

Management Discussion and Analysis

Operational Review

During the year under review, Next Media and its subsidiaries continued to make steady progress on almost all fronts. Viewed in broad terms, Hong Kong activities remained stable, while the Group's fledgling Taiwan operations made giant strides forward and are on course to break even.

Overview of Major Markets

Hong Kong

Following the economic recovery after the SARS period, the year just ended saw solid growth in advertising spending in the print media market. Next Media remains by far and away the biggest and most successful Chinese print media conglomerate in Hong Kong. Over the years, the Group's *Apple Daily*, *Next Magazine*, *Easy Finder*, *Sudden Weekly* and *Eat & Travel Weekly* stable of titles have all built up and continue to enjoy impressive newsstand and advertising revenues.

The 2004 ACNielsen Hong Kong Media Index Year-end Report (the "2004 ACNielsen Year-end Report") indicated that the top two newspapers continued to outperform the rest of the daily newspaper market. With a combined readership of approximately 2,951,000, the two titles enjoyed a readership representing approximately 57% of the population aged 12 or above in Hong Kong.

Hong Kong's magazine market has long been as competitive as its newspaper counterparts and the year under review saw no let up in the battle for readers' hearts, minds and wallets. Encouragingly, the top three titles in the 2004 ACNielsen Year-end Report, *Sudden Weekly* and *Eat & Travel Weekly* ("*Sudden Weekly Bundle*"), *Next Magazine* and *Easy Finder* and *Eat & Travel Weekly* ("*Easy Finder Bundle*") are all members of the Next Media publishing stable. With a combined readership of approximately 1,340,000, the three titles accounted for approximately 26% of Hong Kong's population from ages 12 to 64 during 2004.

Taiwan

Taiwan's population of approximately 23 million is roughly three times that of Hong Kong's. Dominated by the hi-tech industry, Taiwan's predominantly black and white newspapers were until recently amongst the most staid in Asia. When *Taiwan Apple Daily* arrived on Taiwanese newsstands in May 2003, it set about shaking up the local media scene in much the same way as *Apple Daily* had done in Hong Kong almost a decade before.

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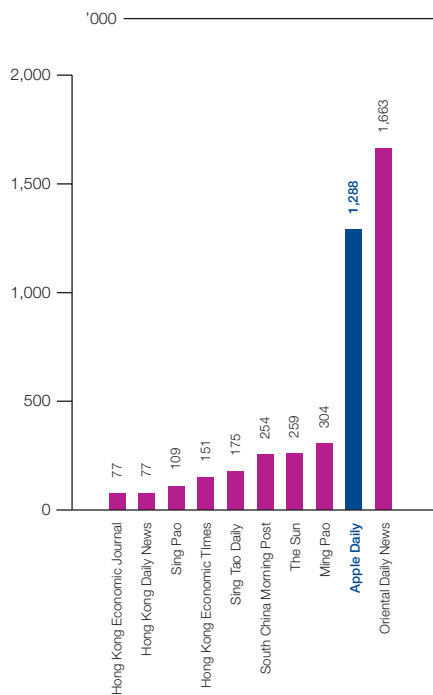
Operational Review (continued)

The latest available 2004 figures from ACNielsen (Taiwan) Ltd. (“ACNielsen Taiwan”), showed that Taiwan’s three top-selling daily newspapers enjoyed a combined readership of approximately 6,958,000 during the six months ended 31 December 2004. This figure represented approximately 42.9% of the population between ages 12 and 60. With an average net circulation of approximately 503,398 copies daily and an average readership of approximately 2,008,000 during the six months ended 31 December 2004, *Taiwan Apple Daily* is now the third largest newspaper in Taiwan. The title managed to achieve this feat in just over 18 months, a massive achievement for which each and everyone in the Group can take considerable and justifiable pride.

The year under review saw the Group’s *Taiwan Next Magazine* make steady, if not spectacular, progress in the Taiwanese magazine market. The figures from ACNielsen Taiwan indicated that, in 2004, Taiwanese weekly magazines shared a total readership of approximately 2,772,000. This figure translated to approximately 17.1% of all Taiwanese readers from ages 12 to 60. The same ACNielsen Taiwan data went on to demonstrate that *Taiwan Next Magazine* continued to consolidate

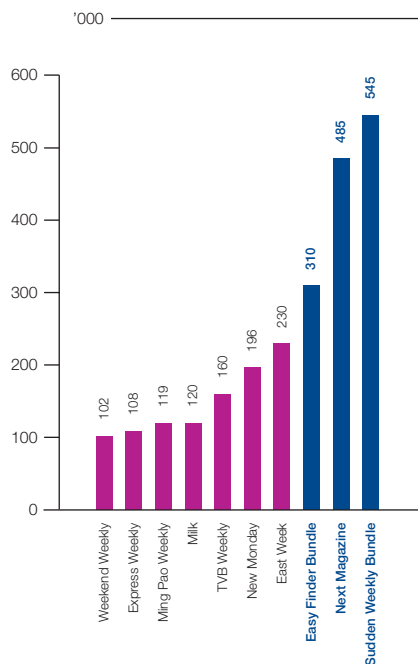
Top Ten Newspapers’ Readership in Hong Kong

for the period from January 2004 - December 2004



Top Ten Chinese Weekly Magazines’ Readership in Hong Kong

for the period from January 2004 - December 2004



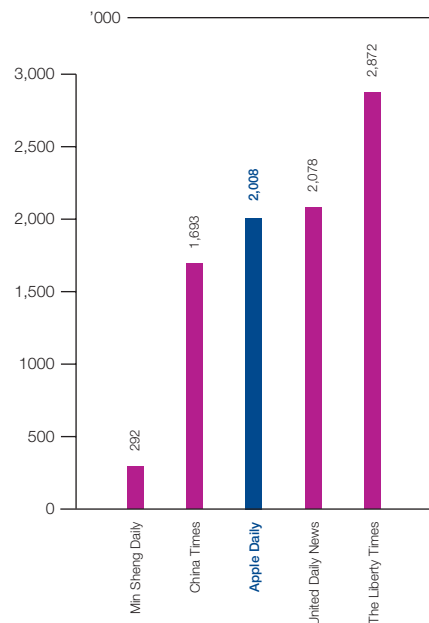
its position as the most widely read weekly magazine amongst all readers in this age bracket. During the twelve months ended 31 December 2004, *Taiwan Next Magazine* enjoyed an average weekly readership of approximately 1,574,000. Consequently, the title continued to maintain a comfortable respective lead of approximately 745,000 and 1,153,000 readers over its two closest Taiwanese rivals. It is expected that several new titles will enter this market during 2006. The Board will continue to monitor such possible developments closely.

