Financial Review

The purpose of this review is to highlight Next Media's financial position and operating information during the year under review.

Consolidated Financial Results

Turnover

Against the backdrop of a turbulent market environment, turnover of the Group surged by 91.8% and increased from approximately HK$1,120.9 million in 2002 to approximately HK$2,150.1 million for the year ended 31 March 2003. This performance reflected the first full year contribution since the Acquisition as well as the improved financial results of *Taiwan Next Magazine*. In terms of revenue breakdown by principal market, Hong Kong continued to be the largest revenue contributor, with approximately HK$1,929.5 million. The Taiwan market contributed an encouraging amount of approximately HK$130.2 million, representing the turnover from *Taiwan Next Magazine* for the year under review. Compared to 2002, the Hong Kong market witnessed a 101.2% turnover growth during the year. In terms of revenue breakdown by principal activity, newspaper publishing and printing was the largest revenue generator, and contributed 60.9% or approximately HK$1,309.4 million to the Group's total turnover, followed by the magazine publishing business, which contributed approximately HK$715.6 million in 2003.

Dividend

The Board does not recommend the payment of dividend for the year ended 31 March 2003.

EBITDA and Profit for the year

During the year under review, EBITDA increased to approximately HK$635.6 million from approximately HK$167.7 million, representing growth of 279.0% as compared to last year. Profit for the year also surged significantly by 1,284.4% and amounted to approximately HK$367.6 million as compared to approximately HK$26.5 million last year. Apart from the full year profit contribution of those publications acquired through the Acquisition as compared to a five-month contribution in the last fiscal year, the drop in production costs and the implementation of various cost control measures also contributed to this significant increase in profit for the year. Since the Acquisition, the Group has been achieving encouraging profit for the year for two consecutive years. Similarly, the Group's basic and fully diluted earnings per share amounted to HK$30 cents and HK$15 cents respectively for the year under review.

Operating Expenses

During the year under review, the Group's total operating expenses consisted largely of production costs including direct production staff costs, which accounted for 62.3% and amounted to approximately HK$1,069.5 million as compared to 62.5% and approximately HK$673.9 million last year. The increase in the amount was mainly attributable to the Group's expansion in its Taiwan operations and the full year effect from the Acquisition during the year under review. Meanwhile, personnel costs, excluding direct production staff costs, totalled 17.3%, or approximately HK$296.8 million. Depreciation for machines and equipment also took up a 6.0% share, or approximately HK$102.9 million of total operating expenses.

Taxation

The Group's taxation charge reached HK$77.7 million, compared to about HK$27.1 million of the previous year, representing an increase of 186.7%. The increase in taxation charge was principally due to the Group's increase in assessable profit derived from its Hong Kong operations.

Financial Position

Current Assets and Current Liabilities

As at 31 March 2003, the Group's current assets decreased by around 1.1% to approximately HK$954.8 million (2002: approximately HK$965.3 million) whilst current liabilities increased by approximately 78.1% and amounted to approximately HK$501.3 million (2002: approximately HK$281.5 million). The increase in current liabilities was attributable to the *Taiwan Apple Daily's* purchase of fixed assets and other accruals amounting to approximately HK$130.0 million. This coupled with the fact that, during the year under review, the Group accrued a discretionary bonus to employees in Hong Kong amounted to approximately HK$54.0 million, the increase in taxation amounted to approximately HK$31.4 million and the increase in current portion of long-term liabilities amounted to approximately HK$11.7 million, all contributed to the increase in current liabilities. As a result of the movement of current assets and current liabilities mentioned above, the current ratio as at 31 March 2003 decreased to 190.5% from 343.0% as at 31 March 2002. Total cash on hand amounted to about HK$497.2 million as at 31 March 2003.

Accounts Receivable

During the year under review, the Group's accounts receivable decreased from approximately HK$312.5 million in 2002 to approximately HK$292.5 million in 2003. Average turnover days of accounts receivable was 51.4 days in 2003 as compared to 58.0 days in 2002. The reason for the decrease was due to the adoption of tighter credit control policy over advertising sales customers amid the worsening economic condition.

Accounts Payable

Accounts payable increased by 70.0% and amounted to approximately HK$102.0 million (2002: approximately HK$60.0 million). Days of accounts payable was 56.0 days as at 31 March 2003 as compared to 43.5 days in 2002.

Long-term and Short-term Liabilities

Long-term liabilities totalled approximately HK$205.4 million as compared to approximately HK$190.9 million in the previous year, while current portion of long-term liabilities was approximately HK$70.6 million as compared to approximately HK$58.8 million last year.

Borrowing and Gearing

As at 31 March 2003, the Group had available banking facilities totalled approximately HK$358.1 million and of which approximately HK$321.5 million was utilized. There is no seasonality in borrowing requirements. Except for borrowings equivalent to approximately HK$85.0 million denominated in New Taiwanese Dollars, all other borrowings and cash of the Group were denominated in Hong Kong Dollars as at 31 March 2003. The Group's bank loans are secured by the Group's land and buildings and machinery with an aggregate net book value of around HK$783.4 million. The gearing ratio of the Group was 6.6% as at 31 March 2003 as compared to 7.0% in 2002. The gearing ratio was calculated by dividing the long-term liabilities by the total assets.

