNielsen (Taiwan) Limited ("ACNielsen Taiwan"), the island's four most widely read newspapers (*Apple Daily*, *China Times*, *Liberty Times* and *United Daily*) enjoyed a combined daily readership of 9,058,000 during 2005. This represented 55.5 percent of the population aged over 12.

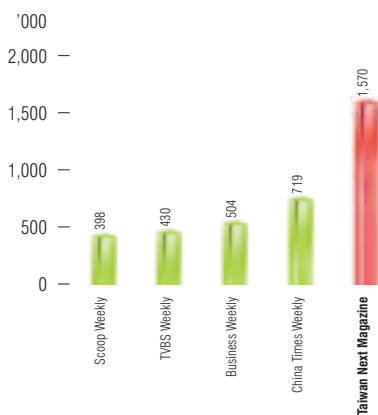
In less than three years, the readership of *Taiwan Apple Daily* has outstripped those of all other Taiwan dailies. It has now become the island's most widely read newspaper. Such is the degree of loyalty it inspires among its readers that they remained unfazed by a 50 percent increase in its cover price (from NT\$10 to NT\$15) on 1 September 2005.

*Taiwan Next Magazine* remained head and shoulders above its competitors. ACNielsen Taiwan reported that it enjoyed an average weekly readership of 1,570,000 readers aged 12-60 during 2005, compared with the 719,000 readership of its closest competitor.

Although the island's advertising spending as a whole declined by 13.2 percent in 2005, the advertising and sales revenues of both Next Media titles increased during 2005/06. *Taiwan Next Magazine* remained highly profitable, whereas *Taiwan Apple Daily* became profitable during the year. This means the Group's entire Taiwan operation is now in the black for the first time.

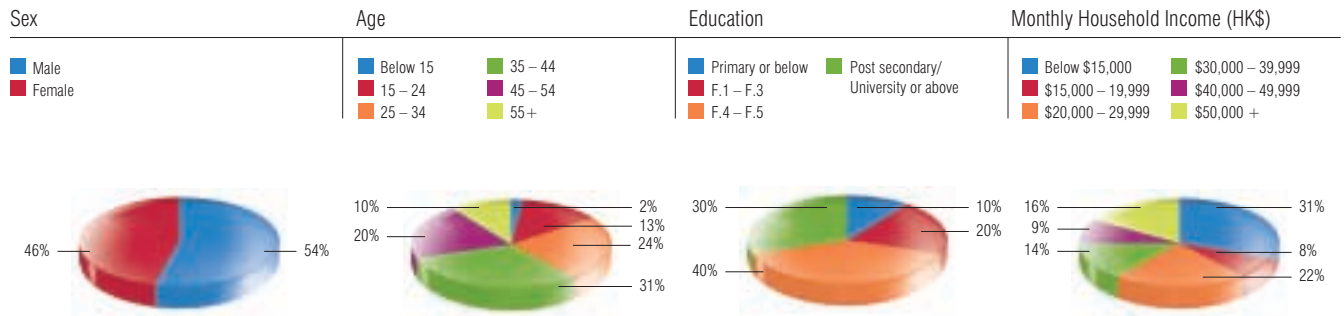
Top Five Chinese Weekly Magazines' Readership in Taiwan

for the period from Jan 2005 – Dec 2005



Readership Profile of *Apple Daily*

Source: 2005 Nielsen Media Index: Hong Kong Report



**Business Performance**

The year ended 31 March 2006 was the fourth full year since the Group acquired Database Gateway Limited and its subsidiaries in October 2001. The Group's turnover totalled HK\$3,322.0 million, an increase of 13.3 percent on the previous financial year's figure of HK\$2,932.2 million. As in the two previous years, a large percentage of this increased turnover was directly attributable to income from *Taiwan Apple Daily*.

**Newspapers Publication and Printing Division**

The Group's Newspapers Publication and Printing Division again generated the largest share of its total turnover in 2005/06. Its turnover rose to HK\$2,275.0 million, an increase of 18.7 percent on the figure of HK\$1,916.9 million during the previous financial year.

**Apple Daily**

*Apple Daily* continued to be the second most widely read newspaper in Hong Kong during 2005. Its popularity in the hearts and minds of well-educated, middle-income mass-market readers held steady, notwithstanding the strong competition from paid-for titles, the launch of two new free dailies, the decision of another daily newspaper to cut its cover price, and the growing popularity of online media as alternative sources of information.