Business Performance

The year just ended was the third full year since the Group's October 2001 acquisition of Database Gateway Limited and its subsidiaries. During the year under review, the Group recorded a total turnover of approximately HK\$2,932.2 million. This figure translated into an increase of approximately 20.3% when measured against the turnover of approximately HK\$2,437.1 million the Group achieved during the previous financial year. As in the previous financial year, a sizeable

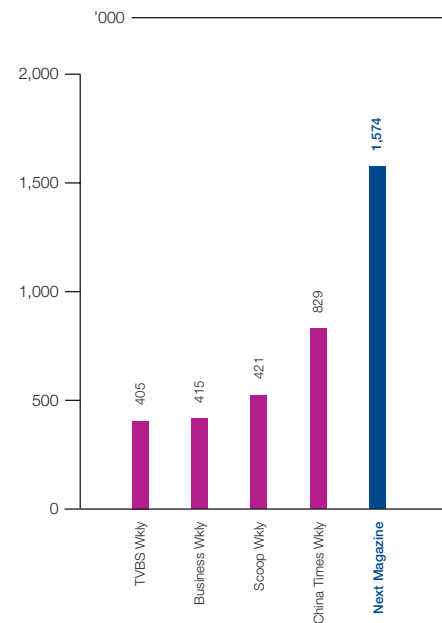
Top Five Newspapers' Readership in Taiwan

for the period from July 2004 - December 2004



Top Five Weekly Magazines' Readership in Taiwan

for the period from January 2004 - December 2004



Management Discussion and Analysis

Operational Review (continued)

proportion of this increase was directly attributable to the Group's launch of *Taiwan Apple Daily* in May 2003.

Newspapers Publication and Printing Division

With a turnover of approximately HK\$1,916.9 million during the year under review, Next Media's Newspapers Publication and Printing Division remained the largest revenue generator of its operations. This figure represented an increase of approximately 25.2% when compared against the approximately HK\$1,531.1 million turnover recorded during the previous financial year.

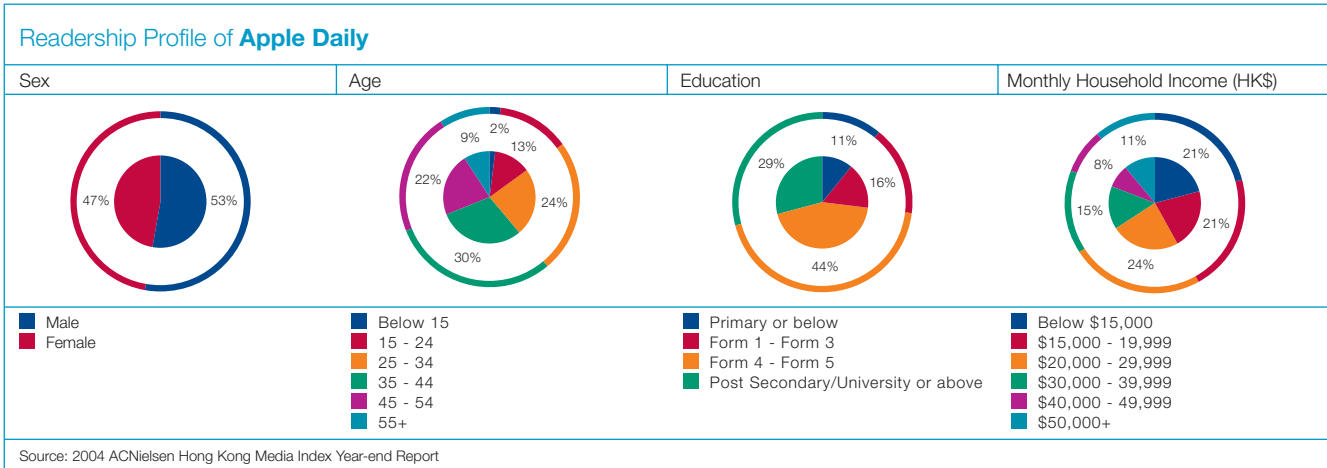
Apple Daily (Ranking No. 2 in terms of readership)

The year just ended saw *Apple Daily* continue to hold its position as the second most widely read newspaper in Hong Kong. With its bedrock audience of mass middle market readers, the title looks set to remain a cornerstone of the Group's success for many years to come. The approximate HK\$1,195.2 million worth of turnover *Apple Daily* generated during the year under review represented a slight decline of approximately 1.0% when measured against the approximate HK\$1,207.8 million the title achieved in the previous financial year.

The 2004 ACNielsen Year-end Report indicated that *Apple Daily* maintained an average readership of approximately 1,288,000 in 2004. Hong Kong Audit Bureau of Circulation ("HKABC") figures for the six months ended 31 December 2004 indicated that *Apple Daily* had an average circulation of 343,302 copies, an improvement of approximately 1.0% over the approximate 339,989 figure for the equivalent period in the previous year.