Shareholders' Funds and Share Capital

Shareholders' funds as at 31 March 2003 increased 11.9% to approximately HK$3,390.1 million from approximately HK$3,028.3 million as at 31 March 2002. There has been no change in the share capital of the Company since 1 April 2002. The increase in shareholders' funds was attributable to the increase of the Group's reserves from the previous year's negative reserves of approximately HK$235.3 million to a positive reserves of approximately HK$126.4 million as at 31 March 2003. During the year, the Company carried out a capital reduction exercise to reduce the Company's share premium account by approximately HK$828.9 million such that the credit arising from such reduction was applied to eliminate the Company's accumulated losses by the same amount. During the year under review, there was no share repurchase.

Cash Flow

Net cash provided by operating activities amounted to approximately HK$650.5 million (2002: approximately HK$295.0 million).

Cash from investing activities amounted to an outflow of approximately HK$735.0 million as compared to an inflow of approximately HK$370.9 million in the previous year. Substantial cash outflow for the current year was mainly for the payment of approximately HK$745.7 million for purchase of fixed assets, reflecting the Group's investment for the launch of *Taiwan Apple Daily*, while approximately HK$387.6 million net cash inflow was derived from the acquisition of subsidiaries in the last fiscal year.

Net cash inflow from financing activities, which amounted to approximately HK$14.5 million, mainly representing new bank loans and other borrowings of approximately HK$86.9 million, partially offset by bank loan repayment of approximately HK$60.7 million.

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 to New Taiwanese Dollars due to the full operation of its magazine publishing business and the newly established newspaper publishing business in Taiwan. It is the Group's strategy to reduce the Group's exchange rate exposure by arranging local currency bank loans. The Group's net currency exposure as at 31 March 2003 was about NT$3,067.4 million (about HK$687.8 million). The Group will closely monitor the overall currency exposure and, when considered appropriate, will hedge against such exposure.

During the year under review, the Group purchased two office buildings as its headquarters for the magazine and newspaper publishing businesses in Taiwan as well as acquired machineries and two printing factory premises for its newspaper business in Taiwan. The aggregate purchase price amounted to approximately HK$797.0 million. These purchases were funded by internal resources and bank borrowings.

Contingent Liabilities

As at 31 March 2003, the Group had contingent liabilities in respect of a number of litigation proceedings in Hong Kong and Taiwan arising in the normal course of its publishing business. In addition, the Group had a dispute with UDL Constructing Limited as contractor for the construction of the printing facility of a subsidiary, namely Apple Daily Printing Limited, over amounts payable in respect of the construction of the facility, which is currently under arbitration. The final outcome of this arbitration is uncertain.

In connection with the Acquisition, Mr. Lai Chee Ying, Jimmy ("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 through 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.

The Company had also contingent liabilities in relation to corporate guarantees given by the Company to banks for facilities granted to its subsidiaries amounted to approximately HK$184.7 million.

Taiwan Apple Daily

In preparing for the launch of *Taiwan Apple Daily*, the Group incurred expenses in the amount of approximately HK$68.1 million during the year ended 31 March 2003. These expenses consisted mainly of personnel costs. As at 31 March 2003, the Group had capital commitments in respect of fixed assets of approximately HK$15.1 million in relation to *Taiwan Apple Daily*.

The Group employed proactive marketing strategies including the conduct of pervasive advertising campaigns and the provision of free gifts such as apples and posters before and during the launch phase, as well as promotional discounting. For the month of April 2003, net pre-operating expenses attributable to *Taiwan Apple Daily* amounted to approximately HK$27.2 million, one-off costs for test runs of printing presses amounted to approximately HK$9.6 million while marketing and promotional expenses relating to the launch of *Taiwan Apple Daily* amounted to approximately HK$25.6 million. It is anticipated that the Group will incur substantial operating expenses in the coming year. However, it is believed that the Group will have sufficient resources to fund the operations.

Impact of SARS

In March 2003, communities across Asia, and eventually across all international boundaries, witnessed the power and impact of a new epidemic – Severe Acute Respiratory Syndrome ("SARS"). Numerous industries have been affected by the frangible sentiment and the sense of pessimism lingering in the community due to the rapid spread of the disease. For the month of April 2003, the Group experienced cancellation of advertisement and reduced booking of advertising pages. As a result, the Group's advertising revenue for the month of April 2003 was adversely affected as compared to the same period last year. The Group's sales and marketing team has implemented a series of flexible strategies to counter the adverse impact posed by the SARS outbreak. As the number of SARS infections fell and the travel advisory against Hong Kong has been lifted by the World Health Organisation, advertising revenue for the Group in May 2003 has shown signs of recovery and improved significantly when compared to the previous month. Nevertheless, the Management is of the view that it is at present not possible to quantify the potential impact of the SARS outbreak, if any, on the Group's results for the current year.

Forward-looking Statements

This document contains certain statements that are "forward-looking" and that use certain forward-looking terminology. These statements are based on the current beliefs, assumptions, expectations and projections of the directors of the Company about the industry and markets in which the Group operates. These statements are subject to risks, uncertainties and other factors beyond the control of the Group.