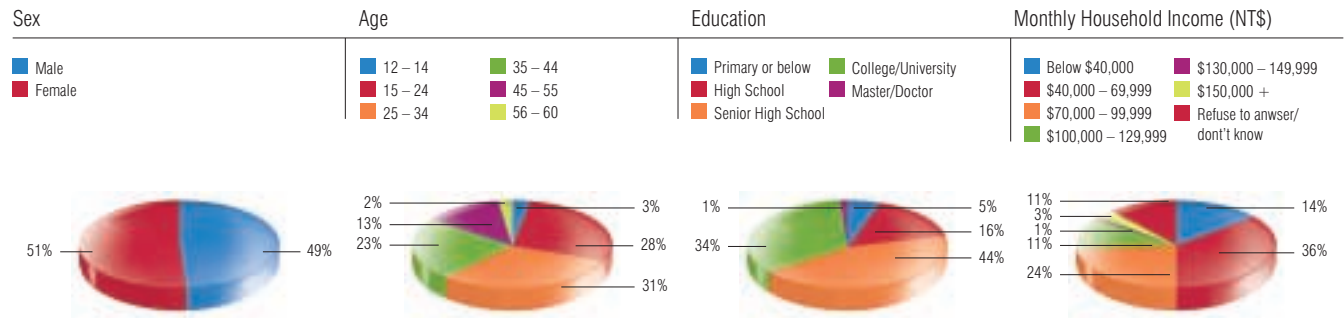
The 2005 Nielsen Report revealed that *Apple Daily* enjoyed an average daily readership of 1,323,000 people aged 12 and above, compared with a figure of 1,288,000 during 2004, an increase of 35,000 or 2.7 percent. However, the Hong Kong Audit Bureau of Circulations (the "HKABC") figures for July to December 2005 indicated average daily sales were 316,923 copies, a decline of 26,379 copies or 7.7 percent compared to the 343,302 copies sold daily in the corresponding period of 2004. This was the result of fierce competition in the market.

During the year under review, *Apple Daily's* total turnover was HK\$1,161.1 million, a slight decrease of 2.9 percent on the previous year's figure of HK\$1,195.2 million. Of this, circulation sales income accounted for HK\$422.7 million, a decrease of HK\$34.0 million or 7.4 percent compared to the previous year's figure of HK\$456.7 million. Advertising declined slightly by HK\$0.1 million from HK\$738.5 million in 2004/05 to HK\$738.4 million during 2005/06.

*Apple Daily* maintained a high degree of market penetration, especially among consumers with above-average incomes and educational levels. The proportions of its readers whose monthly personal incomes exceeded HK\$20,000 a month and whose monthly household incomes exceeded HK\$40,000 remained higher than those of its main rival, as was the percentage of its readers in the professional/managerial/executive category.

Readership Profile of *Taiwan Apple Daily*

Source: ACNielsen (Taiwan) Ltd.



The strong reader loyalty *Apple Daily* enjoys also makes it a highly attractive medium for advertisers eager to reach these key target audiences. Thus, it is an indispensable advertising tool for leading product and service brands. The newspaper is likely to remain a major revenue source for the Group in the foreseeable future.

**Taiwan Apple Daily**

The launch of *Taiwan Apple Daily* in May 2003 breathed new life into the island's media industry. Despite having a free press environment, Taiwan's existing dailies lagged behind their counterparts in other regions of Asia, continuing to present news in a conservative and monotonous manner, mainly in a black-and-white format. This lack of excitement was mirrored by the way newspapers were distributed. Most of their sales were via subscriptions, which readers ordered as a matter of habit.

*Taiwan Apple Daily* broke the mould from the moment the first issue appeared. Its outspoken and insightful writing style was matched by a vivid and vigorous layout. The eye-catching appearance was not merely intended to give readers something more attractive to look at: *Taiwan Apple Daily* also adopted an innovative distribution model. Ninety-eight percent of its print run went on sale in convenience stores and similar retail outlets. Thus, it needed to capture the attention of passers-by – and ensure they bought a copy, day after day.

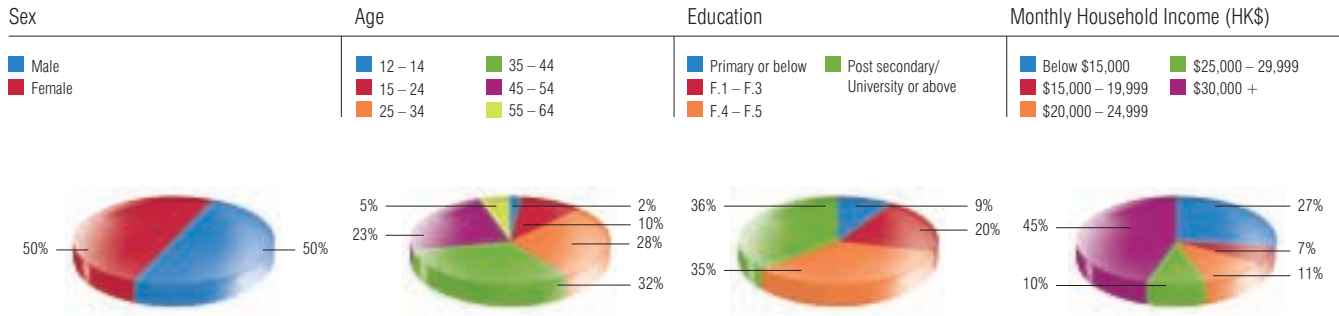
During the year under review, *Taiwan Apple Daily* continued to strengthen its popularity among the island's readers. It surpassed the readership level of the island's other bestselling newspapers during 2005, garnering an average daily readership of 2,696,000 readers a day, according to data from ACNielsen Taiwan. The Audit Bureau of Circulations, Republic of China ("ROCABC") confirmed that *Taiwan Apple Daily* sold an average of 527,609 copies a day between July and December 2005, an increase of 24,211 copies a day or 4.8 percent on the figure of 503,398 for the same period in 2004.

