

Financial Review

The purpose of this review is to highlight key financial and operating information on the Group's performance during the year under review.

Consolidated Financial Results

Turnover

Turnover of the Group surged by 219.8% and increased from approximately HK\$350.44 million in 2001 to approximately HK\$1,120.88 million for the year ended 31 March 2002. According to the revenue breakdown by principal market, Hong Kong continued to be the biggest revenue contributor of approximately HK\$959.24 million, a tremendous increase from approximately HK\$284.45 million of the previous year, while the Taiwanese market also joined in on the revenue pie and added approximately HK\$101.05 million for the year under review. As compared to the corresponding period in 2001, the Hong Kong market witnessed a 237.2% turnover growth during the year. As evidenced by the revenue breakdown by principal activity, newspaper publishing alone contributed 48.5% or approximately HK\$543.70 million of the Group's total turnover. Turnover of magazine publishing increased by 163.3% from

approximately HK\$157.54 million for 2001 to approximately HK\$414.85 million for 2002. All in all, the Group's impressive performance for the year ended 31 March 2002 was mostly attributable to the successful Acquisition.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 March 2002.

EBITDA and Net Profit

During the year, EBITDA reached approximately HK\$167.74 million as compared to the loss of approximately HK\$79.11 million (excluding the impairment loss for goodwill) in last year. The turnaround was mainly the result of the Acquisition.

Net profit amounted to approximately HK\$26.55 million as compared to a recurring loss of approximately HK\$156.30 million (excluding an impairment loss on goodwill of HK\$482.16 million) last year. The Group has recorded net loss for the past years, and this year it finally witnessed a turnaround mainly based on the five months of enormous profit brought forth by the Acquisition. Similarly, the Group's basic and fully diluted EPS amounted to HK3 cents and HK2 cents respectively for the year under review.

Total Expenses

During the year under review, production cost, which included direct labour, accounted for 62.0% of its total expenses and amounted to approximately HK\$673.85 million. Personnel costs, excluding direct production labour, accounted for 12.3% and amounted to approximately HK\$133.68 million. Depreciation for machines and equipment also contributed to 6.1%, or approximately HK\$66.71 million, of the total expenses. Due to the capitalization of the shareholder's loan and the issuance of non-voting convertible preference shares as well as ordinary shares to satisfy capital needs, finance costs were lowered by 64.9% and amounted to approximately HK\$9.66 million as compared to the previous year.

Taxation

The Group's taxation charge reached approximately HK\$27.09 million as compared to approximately HK\$6.76 million of last year, representing an increase of 300.7%. The increase in taxation charge was principally due to the Group's turnaround from its Acquisition as compared to the previous years, where some principal subsidiaries of Next Media were operating at a loss.

Additional Financial Information

The turnover and profit before amortisation of DGL and its subsidiaries (the "DGL Group") for the year ended 31 March 2002 were HK\$2.11 billion and HK\$314.80 million respectively. As the Acquisition was completed in October 2001, pre-acquisition turnover of HK\$1.25 billion and profit before amortisation from the period of 1 April 2001 to 26 October 2001 of HK\$132.46 million were not reflected in the consolidated profit and loss account of the Group.

The turnover and profit before amortisation of the DGL Group for the period from 27 October 2001 to 31 March 2002 after the Acquisition amounted to HK\$0.86 billion and HK\$182.34 million respectively, which were included in the consolidated profit and loss account of the Group for the year ended 31 March 2002.

Financial Position

Current Assets and Current Liabilities

As at 31 March 2002, the Group's current assets increased by around 727.9% to approximately HK\$965.30 million (2001: HK\$116.59 million) as a result of the Acquisition whilst current liabilities also increased by around 133.7% and amounted to approximately HK\$263.26 million (2001: HK\$112.66 million). Total cash on hand amounted to approximately HK\$567.11 million as at 31 March 2002. The current ratio as at 31 March 2002 was 366.7% comparing to 103.5% as at 31 March 2001.

Accounts Receivable

During the year under review, the Group's accounts receivable surged tremendously, from approximately HK\$43.40 million in 2001 to approximately HK\$312.52 million in 2002. Turnover days of accounts receivable was 58.0 days in 2002 as compared to 48.5 days in 2001. The reason for the increase was due to the Acquisition as the credit terms for magazine and newspaper advertising sales to advertising agents are ranged from 90 to 120 days.

Accounts Payable

Accounts payable increased by 149.0% and amounted to approximately HK\$59.99 million (2001: HK\$24.09 million) due to the Acquisition. Turnover days of accounts payable was 43.5 days as at 31 March 2002 as compared to 126.5 days in 2001. The main reason for such decrease was due to the differences in payment terms of the subsidiaries acquired through the Acquisition.

