The Board of Directors of Next Media Limited (the "Company") presents the Interim Report and condensed accounts for the six months ended 30 September 2001 of the Company and its subsidiaries (the "Group"). The consolidated results, condensed consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 30 September 2001, and the consolidated balance sheet of the Group as at 30 September 2001, all of which are unaudited, along with selected explanatory notes, are set out on pages 7 to 20 of this report, and have been reviewed by the Company's audit committee and the Company's auditors.

REVIEW OF OPERATIONS

Financial Results

For the period under review, the total turnover of the Group increased by 14% from HK$191.2 million to HK$218.2 million. The total turnover consists of HK$90.6 million or approximately 41.5% from the Printing Division, HK$123.7 million or approximately 56.7% from Publishing Division and HK$3.9 million or approximately 1.8% from the Internet Division. The turnover of the Group for the period ended 30 September 2001 increased due to the expansion to Taiwan for the publishing business.

The unaudited consolidated loss of the Group for the six months ended 30 September 2001 amounted to HK$74.1 million compared with a restated loss of HK$48.7 million (please refer to note 2 to the unaudited condensed consolidated interim accounts ("Interim Accounts") for the details of the restatement) in the previous corresponding period. Printing Division reported an operating profit of HK$7.5 million for the six months ended 30 September 2001. However, the Publishing Division and Internet Division recorded a combined operating loss of HK$73.7 million.

Printing Division

In the period ended 30 September 2001, our Printing Division experienced a 16% drop in turnover as a result of decrease in printing contracts from various external customers and related parties such as Next Media International Holdings Limited ("Next International") and Apple Daily Limited.

Under the current depressed economy, our external customers became more price sensitive and hence our turnover from external customers dropped by 16% as compared with the same period in last year. The turnover from Next International and Apple Daily Limited reduced as a result of the clash in printing window of certain of their publications. The decrease was also partly due to the fierce competition and over capacity in the printing market which resulted in a more competitive price structure offered by the Group.

Publishing Division

The Group experienced a 56% growth in turnover of the Publishing Division which was mainly due to the additional turnover from the new *Taiwan Next Magazine* commenced on 31 May 2001. *Taiwan Next Magazine* had an average print-run of approximately 222,980 copies and weekly circulation of approximately 206,300 copies since its inception to 30 September 2001. The average number of copies sold represented more than 90% of the print-run of *Taiwan Next Magazine* for the same period.

Turnover of *Easy Finder* declined by 4%. The decline was mainly attributable to the decrease in advertising income as a result of keen competition and the general economic downturn in Hong Kong since early this year, which was further exacerbated by the 9-11 event.

The Group's intangible assets representing the mastheads of certain of the Group's magazines. Upon the adoption of Hong Kong Statement of Standard Accounting Practice ("SSAP") 29 "Intangible Assets", issued by the Hong Kong Society of Accountants, these mastheads are being amortised using the straight-line method over a period of 20 years from the date of acquisition. The amortisation charge to consolidated profit and loss account of the Group for the six months ended 30 September 2001 was HK$5.25 million (restated 2000: HK$5.25 million).

Internet Division

The Internet business leveraged the brand name and content capabilities of the Group and brought in approximately HK$3.9 million in turnover for the period ended 30 September 2001. The sources of income were advertising, content licensing and subscription.

During the period, the Group maintained tight control on the costs of this business with a view to increasing efficiency and improving competitiveness. As a result, the operating loss dropped sharply from HK$70.3 million to HK$22.6 million for the six months ended 30 September 2000 and 2001 respectively.

In addition, the carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. During the period, the Group recognised HK$9.5 million impairment loss on fixed assets in the Internet Division.

Financial Resources

The Group financed its operations principally by banking facilities, internal resources and the shareholder's loan from Mr. Lai Chee Ying, Jimmy ("Mr. Lai"). As at 30 September 2001, the Group had a long term loan facility from an international bank in the amount of HK$94.2 million which was secured by the Group's property at Tseung Kwan O.

During the period, the Group obtained an overdraft facility of HK$60 million from a bank. This facility was secured by a charge over machinery and a floating charge over certain accounts receivable of the Group. As at 30 September 2001, HK$54.1 million of the facility was utilised but the whole amount was fully repaid in October 2001.

Interest rates for the Group's banking facilities ranged from HIBOR plus 2% per annum to Prime per annum and there was a fixed-interest rate term loan in the amount of HK$2,520,000. This term loan was secured by the Group's machinery.