For the year ended 31 March 2005, *Apple Daily's* circulation sales stood at approximately HK\$456.7 million, a slight drop of approximately HK\$4.0 million or approximately 0.9% over the approximate HK\$460.7 million recorded during the previous financial year. The year just ended also saw a slight decline of approximately 1.2% in *Apple Daily's* advertising sales, which went from approximately HK\$747.1 million in the previous financial year to approximately HK\$738.5 million in the year just ended.

Ultimately, *Apple Daily's* steady performance during the year under review reiterated the unique place the title has earned and continued to occupy in Hong Kong readers' hearts and minds. As in previous years, *Apple Daily* remained the title of choice for a full spectrum of readers with higher education and above average monthly household income. For this reason, the title remained as the 'can't miss' advertising medium for best-selling branded products and services.



Taiwan Apple Daily (Ranking No. 3 in terms of readership)

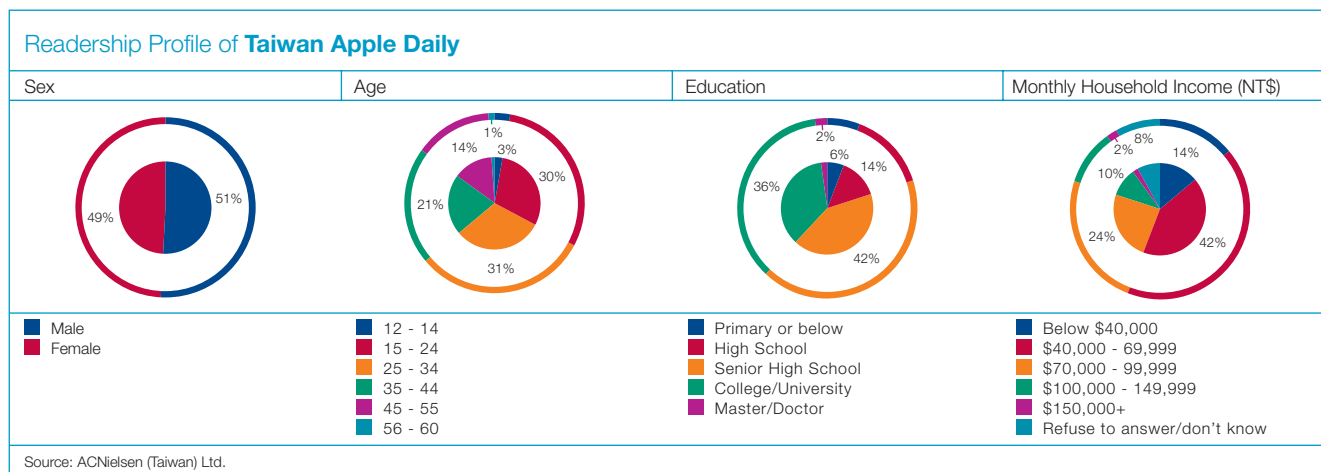
The May 2003 launch of *Taiwan Apple Daily* represented a welcome breath of fresh air for readers who were formerly faced with a very conservative daily press. Previously, around half of all newspapers sold in Taiwan were distributed by subscription. In selling approximately 98% of its print run from convenience stores and other retail outlets, *Taiwan Apple Daily* has transformed the Taiwanese newspaper industry forever.

Encouragingly, during the year under review, the title continued to consolidate and build on the remarkable momentum it achieved immediately during and after its initial launch. The latest available 2004 figures from ACNielsen Taiwan showed that *Taiwan Apple Daily* had an average readership of approximately 2,008,000 during the six months ended 31 December 2004. The Audit Bureau of Circulations, Republic of China (the "ROCABC") data for the six months ended 31 December 2004 demonstrated that *Taiwan Apple Daily* had achieved a total circulation of 92,625,225 copies. This figure represented not only a highly creditable average daily circulation of approximately 503,398, but also a sizeable year-on-year increase of approximately 23.8% over the approximate 406,599 average daily circulation, achieved during the equivalent period in 2003.

The significant circulation increase played a major role in reducing the segment loss of approximately HK\$573.8 million *Taiwan Apple Daily* recorded in the previous financial year to a more manageable loss of approximately HK\$203.4 million during the year just ended. The Group believes that, whilst very impressive, *Taiwan Apple Daily's* performance to date still offers ample opportunity for further enhancement.

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During the year under review, *Taiwan Apple Daily's* advertising income increased from approximately HK\$181.8 million to approximately HK\$458.6 million, a substantial increase of approximately 152.3%. Major advertisers who regularly included *Taiwan Apple Daily* as a key element in their media mix during the year under review included property developers, banks, department stores, entertainment businesses and automotive dealerships. Such a breadth and depth of advertisers ensures that the title has a firm base on which to build and increase its share of advertising spending in Taiwan.

Income from run-of-page advertising is one area in particular where the Group would like to see improvement. *Taiwan Apple Daily's* present advertising rate is lower than its closest competitors and represents somewhat of a bargain for advertisers. By improving this rate during the coming year, the Group will further boost the revenue the title derives from advertising.

In its early days, *Taiwan Apple Daily* offered its readers up to 60% more pages than its rivals. By steadily increasing the number of advertising pages, the title will continue to bring its present 74:26 average editorial-to-advertising page ratio, closer to the 61:39 Hong Kong level. The use of focus-group findings on which contents are revised, has thus far ensured that its appeal for readers remains undimmed.

Apple Daily Printing Limited

Apple Daily Printing Limited has long been a cornerstone of *Apple Daily's* success and continued to provide the title with a full range of essential printing support services throughout the year. During the year under review, Apple Daily Printing Limited also carried on its tradition of providing printing services for a variety of

external customers. The revenue derived from all printing activities during the year just ended was approximately HK\$363.8 million. Leaving aside intersegmental transactions, this total stood at approximately HK\$60.1 million. This figure represented a respective year-on-year increase of approximately HK\$24.4 million or approximately 68.3% over the corresponding figure of approximately HK\$35.7 million achieved in the previous financial year.