ACNielsen Taiwan reported that *Taiwan Apple Daily* was the only major Taiwan newspaper whose readership in every category increased fast during the year. *Taiwan Apple Daily* also grew ever more popular among readers of every educational level and geographical sector, and both urban and rural residents. Sixty-two percent of its readers were aged below 35, and 22 percent were students, giving it a more youthful readership profile than any of its competitors.

The meteoric rise in its readership has been mirrored by the growth in *Taiwan Apple Daily's* advertising income. Whereas total advertising spending in Taiwan declined by 13.2 percent in 2005, *Taiwan Apple Daily's* advertising income grew from HK\$458.6 million to HK\$700.3 million, a remarkable increase of 52.7 percent.

Readership Profile of *Next Magazine*

Source: 2005 Nielsen Media Index: Hong Kong Report



As a result, *Taiwan Apple Daily's* financial position has strengthened steadily, and it achieved its first-ever profit of HK\$1.2 million for the year ended 31 March 2006, compared with a loss of HK\$196.3 million for the previous year. Its impressive record to date encourages the Group's belief that *Taiwan Apple Daily* will become one of its major profit centres in the near future.

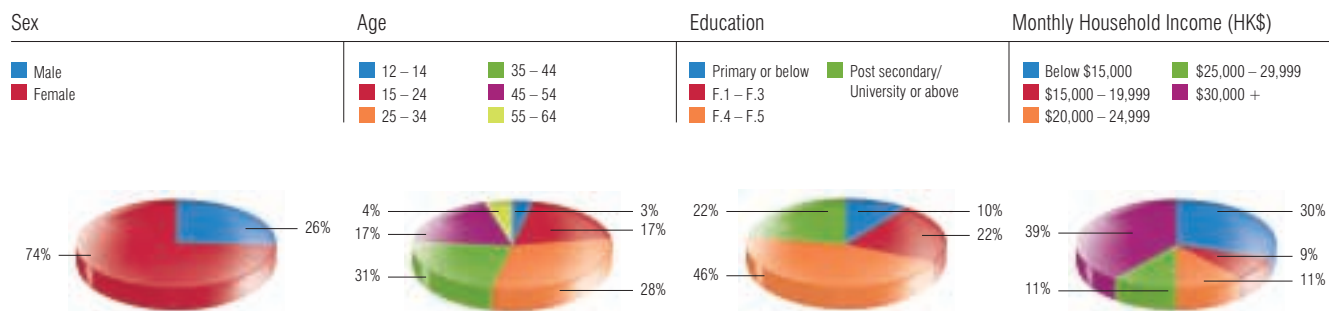
**Apple Daily Printing Limited**

The Group's newspaper printing business grew during the past fiscal year, fortifying its status as a long-term mainstay of the Group's success. Revenue from all printing activities in Hong Kong during 2005/06 amounted to HK\$414.8 million, a rise of 14.0 percent on the previous year's figure of HK\$363.8 million. Besides providing a full spectrum of printing support services to the

Group's own titles, Apple Daily Printing Limited also enlarged its portfolio of external customers. Excluding transactions with Next Media titles, the Division's turnover in the 2005/06 financial year was HK\$99.1 million, a year-on-year increase of HK\$39.0 million or 64.9 percent on the previous year's figure of HK\$60.1 million.

Readership Profile of *Sudden Weekly Bundle*

Source: 2005 Nielsen Media Index: Hong Kong Report



**Books and Magazines Publication Division**

The turnover of the Group's Books and Magazines Publication Division rose to HK\$902.1 million during the year under review. This was 1.9 percent more than the previous year's figure of HK\$885.3 million.

**Next Magazine**

Notwithstanding tremendous market competition, the turnover and profitability of *Next Magazine* remained stable, and it maintained its No. 2 ranking in the Hong Kong weekly magazine market.