The shareholder's loan in the amount of HK$215.2 million comprised principals of HK$200 million and accrued interest up to 31 March 2001 of HK$15.2 million. The loan ceased to be interest bearing since 1 April 2001. Subsequent to the completion of the acquisition of Database Gateway Limited ("DGL") and its subsidiaries (the "DGL Group") in October 2001, the shareholder's loan was fully capitalized.

As at 30 September 2001, the Group had unutilized credit facilities granted by various banks of approximately HK$27.9 million from its total available banking facilities of approximately HK$181.7 million and bank and cash balances of approximately HK$15.5 million. The gearing ratio of the Group is 205.8% calculated by dividing the long term liabilities by the shareholders' funds. Based on the pro forma combined condensed balance sheet shown under the section "SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION", the gearing ratio of the Group after completion of the acquisition of the DGL Group is 10.4% calculated by dividing the long term liabilities by the shareholders' funds. The Group had no material contingent liability as at 30 September 2001 and had limited exposure to foreign exchange fluctuation.

As at 30 September 2001, an aggregate net book value of HK$266.4 million of the Group's assets were pledged to banks to secure certain facilities.

The Group's principal capital expenditure and liquidity requirements include the funding of operating losses and working capital in the development and operations of its business in Taiwan. The Group will finance its operations partly through cash flows from operations and partly through debt financing from bank facilities. With the capitialisation of the shareholder's loan and the revenue generated from the newly acquired businesses of the DGL Group, the Group will have sufficient resources to meet its working capital and capital expenditure requirements.

Employees

As at 30 September 2001, the Group had a total of 705 employees, of which 376 were based in Hong Kong, 317 in Taiwan, 10 in Canada and 2 in the United States. The employees are remunerated on a performance related basis with reference to prevailing market practice.

PROSPECTS AND OUTLOOKS

For Printing Division, the Group continues concentrating on the high-yield and top-end printing market where quality and timely delivery are the primary concerns for customers. We believe this is where our competitive edge lies.

In spite of keen competition, *Easy Finder* is able to maintain its leadership position in the market for young readers. Following the acquisition of the three magazines, namely *Next Magazine, Sudden Weekly and Eat & Travel Weekly* in October 2001, the Group has now become a leading player in the publishing market. With continuing enrichment of content to adapt to the needs and interests of different sectors of readers, these magazines will be able to secure its own market shares and bring revenue to the Group.

The Group expanded its business geographically by launching *Taiwan Next Magazine* on 31 May 2001. The response to this new magazine had been very encouraging in terms of circulation. Despite the unfavourable market condition, the Group is confident that advertising revenue would pick up as *Taiwan Next Magazine* becomes more established and upon the availability of accredited independent third party data on readership numbers. The Group believes we are well positioned to reap full benefit when Taiwan economy recovers.

On 26 October 2001, the Group completed the acquisition of *Apple Daily* and three popular magazines, namely *Next Magazine, Sudden Weekly* and *Eat & Travel Weekly* and became one of the Hong Kong's largest listed Chinese-language print media group in terms of sales and market share. Following such acquisition, the Group will continue to focus on the development of its core publishing and printing businesses. As these newly acquired businesses are profit-making, the financial position of the Group has been strengthened. It is expected *Apple Daily* and these magazines will become the main revenue contributors of the Group in the years to come.

Assuming the acquisition of DGL by the Group had been completed on or before 1 April 2001, the mastheads of the DGL Group upon acquisition would have been recognised at the amount of approximately HK$1,532 million. Together with the existing masthead of the Group of HK$210 million, the annual amortisation charge for the mastheads would be approximately HK$87.1 million over a period of 20 years.

DIRECTORS' INTEREST IN SECURITIES

As at 30 September 2001, the interests of the directors and chief executives of the Company and their associates in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

	Number of ordinary shares of HK$0.20 each			
Director	**Personal interests**	**Corporate interests**	**Other interests**	**Total interests**
Mr. Lai	1,749,237,123	–	–	1,749,237,123
Mr. Andrew Chow On Kiu	35,670,675	–	–	35,670,675
Mr. Yeung Wai Hong	15,000,000	61,400,528[(1)]	–	76,400,528
Mr. Stephen Ting Ka Yu	10,225,127	–	–	10,225,127
Mr. Peter Kok Hon Kay	4,595,637	–	–	4,595,637
Mr. Pieter Lodewijk Schats	2,250,000	–	–	2,250,000
Mr. V-nee Yeh	–	–	130,000[(2)]	130,000