Books and Magazines Publication Division

The Group's Books and Magazines Publication Division achieved a turnover of approximately HK\$885.3 million during the year under review. This figure represented a growth of approximately 12.6% over the approximate HK\$786.0 million achieved in the previous financial year. As noted above, much of this increase was directly attributable to the across-the-board advertising revenue increases of between approximately 9.2% and 10.3% generated by *Next Magazine*, *Sudden Weekly* and *Eat & Travel Weekly*. *Taiwan Next Magazine* also enjoyed a solid year, increasing its advertising revenue from approximately HK\$99.3 million in the previous financial year to approximately HK\$138.8 million in the year just ended. This figure represented a year-on-year increase of approximately 39.8% and played a vital role in the improvement of approximately 24.4% in the title's turnover.

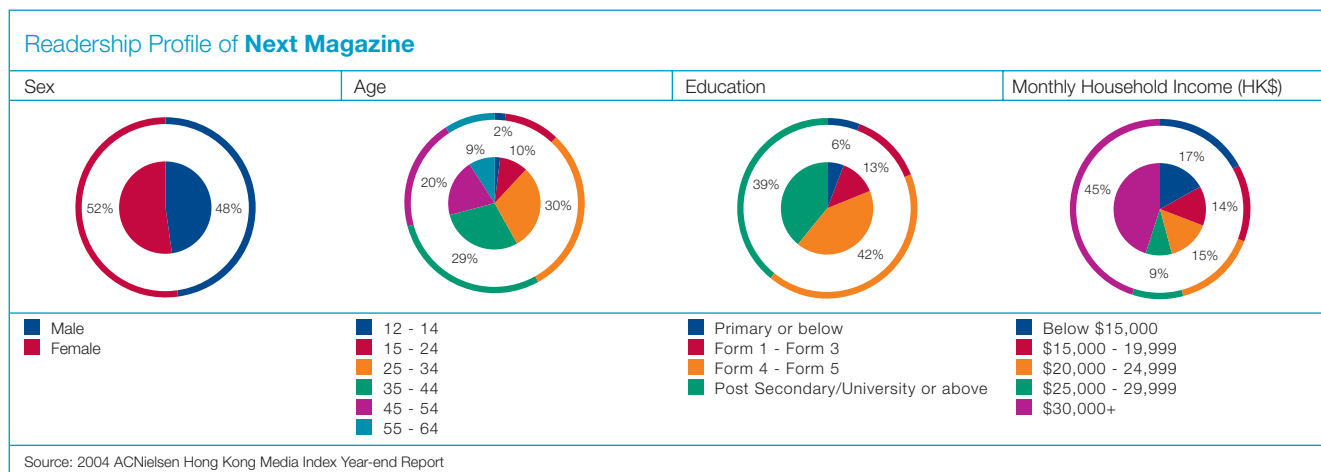
Next Magazine (Ranking No. 2 in terms of readership)

The information from 2004 ACNielsen Year-end Report demonstrated that, with an average readership of approximately 485,000 during 2004, *Next Magazine* maintained its No. 2 ranking in the Hong Kong weekly magazine market. The above figure translated into a slight decline of approximately 0.8% when measured against the approximate 489,000 average readership figure for 2003. Data from HKABC indicated that *Next Magazine* achieved an average weekly circulation of 141,642 copies in the six months ended 31 December 2004. This figure represented a slight decline of approximately 3.8% when compared to the 147,237 figure for the equivalent period during the previous year.

The slight loss of revenue from circulation was more than offset by an increase in *Next Magazine's* advertising income. During the year under review, *Next Magazine* generated approximately HK\$189.7 million in advertising revenue, representing an increase of approximately 9.2% over the approximate HK\$173.7 million figure recorded for the year ended 31 March 2004. The title's ability to deliver a far higher percentage of male and female readers with post-secondary/tertiary education levels than any other weeklies has long made it a first choice for advertising campaigns. Given the high popularity *Next Magazine* enjoys among young, affluent managers and professionals, it is likely to remain a favourite title for many years to come.

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Operational Review (continued)

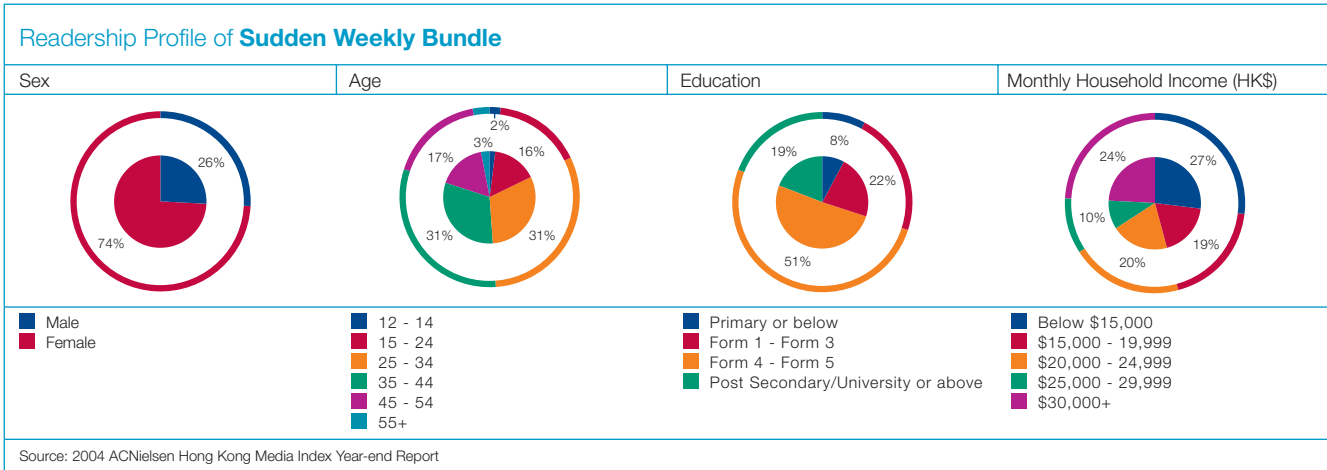


Sudden Weekly Bundle (Ranking No. 1 in terms of readership)

During the twelve months ended 31 December 2004, the *Sudden Weekly Bundle* continued to rank No. 1 in the Hong Kong weekly magazine market with an average readership of approximately 545,000 according to the 2004 ACNielsen Year-end Report. Firmly established as the most widely read of all Hong Kong weeklies, the *Sudden Weekly Bundle* had an audited circulation of 198,811 copies for the six months ended 31 December 2004. This figure translated into a slight rise of approximately 1.2% when measured against the 196,539 audited circulation figure for the same period in 2003.