The 2005 Nielsen Report showed that the average weekly readership of *Next Magazine* among 12 to 64-year-olds rose to 527,000 from 485,000 during the preceding year, an increase of 42,000 or 8.7 percent. On the other hand, the HKABC reported a slight dip of 7,008 copies or 4.9 percent in the number of copies sold, from 141,642 in the second half of 2004 to 134,634 in the same period of 2005.

Even so, *Next Magazine's* popularity among both male and female readers with post-secondary/tertiary education remained unequalled; it continued to reach a far higher percentage of such people than any other weekly. This accounted for its sustained appeal among advertisers, who regard it as an obligatory medium for selling their products and services to young, affluent managers and professionals. Against fierce competition, *Next Magazine's* advertising revenue grew slightly, from HK\$189.7 million in the 2004/05 financial year to HK\$191.2 million in 2005/06.

**Sudden Weekly Bundle**

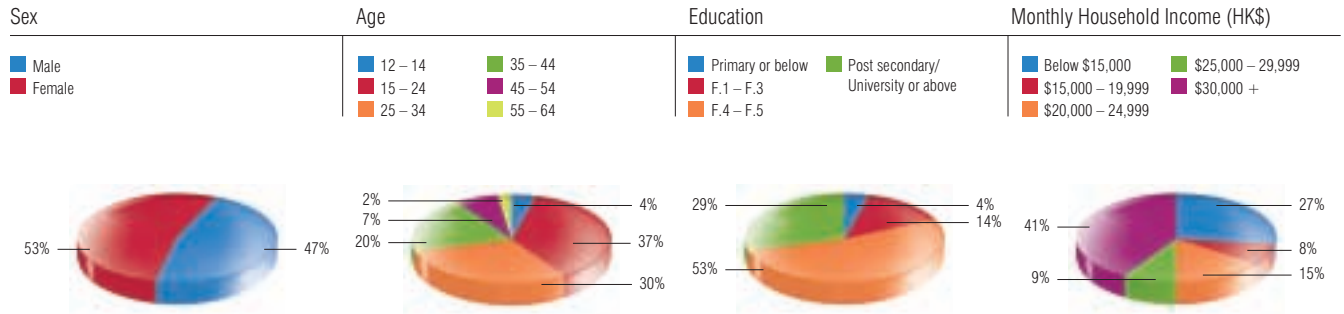
Its unique breadth and depth of appeal, coupled with its clear positioning and up-to-the-minute coverage, ensured that *Sudden Weekly Bundle* kept a firm hold on its status as the most widely read weekly magazine in Hong Kong.

During the 12 months ended 31 December 2005, its readership rose to 635,000 from 545,000, an increase of 16.5 percent, according to the 2005 Nielsen Report. It also reported that 74.2 percent of the magazine's readers were female; almost 76.0 percent were in the 15 to 44 age category; and 60.6 percent had a monthly household income in excess of HK\$20,000. HKABC figures indicated that sales of *Sudden Weekly Bundle* during the second half of 2005 averaged 196,328 copies a week, compared to the 198,811 sold in the same period of 2004, a small decline of 2,483 copies or 1.2 percent.

The total revenue of *Sudden Weekly Bundle* stood at HK\$226.7 million against the previous year's figure of HK\$226.6 million. Due to keen market competition, its advertising revenue declined to HK\$153.0 million from the previous year's figure of HK\$153.6 million, a small decline of 0.4 percent.

Readership Profile of *Easy Finder Bundle*

Source: 2005 Nielsen Media Index: Hong Kong Report



**Easy Finder Bundle**

Riding on a reputation for delivering in-depth coverage of all the hottest fashions and trends to younger, brand-conscious readers, *Easy Finder Bundle* remained one of the Hong Kong's most widely read weeklies and the leader in its category, as well as a firm favourite among media planners aiming to reach out to this high-spending market segment.

According to the 2005 Nielsen Report, the magazine had an average weekly readership of 314,000 12 to 64-year-olds during 2005, an increase of 4,000 or 1.3 percent on the 2004 figure of 310,000. Of these, 36.7 percent were in the 15-24 age group. At the same time, the HKABC reported that sales in the second half of 2005 stood at a weekly average of 92,445 copies, compared with 99,144 in the same period of 2004, a fall of 6,699 copies or 6.8 percent.

During 2005/06, the *Easy Finder Bundle's* combined sales and advertising revenue totalled HK\$143.9 million, a rise of 2.6 percent on the previous year's figure of HK\$140.3 million.

**Taiwan Next Magazine**

From the moment its first issue hit the newsstands in 2001, the forthright voice and lively format of *Taiwan Next Magazine* have won the hearts and minds of readers. It has also earned it the uncontested reputation of being the island's hardest-hitting, most-talked-about and bestselling weekly.