Long Term and Short Term Liabilities

Long-term liabilities totaled approximately HK\$249.78 million as compared to HK\$329.32 million in the previous year, while current portion repayable within one year of long-term liabilities was approximately HK\$58.84 million as compared to HK\$27.94 million last year. The Group was able to reduce its long-term liabilities by 24.2% due to the capitalisation of shareholder's loans.

Shareholders' Funds

	Group 2002 HK\$'000	Group 2001 HK\$'000 (As restated)
Non-voting convertible preference shares	2,030,000	—
Ordinary shares	1,233,661	647,639
Reserves	(215,874)	(420,736)
Shareholders' funds	3,047,787	226,903

Consolidated Cash Flow - net cash inflow / (outflow)

	2002 HK\$'000	2001 HK\$'000
from operating activities	314,536	(88,471)
from returns on investments and servicing of finance	(5,340)	(5,327)
from taxation	(19,535)	(5,287)
from investing activities	366,603	(52,757)
from financing activities	(110,068)	171,125

Borrowings and Gearing

As at 31 March 2002, the Group has available banking facilities totaling around HK\$312.00 million and of which around HK\$256.47 million was utilized. There is no seasonality of borrowing requirements. All borrowings and cash of the Group were mainly held in Hong Kong Dollars as at 31 March 2002. The Group's banking facilities are secured by the Group's land and buildings and machinery with an aggregate net book value of around HK\$633.13 million and a charge on deposit in the amount of around HK\$3.52 million. No bank borrowings is charged at fixed interest rate. The gearing ratio of the Group was 7.0% as at 31 March 2002 as compared to 51.2% in 2001. The gearing ratio was calculated by dividing the long term liabilities by the total assets. Subsequent to year end, the Group obtained a short-term loan facility of NT\$600.00 million (equivalent to approximately HK\$136.80 million).

Shareholders' Funds

Shareholders' funds as at 31 March 2002 increased 1,243.2% to HK\$3,047.79 million from HK\$226.90 million (as restated) as at 31 March 2001. Among which, there was a HK\$2,030.00 million for non-voting convertible preference shares and HK\$1,233.66 million for ordinary shares. The Group's negative reserves amounted to HK\$215.87 million as compared to negative reserves of HK\$420.74 million in the previous year. During the year under review, there was no share repurchase.

Share Capital

In October 2001, the Company has consolidated every five ordinary shares of HK\$0.20 each to one share of HK\$1.00. Authorised share capital was increased from HK\$900.00 million to HK\$4,600.00 million by the creation of 1,670 million ordinary shares of HK\$1.00 each and 1,160 million non-voting convertible preference shares of HK\$1.75 each. After consolidation, the Company issued 429,090,909 ordinary shares at the price of HK\$1.375 each and 1,160 million preference shares at the price equal to their par value of HK\$1.75 each to satisfy the consideration of the Acquisition. At the same time, the Company issued 156,931,505 ordinary shares at the price of HK\$1.375 each in repayment of the shareholder loan and interest owed to Mr. Lai.

Cash Flow

Net cash provided by operating activities witnessed a turnaround to amount to approximately HK\$314.54 million as opposed to an outflow of approximately HK\$88.47 million. The turnaround from previous year was attributable to the Acquisition and the reduction in interest expense.

Cash from investing activities amounted to an inflow of approximately HK\$366.60 million as compared to an outflow of approximately HK\$52.76 million in the previous year. The subsidiaries acquired during the year contributed approximately HK\$387.57 million to the Group which explained the main reason for the increase in cash inflow from investing activities.

Net cash outflow from financing activities, which amounted to HK\$110.07 million, reflected the payment of share issuing expenses that totalled to HK\$42.15 million and the repayment of HK\$66.85 million in bank loans.

Exchange Rate Risk and Capital Expenditure

The assets and liabilities of the Group are mainly denominated either in Hong Kong Dollars or New Taiwanese Dollars. The Group has certain exchange exposure for New Taiwanese Dollars due to the full operation of its magazine publishing business in Taiwan. The Group will closely monitor the overall currency exposure and, when considered appropriate, it will hedge against currency exposure. Subsequent to year end, the Group entered into agreements with certain independent third parties to acquire building premises as its headquarters in Taiwan and to acquire two pieces of land and certain printing machinery in preparation for the launching of the Group's newspaper business in Taiwan. The aggregate purchase prices amounted to approximately HK\$500.00 million. These purchases are to be funded by internal resources.

Contingent Liabilities

In connection with the Acquisition, Mr. Lai has undertaken to provide unlimited personal indemnities (the "Indemnity") to the Group against all payments, claims, suits, damages and settlement payments and associated costs and expenses in relation to certain legal proceedings arising out of the businesses acquired in the Acquisition. The Directors of the Company, having taken into consideration the advice from the Group's legal counsel and the Indemnity given by Mr. Lai, are of the opinion that any ultimate liability under these proceedings would not have a material impact on the financial position of the Group.