The 2004 ACNielsen Year-end Report indicated that approximately 74.4% of all regular *Sudden Weekly Bundle* readers are females, with approximately 77.1% of this group falling within the 15 to 44 age bracket. The *Sudden Weekly Bundle*'s unique breadth and depth of appeal is a direct result of its clear positioning, market focus and up-to-the-minute image.

For the year ended 31 March 2005, the *Sudden Weekly Bundle*'s revenue stood at approximately HK\$226.6 million. This figure represented an increase of approximately 6.9% when measured against approximately HK\$212.0 million in revenue recorded during the previous financial year. *Sudden Weekly Bundle*'s strong mass market appeal continued to be a strong draw for advertisers and their media buyers. Consequently, the *Sudden Weekly Bundle*'s total advertising revenue of approximately HK\$153.6 million for the year just ended showed an increase of approximately 10.3% over the equivalent figure of approximately HK\$139.3 million for the previous financial year.



Easy Finder Bundle (Ranking No. 3 in terms of readership)

Easy Finder Bundle continued to occupy third place in Hong Kong’s weekly magazine market with an average weekly readership of approximately 310,000 during 2004. When measured against the corresponding figure of approximately 308,000 for 2003, this represented a slight increase of approximately 0.6%.

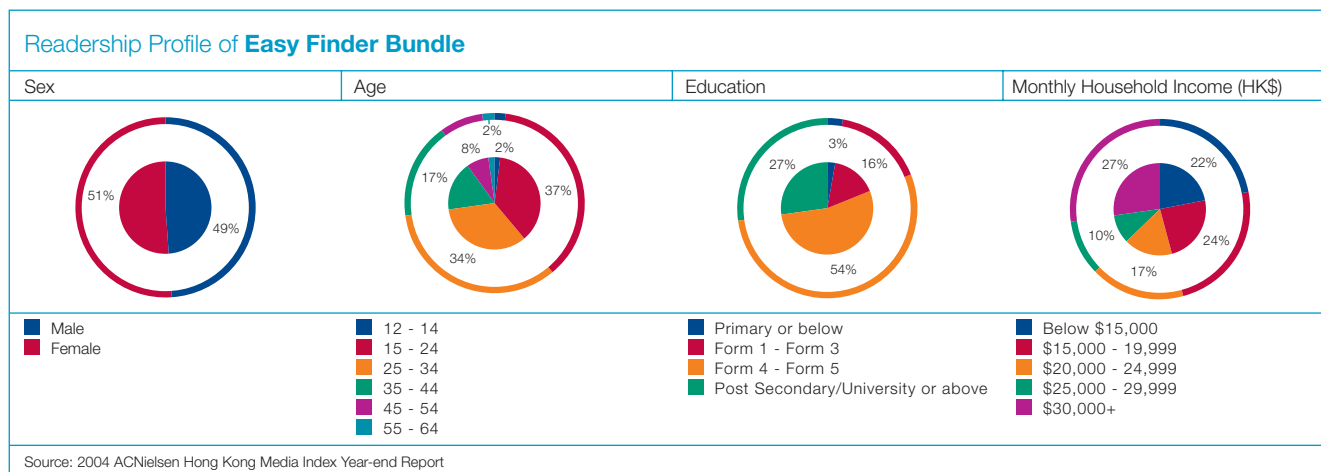
Renowned for its insightful coverage of hot, new fashions and trends, *Easy Finder Bundle* remains a ‘must-read’ for younger, brand-conscious readers. As a result, approximately 36.9% of those who regularly read the title are aged between 15 and 24 years old. Consequently, *Easy Finder Bundle* continues to be one of the first additions to media schedules of all major up-to-the minute brands. For the year ended 31 March 2005, *Easy Finder Bundle*’s combined annual revenue from both circulation and advertising stood at approximately HK\$140.3 million. This figure represented an increase of approximately 30.5% when compared against the approximate HK\$107.5 million the title recorded during the previous financial year.

Taiwan Next Magazine (Ranking No. 1 in terms of readership)

The Group’s first foray into the Taiwanese market, *Taiwan Next Magazine* followed in its Hong Kong prototype’s footsteps by quickly establishing a reputation for pulling no journalistic punches. Four years on from its May 2001 launch, the title continues to be probably the most talked about - and dominant - weekly in Taiwan.