Data compiled by ACNielsen Taiwan showed that *Taiwan Next Magazine* was read by an average of 1,570,000 people in the 12-60 age group during 2005. It accounted for almost half the combined readership of all Taiwan's top five weekly magazines. It also had more than twice

as many readers as its nearest rival, a gap that widened considerably since the previous year. ROCABC figures for July-December 2005 revealed that *Taiwan Next Magazine* sold an average of 140,126 copies a week, almost unchanged from the figure of 140,108 copies a year earlier.

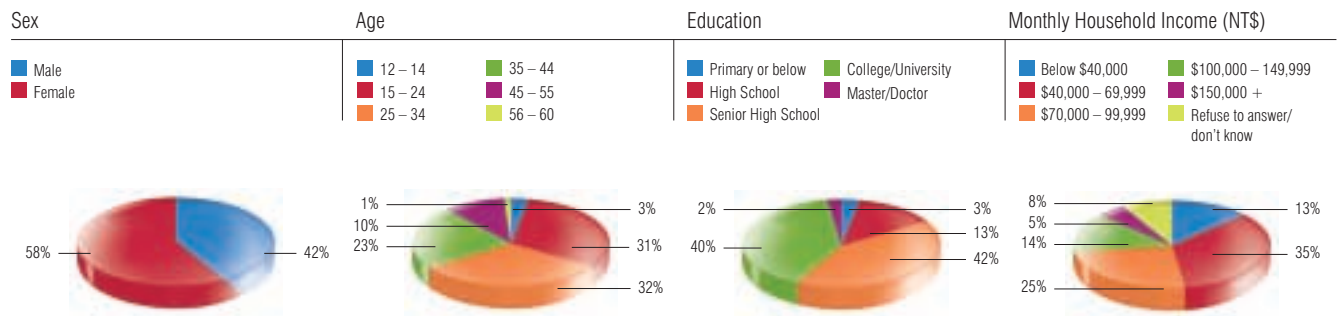
In 2005/06, *Taiwan Next Magazine's* advertising income totalled HK\$155.4 million, an increase in the order of 12.0 percent on the previous year's figure of HK\$138.8 million. The title made a segment profit of HK\$43.9 million, which was 3.3 percent less than the previous year's figure of HK\$45.4 million.

*Taiwan Next Magazine's* supremacy in the local weekly magazine market is likely to continue to attract business from the island's top advertisers and ad agencies. This is expected to maintain its position as a key profit centre for the Group in the coming years.



Readership Profile of *Taiwan Next Magazine*

Source: ACNielsen (Taiwan) Ltd.



**Books and Magazines Printing Division**

The Books and Magazines Printing Division made another significant contribution to the Group's income during 2005/06. Its turnover totalled HK\$306.3 million, an increase of 9.5 percent on the previous financial year's figure of HK\$279.7 million. Of this amount, HK\$190.6 million consisted of intersegmental sales, whereas the value of its business with external customers was HK\$115.7 million, an increase of 9.0 percent on the previous year's figure of HK\$106.1 million.

The Division continued to receive a steady stream of work from companies in Hong Kong, North America, Europe and Australasia. The Group is convinced that it will continue to derive a stable flow of revenue from commercial printing operations in the future.

**Internet Division**

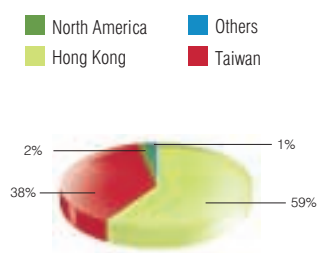
The Group's Internet Division provides a convenient and inexpensive way for local and overseas readers to access online editions of their favourite Next Media publications.

During 2005/06, the Division's revenue increased to HK\$29.2 million, a rise of 21.7 percent on the previous year's figure of HK\$24.0 million. Its segment profit rose by 18.8 percent, from HK\$11.2 million to HK\$13.3 million.

Subscription fees accounted for the majority of the Division's earnings, followed by advertising revenue and content licensing. Much of its growth during the past year was due to increases in subscription rates and advertising revenue.

A growing number of advertisers now use online media as an important marketing tool. The Group is cautiously optimistic that it will be able to exploit this demand, and increase the revenue it derives from this sector in the future.

## Turnover



## Financial Review

## Consolidated Financial Results

## Turnover

The Group recorded a total turnover of HK\$3,322.0 million during the year ended 31 March 2006. This was 13.3 percent greater than the figure of HK\$2,932.2 million achieved in the preceding 12 months. The increase in turnover was primarily driven by *Taiwan Apple Daily*, which accounted for HK\$1,014.7 million or 30.5 percent of the total turnover of the year.

In terms of geographical markets, Hong Kong remained the Group's bedrock, and its biggest source of revenue, accounting for HK\$1,977.5 million or 59.5 percent of its total turnover in the 2005/06 financial year.

The turnover it derived from Taiwan increased substantially during the same period. These rose by 41.9 percent, from HK\$881.5 million to HK\$1,250.8 million. Taiwan is now the Group's second-largest revenue earner, accounting for 37.7 percent of the total, up from 30.1 percent the previous year.

In operational terms, newspaper publication and printing remained the Group's principal revenue source. The Newspapers Publication and Printing

Division contributed HK\$2,275.0 million or 68.5 percent of its total turnover. This was an increase of HK\$358.1 million or 18.7 percent on the figure of HK\$1,916.9 million for the previous year, or 65.4 percent of the Group's total revenue in the previous year.

The Books and Magazines Publication Division also performed well. It generated HK\$902.1 million or 27.2 percent of the Group's total turnover. Meanwhile, the Internet Division contributed HK\$29.2 million or 0.9 percent of the total. These two divisions scored increases of 1.9 percent and 21.7 percent on their respective turnovers of HK\$885.3 million and HK\$24.0 million during the previous year.

## EBITDA and Segment Results

The Group's Earnings Before Interest, Taxes, Depreciation and Amortisation (EBIDTA) and before impairment loss in respect of intangible assets for the year ended 31 March 2006 amounted to HK\$720.3 million. This represents an increase of HK\$176.9 million over the figure of HK\$543.4 million achieved during the preceding financial year. The improvement in the Group's performance was primarily attributable to a substantial improvement in the performance of *Taiwan Apple Daily*.



The Group achieved a segment profit of HK\$475.7 million during the year under review. This was 240.5 percent higher than the segment profit of HK\$139.7 million reported in the previous financial year.

The segment profit of the Group's Newspapers Publication and Printing Division during the 2005/06 financial year was HK\$299.5 million, representing a 179.1 percent increase over the previous year's figure of HK\$107.3 million.

The Group's Books and Magazines Publication Division contributed a segment profit of HK\$160.0 million before a non-recurring impairment loss recognised in respect of intangible assets amounting to HK\$45.0 million. This represented an increase of 41.8 percent on the previous year's figure of HK\$112.8 million before a non-recurring impairment loss recognised in respect of intangible assets amounting to HK\$136.9 million.

### Operating Expenses

The Group's operating expenses during the 2005/06 financial year totalled HK\$2,806.7 million. This represented an increase of HK\$37.7 million or 1.4 percent compared to the previous year's figure of HK\$2,769.0 million. Of this amount, HK\$2,031.9 million or roughly 72.4 percent was attributable to essential production costs, including paper. Personnel costs (excluding direct production staff costs) accounted for HK\$368.8 million or 13.1 percent of total operating expenses. This represented an increase of HK\$45.1 million or 13.9 percent over the previous year's figure of HK\$323.7 million. Another major contributing factor to the Group's operating expenses was the depreciation of property, plant and equipment and release of prepaid lease payments, which accounted for HK\$145.9 million or 5.2 percent of the total amount.

### Taxation

During the year ended 31 March 2006, the taxes levied on the Group amounted to HK\$74.5 million, an increase of 26.5 percent compared to the previous year's figure of HK\$58.9 million. The difference was mainly due to a deferred tax of HK\$37.2 million credited to the consolidated income statement for 2004/05 financial year.

### Financial Position

#### Current Assets and Current Liabilities

As at 31 March 2006, the Group held HK\$1,485.1 million in current assets, an increase of 13.5 percent over the figure of HK\$1,307.9 million 12 months earlier. The Group's total liabilities on the same date were HK\$1,085.2 million. This represented an increase of 15.3 percent on the figure of HK\$941.5 million a year earlier. The Group's cash in hand totalled HK\$676.4 million as at 31 March 2006. The current ratio as at 31 March 2006 was 260.6 percent, a decrease of 11.9 percent, compared to the ratio of 295.8 percent that existed on 31 March 2005.



### Accounts Receivable

As at 31 March 2006, the Group's accounts receivable totalled HK\$501.4 million, an increase of 12.0 percent over the figure of HK\$447.5 million a year earlier. The average turnover days for the Group's accounts receivable as at 31 March 2006 was 52.1 days, compared to 53.4 days on the same date of the previous year.

### Accounts Payable

As at 31 March 2006, the Group's accounts payable amounted to HK\$151.2 million. This was roughly 31.6 percent more than the figure of HK\$114.9 million on the same date of the previous year. The average turnover days for its accounts payable was 38.3 days, compared with 36.4 days on the same date of the previous year.

### Long-term and Short-term Liabilities

As at 31 March 2006, the Group's long-term liabilities, including current portions, totalled HK\$260.4 million. This represented an increase of 19.9 percent on the figure of HK\$217.2 million on the same date of the previous year. As at 31 March 2006, the current portion of the Group's long-term liabilities stood at

HK\$79.6 million, an increase of 48.0 percent measured against the figure of HK\$53.8 million a year earlier.