Management Discussion and Analysis

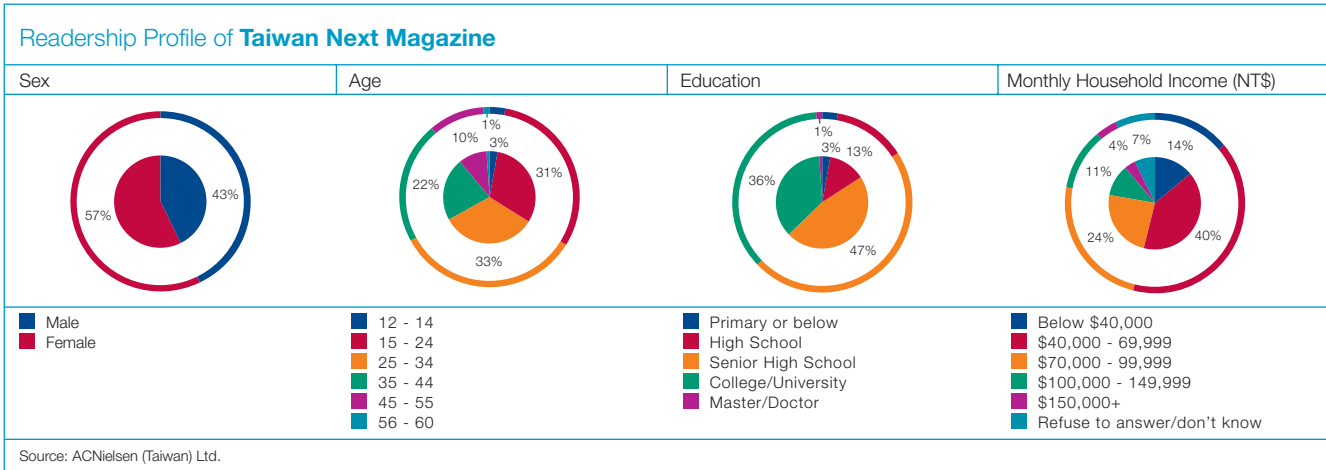
Operational Review (continued)



The data from ACNielsen Taiwan for the period from July to December 2004 indicated that the title enjoyed an average readership of approximately 1,574,000. The ROCABC figures demonstrated that the title's circulation for the last six months of 2004 were 3,782,972 copies. Broken down on a weekly basis, this figure translated into a weekly circulation of approximately 140,108 and represented an encouraging increase of approximately 3.4% when measured against the approximate 135,541 equivalent figure for 2003.

Total advertising income for *Taiwan Next Magazine* during the year under review reached approximately HK\$138.8 million, a strong increase of approximately 39.8% over the approximate HK\$99.3 million figure for the previous financial year. Ultimately, the title reported a segment profit of approximately HK\$45.4 million during the year under review. This figure translated into a remarkable increase of approximately HK\$35.9 million or approximately 377.9% over the approximate HK\$9.5 million profit achieved in the previous financial year.

The Group has every confidence that *Taiwan Next Magazine's* 'must-read' status among readers will continue to translate into solid bookings from Taiwan's leading advertisers and advertising agencies. Such a development is sure to provide the title with the revenue it needs to cement its sustained profitability during the years ahead.



Books and Magazines Printing Division

The Books and Magazines Printing Division continued to make a significant contribution to the Group’s publishing business during the year under review. When intersegmental transactions worth approximately HK\$173.6 million are included, the Division’s turnover for the year just ended stood at approximately HK\$279.7 million. This figure translated into an increase of approximately 9.3% over the approximate HK\$256.0 million pre-elimination figure for the previous financial year.

External customers from Hong Kong, North America, Europe and Australasia continue to be steady customers for the services of this Division. During the year under review, orders from external customers contributed approximately HK\$106.1 million in additional revenue. This figure represented an increase of approximately 6.8% when measured against the corresponding total of approximately HK\$99.3 million for the previous financial year. Next Media remains confident that its commercial printing activities will continue to be a steady source of income in the coming years.

For the year ended 31 March 2005, intersegmental printing transactions accounted for approximately HK\$173.6 million, or approximately 62.1% of the Division’s revenue. This figure translated into respective increases of approximately HK\$16.9 million and approximately 10.8% over the equivalent figures for the previous financial year.

Management Discussion and Analysis

Operational Review (continued)

Internet Division

The Group's Internet Division offers local and overseas readers an easily affordable alternative to their favourite Next Media titles.

During the year just ended, the Group's Internet Division generated revenue of approximately HK\$24.0 million. This figure represented a year-on-year increase of approximately 14.8% over the approximate HK\$20.9 million recorded during the previous financial year. Segment profit for this Division also increased from approximately HK\$9.5 million in the previous financial year to approximately HK\$11.2 million during the year under review.

The Internet Division's main source of income comes from subscription fees, advertising revenue and content licensing. The Division's sound growth during the year just ended was largely attributable to the growth of its overseas subscriber base and increase in advertising revenue.

The Group remains cautiously optimistic that its Internet Division's advertising revenue will continue to grow as more and more advertisers experiment with web-based marketing initiatives. For this reason, the Division will continue to seek opportunities to increase its revenue streams, while maintaining tight controls on costs.

Financial Review

Consolidated Financial Results

Turnover

During the year ended 31 March 2005, total turnover for the Group grew to approximately HK\$2,932.2 million. This figure represented an increase of approximately 20.3% over the approximate HK\$2,437.1 million figure achieved during the year ended 31 March 2004. This increase in turnover was largely driven by *Taiwan Apple Daily*, which contributed approximately HK\$661.6 million or approximately 22.6% of the total turnover for the year under review.

Viewed on a market basis, Hong Kong continued to be the Group's biggest revenue earner, contributing approximately HK\$1,969.2 million or approximately 67.2% of the total turnover during the year just ended.

Taiwan remained Next Media's second largest source of revenue, and achieved a turnover of approximately HK\$881.5 million during the year under review. This figure represented a year-on-year increase of approximately 89.4% over the approximate HK\$465.5 million generated in the previous financial year. Encouragingly, the Taiwan market continued to maintain the upward trend it began during 2004. A strong increase of approximately 39.8% in *Taiwan Next Magazine's* advertising revenue further enhanced the Group's turnover during the year just ended.

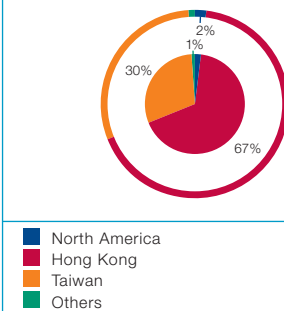
Broken down by principal activity, newspapers publication and printing business continued to be Next Media's largest source of revenue. During the year under review, the Group's Newspapers Publication and Printing Division contributed approximately HK\$1,916.9 million or approximately 65.4% of all turnover. These figures represented an increase of approximately HK\$385.8 million or approximately 25.2% over the respective figures of approximately HK\$1,531.1 million or approximately 62.8% of the total turnover generated during the previous financial year.

Next Media's Books and Magazines Publication Division also posted satisfactory results during the year under review, contributing approximately HK\$885.2 million or approximately 30.2% of the total turnover. The Internet Division was another contributor which generated approximately HK\$24.0 million or approximately 0.8% of the Group's total turnover for the year just ended. The two Divisions showed respective year-on-year increases of approximately 12.6% and approximately 14.8% over the corresponding figures of approximately HK\$785.9 million and approximately HK\$20.9 million for the previous financial year.

Dividend

The Board does not recommend the payment of a dividend for the year ended 31 March 2005.

Turnover



Management Discussion and Analysis

Financial Review (continued)

EBITDA and Segment Results

Next Media's Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and before impairment loss recognised in respect of an intangible asset for the year just ended reached approximately HK\$540.1 million. This figure represented a strong increase of approximately 144.4% over the approximate HK\$221.0 million recorded during the previous financial year. The significant improvement in the Group's performance during the year under review was primarily due to the measurable increases *Taiwan Apple Daily* achieved in terms of both its circulation and advertising sales. An increase in *Taiwan Next Magazine's* advertising sales helped to further enhance its performance.

For the year ended 31 March 2005, the Group had achieved a segment profit of approximately HK\$139.7 million. This figure represented a marked improvement over the segment loss of approximately HK\$35.0 million recorded in the previous financial year.

The Group's segment profit for its Newspapers Publication and Printing Division during the year under review was approximately HK\$107.3 million. Much of this figure was directly attributable to Next Media's Hong Kong operations.

For the year ended 31 March 2005, the Group's Books and Magazines Publication Division generated a segment profit of approximately HK\$112.8 million before a non-recurring impairment loss recognised in respect of an intangible asset amounting to approximately HK\$136.9 million. This figure represented an increase of approximately 8.6% when compared against the segment profit of approximately HK\$103.9 million recorded during the previous financial year. This growth was largely the result of a substantial improvement in *Taiwan Next Magazine's* profitability, which grew from a segment profit of approximately HK\$9.5 million in the previous financial year to approximately HK\$45.4 million during the year just ended.

The Group's Books and Magazines Printing Division also generated a segment profit of approximately HK\$45.2 million during the year under review, representing an increase of approximately 2.3% when measured against the approximate HK\$44.2 million segment profit recorded during the previous financial year. The Group's Internet Division was another contributor to the Group's profitability during the year under review. The approximate HK\$11.2 million segment profit the Internet Division recorded during the year just ended represented a steady increase of approximately 17.9% over the corresponding segment profit of approximately HK\$9.5 million achieved during the previous financial year.

Operating Expenses

The Group's total operating expenses for the year under review stood at approximately HK\$2,769.0 million. This figure represented an increase of

approximately 12.9% when measured against the approximate HK\$2,453.0 million figure recorded during the previous financial year. Approximately HK\$1,805.2 million or approximately 65.2% of this sum came from essential production expenditures including paper costs. A sizeable rise in the price of newsprint accounted for a large proportion of this increase. Personnel costs, excluding direct production staff costs, for the year just ended totalled approximately HK\$323.7 million or approximately 11.7% of all Group's operating costs for the year. This figure represented an increase of approximately HK\$4.5 million or approximately 1.4% over the corresponding figures of approximately HK\$319.2 million and approximately 13.0% recorded during the previous financial year. Other factors which contributed to the increase in operating costs during the year just ended included the depreciation of fixed assets, which accounted for approximately HK\$142.5 million or approximately 5.1% of all operating expenses. This figure represented an increase of approximately 3.3% over the approximate HK\$137.9 million recorded during the previous financial year.

Taxation

During the year just ended, taxes levied on the Group totalled approximately HK\$58.9 million, a decrease of approximately 20.5% when measured against the approximate HK\$74.1 million equivalent total for the previous financial year. This fall was mainly attributable to a reversal of deferred tax liability relating to impairment loss recognised in respect of an intangible asset worth approximately HK\$136.9 million.

Financial Position

Current Assets and Current Liabilities

As at 31 March 2005, the Group held approximately HK\$1,305.8 million in current assets, an increase of approximately 32.8% over the approximate HK\$983.1 million for the previous financial year. The Group's current liabilities as at 31 March 2005 stood at approximately HK\$442.1 million. This figure represented a reduction of approximately 8.6% when compared to the corresponding figure of approximately HK\$483.5 million as at 31 March 2004. The primary causes for the fall in the Group's liabilities level during the year just ended included a reduction of taxation payable and a decrease in the current portion of long-term liabilities. At the end of the year under review, the Group had cash on hand amounting to approximately HK\$598.8 million. The current ratio as at 31 March 2005 was approximately 295.4%. This figure represented an increase of approximately 45.3% when measured against the ratio of approximately 203.3% achieved as at 31 March 2004.

Financial Review (continued)

Accounts Receivable

As at 31 March 2005, the Group's accounts receivable reached approximately HK\$447.5 million, an increase of approximately 9.2% over the approximate HK\$409.8 million equivalent figure recorded as at 31 March 2004. The average turnover days for the Group's accounts receivables as at 31 March 2005 was 53.4 compared against 52.7 for the previous financial year.

Accounts Payable

As at 31 March 2005, the Group's accounts payable stood at approximately HK\$114.9 million, an increase of approximately 18.0% over the approximately HK\$97.4 million recorded during the previous financial year. The average accounts payable turnover days also decreased from 40.9 as at 31 March 2004 to 36.4 as at 31 March 2005.