### Borrowing and Gearing

The Group's primary source of financing for its operations during the 2005/06 financial year was the cash flow generated by its operating activities and – to a lesser extent – banking facilities provided by its principal bankers.

During the year, its available banking facilities totalled HK\$495.4 million, of which HK\$295.6 million had been utilised. There was no seasonality in the Group's bank borrowing requirements, and all the monies borrowed bear interest at floating rates.

All the Group's bank borrowings during the year were denominated in New Taiwanese dollars. As at 31 March 2006, the Group possessed a total of HK\$676.4 million in cash on hand. Its gearing ratio on the same date was 5.8 percent, compared to 4.9 percent a year earlier. The Group's gearing ratios are calculated by dividing long-term liabilities, including current portions, by total asset value.

### Share Capital Structure

During the year, the Company issued 8,869,800 ordinary shares with a par value of HK\$1.00 each. The issue was a result of the exercise of certain share options by option holders at an exercise price of HK\$1.67 per share.

As at 31 March 2006, the Company's total issued share capital was HK\$3,101.6 million. This figure was made up of 1,491,643,281 ordinary shares with a par value of HK\$1.00 each and 920,000,000 preference shares with a par value of HK\$1.75 each.

### Cash Flow

The Group's net cash inflow from operating activities during the year ended 31 March 2006 amounted to HK\$559.7 million, whereas its cash inflow from operating activities in last year was HK\$328.1 million.

The outflow of investment-related cash during the same period totalled HK\$75.9 million. This figure represented an increase of 195.3 percent on the total amount of HK\$25.7 million during the previous financial year.



The Group's net cash outflow for financing activities during the year reached HK\$398.5 million, compared with the preceding year's net cash outflow figure of HK\$78.3 million. The 2005/06 figure mainly represented dividends paid in a total of HK\$447.2 million, repayment of bank borrowings of HK\$241.5 million and new borrowings raised amounting to HK\$286.8 million.

#### Exchange Rate Exposure and Capital Expenditure

The Group's assets and liabilities are mainly denominated in either Hong Kong dollars or New Taiwanese dollars. The Group continues to face exchange rate exposure due to its magazine and newspaper publishing operations in Taiwan. It intends to reduce such exposure by arranging bank loans in New Taiwanese dollars, as and when possible. As at 31 March 2006, the Group's net currency exposure stood at NT\$3,560.2 million (the equivalent of HK\$850.9 million) a decrease of 29.4 percent on the figure of NT\$5,042.6 million (the equivalent of HK\$1,244.5 million) a year earlier. The decrease in currency exposure was due to the Group's

arrangement of a four-year term loan worth NT\$1.2 billion with various leading Taiwanese banks with *Taiwan Apple Daily* as the borrower during the previous financial year. This loan was drawn down in two tranches of NT\$500.0 million and NT\$700.0 million in April and June 2005 respectively. The Group will continue to monitor its overall currency exposure, and will take steps to hedge further against such exposure, if and when necessary.

The Group's capital expenditure for the 2005/06 financial year totalled HK\$84.2 million, of which HK\$15.2 million was used to fund its operations in Taiwan. By the year-end, it had committed to further capital expenditure of HK\$91.9 million on its operations, of which HK\$86.3 million was to fund its operations in Taiwan.

#### Pledge of Assets

As at 31 March 2006, Next Media had pledged certain elements of the Group's Hong Kong and Taiwanese property portfolio and printing equipment to various banks as security for bank loans and general banking facilities granted to the Group. The aggregate net book value of these assets was HK\$669.2 million.

Various leading banks in Hong Kong have currently proposed a four-year syndication facility amounting to HK\$240.0 million to the Group for its consideration. If the Group decides to proceed with this facility, it will involve pledging further securities consisting of property and printing equipment bearing a net book value of HK\$370.2 million.

#### Contingent Liabilities

During the year under review, Next Media incurred contingent liabilities arising as a result of a number of litigation proceedings in Hong Kong and Taiwan. Such proceedings are an occupational hazard for those involved in the publishing business. The Group was also involved in a dispute with UDL Contracting Limited regarding amounts payable for the construction of a printing facility for a subsidiary, Apple Daily Printing Limited. As this dispute is now under arbitration, the final outcome of the proceedings remains uncertain.

When Next Media acquired Database Gateway Limited in October 2001 (the "Acquisition"), Mr. Lai Chee Ying, Jimmy ("Mr. Lai") agreed to provide unlimited personal indemnities (the "Indemnity") to



the Group. This Indemnity will help safeguard the Group against all payments, claims, suits, damages and settlement payments and associated costs and expenses arising as a result of certain legal proceedings (including the dispute with UDL Contracting Limited) involving the businesses acquired through the Acquisition. Mr. Lai has subsequently procured a bank guarantee of HK\$60.0 million in favour of Next Media in respect of his obligations under the Indemnity.

Having carefully considered the advice of the Group's legal counsel and the Indemnity given by Mr. Lai, Next Media's Directors are of the opinion that any ultimate liability arising from these proceedings will have no material impact on the Group's financial position.

Next Media also maintains contingent liabilities which are related to various corporate guarantees the Company has provided to financial institutions for facilities utilised by certain of its subsidiaries. As at 31 March 2006, these contingent liabilities stood at HK\$125.4 million.

### **Impairment Loss in respect of Intangible Assets**

In light of the new accounting standards, particularly HKAS 38 in respect of the valuation of intangible assets, the Board appointed an independent professional valuer, Ernst & Young Transaction Advisory Services Limited ("E&Y"), to conduct a valuation of the Group's mastheads and publishing rights as at 31 March 2006, based on the value-in-use approach.

According to the valuation report issued by E&Y, the value of the Group's mastheads and publishing rights as at 31 March 2006 was HK\$1,541.0 million (31 March 2005: HK\$1,605.0 million) against the corresponding net book value of HK\$1,345.9 million, before impairment loss, as at 31 March 2006 (31 March 2005: HK\$1,482.8 million). Accordingly, a net revaluation surplus of HK\$195.1 million as at 31 March 2006 (31 March 2005: HK\$122.2 million) arose on a group basis, which comprised a revaluation surplus of HK\$224.6 million as at 31 March 2006 (31 March 2005: HK\$259.1 million) and a revaluation deficit of HK\$29.5 million as at 31 March 2006 (31 March 2005: HK\$136.9 million) calculated on an individual masthead basis.

In regard to the revaluation deficit for that masthead and publishing right, the Directors considered that, as its carrying value exceeded the estimated recoverable amount and such impairment was not temporary in nature, an impairment loss of HK\$45.0 million should be recognised in the consolidated income statement for the year ended 31 March 2006 (for the year ended 31 March 2005: HK\$136.9 million).

No adjustment was made to the Group's financial statements for those masthead and publishing rights with revaluation surplus amounting to HK\$224.6 million as at 31 March 2006 (31 March 2005: HK\$259.1 million), as the Group's accounting policy is to state these intangible assets at cost less accumulated amortisation and accumulated impairment loss.





## Prospects and Outlook

### Looking Ahead

Next Media remains Hong Kong's biggest Chinese-language print media publisher. Each title in the Group's portfolio – *Apple Daily*, *Next Magazine*, *Easy Finder Bundle*, and *Sudden Weekly Bundle* – has gained a major share of its respective markets. The Group strongly believes that they will continue to generate steady income streams during the coming years, and that their advertising revenues will grow in tandem with the steady development of Hong Kong's economy. It intends to exert every effort to ensure that this happens.

At the same time, Taiwan's economy is expected to continue growing steadily during the coming months. The Group is confident that its operations in Taiwan will continue to flourish, and that these will contribute an increasing percentage of its future income. This optimism is driven by Taiwan's stable economic outlook, as well as by the encouraging successes of *Taiwan Next Magazine* and *Taiwan Apple Daily*, both of which have secured

leadership status in the island's print media industry within a very short space of time.

In particular, *Taiwan Apple Daily* has overtaken all its peers within three years to become the most widely read daily newspaper on the island. The Group will likewise dedicate itself to building on the firm foundations that it has established in Taiwan, and it will make it a priority to introduce more of the titles it has successfully pioneered in Hong Kong to the island.

### Dividend

The Directors recommend the payment of a final dividend of HK18 cents (2005: Nil) per ordinary share to the shareholders whose names appear on the register of members on Wednesday, 19 July 2006, which, together with the interim dividend and the special dividend per ordinary share will amount to a total of HK48 cents per ordinary share (2005: Nil). The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting to be held on Wednesday, 19 July 2006, will be paid on Friday, 28 July 2006.

### Book Close Period

The Register of Members of the Company will be closed from Monday, 17 July 2006 to Wednesday, 19 July 2006, both days inclusive, during which period no transfer of ordinary shares will be effected. All transfers of ordinary shares accompanied by relevant ordinary share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Friday, 14 July 2006, so as to qualify for the proposed final dividend.

### Forward-looking Statements

This document contains several statements that are "forward-looking", or which use various "forward-looking" terminologies. Such statements are based on the current beliefs, assumptions, expectations and projections of the Directors regarding the industry and markets in which the Group is active. Readers are reminded that such statements are subject to risks, uncertainties and other factors that are beyond the Group's control.