Long-term and Short-term Liabilities

As at 31 March 2005, the Group's long-term liabilities, including current portions, totalled approximately HK\$217.2 million. This figure represented a decrease of approximately 26.7% over the approximate HK\$296.4 million recorded as at 31 March 2004. As at 31 March 2005, the current portion of the Group's long-term liabilities reached approximately HK\$53.8 million, a decrease of approximately 11.2% when measured against the approximate HK\$60.6 million recorded during the previous financial year.

The Group's banking facilities include a HK\$300 million syndicated loan facility from a consortium of seven banks. The loan was arranged by Sumitomo Mitsui Banking Corporation and offered to Apple Daily Limited. The HK\$300 million Transferable Term Loan/Revolving Credit facility has been divided into 2 tranches. The first tranche ("Tranche A") is a 5-year HK\$200 million term loan facility, while the second tranche ("Tranche B") is a 3-year HK\$100 million revolving credit facility. Apple Daily Limited subsequently went on to use proceeds from Tranche A to refinance part of its then existing loans. The Group's strong cash flow status means it has not been necessary to utilize the Tranche B revolving credit facility. Consequently, Apple Daily Limited arranged for Tranche B's cancellation in December 2004.

Borrowing and Gearing

Cash flow generated by operating activities and, to a lesser extent, banking facilities provided by the Group's principal bankers continued to be the Group's primary means of financing its operations during the year just ended.

During the year under review, the Group's available banking facilities totalled approximately HK\$623.1 million, of which approximately HK\$218.3 million had been utilised. There is no seasonality for the Group's bank borrowing requirements and all

monies borrowed bear interest at floating rates. During the year just ended, Hong Kong dollars and New Taiwanese dollars accounted for the bulk of the Group's bank borrowings. As at 31 March 2005, the Group was in possession of cash on hand worth approximately HK\$598.8 million. The Group's gearing ratio at the end of the year under review was approximately 4.9% measured against a corresponding figure of approximately 6.7% for the previous financial year. The Group's gearing ratios are calculated by dividing long-term liabilities, including current portions, by total asset value.

Share Capital Structure

The year just ended saw the issuance of 4,138,905 ordinary shares with a par value of HK\$1.00 each. The issue was made possible by the exercise of certain share options by option holders at an exercise price of HK\$1.67 per share for 4,057,400 ordinary shares and an exercise price of HK\$1.00 per share for 81,505 shares.

As at 31 March 2005, the Company's total issued share capital was worth approximately HK\$3,092.8 million. This total was made up of 1,482,773,481 ordinary shares with a par value of HK\$1.00 per share, and 920,000,000 preference shares with a per share par value of HK\$1.75.

Cash Flow

For the year ended 31 March 2005, the Group's net cash inflow from operating activities reached approximately HK\$328.1 million. The Group's cash outflow for the previous financial year was approximately HK\$20.6 million.

The outflow of investment-related cash during the year just ended totalled approximately HK\$25.7 million. This figure represented a decrease of approximately 78.7% over the equivalent outflow figure of approximately HK\$120.6 million for the previous financial year.

During the year under review, the Group's net cash outflow for financing activities reached approximately HK\$78.3 million, compared against a corresponding cash inflow figure of approximately HK\$16.6 million during the previous financial year. The current year figure mainly represented the repayment of bank borrowings of approximately HK\$79.2 million. Much of the figure for the previous financial year was accounted for by new bank loans worth approximately HK\$231.3 million and bank loan repayments of approximately HK\$215.3 million.

Exchange Rate Exposure and Capital Expenditure

Group assets and liabilities are primarily 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. The Group intends to reduce such exchange rate exposure by arranging bank loans in New Taiwanese

Management Discussion and Analysis

Financial Review (continued)

dollars as and when possible. As at 31 March 2005, the Group's net currency exposure stood at approximately NT\$5,042.6 million (equivalent to approximately HK\$1,244.5 million), an increase of approximately 22.2% over the approximate NT\$4,127.2 million (equivalent to approximately HK\$974.1 million) figure recorded during the previous financial year. To hedge against such exposure in the future, the Group has arranged a 4-year term loan worth NT\$1.2 billion with various leading Taiwanese banks with *Taiwan Apple Daily* as the borrower. A NT\$500 million portion of this term loan was subsequently drawn down on 28 April 2005. This move resulted in the Group's net currency exposure falling to NT\$4,542.6 million. Should the remaining NT\$700 million portion of the term loan be fully drawn down, the Group's net currency exposure will further decrease to NT\$3,842.6 million. During the coming financial year, the Group will continue to closely monitor its overall currency exposure, and will take steps to hedge against such exposure if and when such a move is deemed necessary.

The Group's capital expenditure for the year just ended totalled approximately HK\$32.6 million, approximately HK\$10.6 million of which was used to fund its Taiwanese operations. By the end of the year under review, the Group had committed a further capital expenditure worth approximately HK\$5.6 million for its operations, approximately HK\$1.9 million of which was earmarked to fund the Group's operations in Taiwan.

Pledge of Assets

As at 31 March 2005, Next Media had pledged certain elements of the Group's Hong Kong and Taiwan 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 approximately HK\$1,287.8 million.

Contingent Liabilities

During the year just ended, 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 the Company's subsidiary company, Apple Daily Printing Limited. As the 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\$60,000,000 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 of 31 March 2005, these contingent liabilities stood at approximately HK\$151.0 million.

Impairment Loss Recognised in respect of an Intangible Asset

It is anticipated that the newly introduced Hong Kong Financial Reporting Standards 2 and 3, together with the Hong Kong Accounting Standards ("HKAS") 32, 36, 38 and 39 will impact on the Group's financial statements for the year ending 31 March 2006. In order to ensure compliance with the new accounting standards, particularly, HKAS 38 in respect of the valuation of intangible assets, the Board has 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 2005 based on the value-in-use approach.

Based on the valuation report issued by E&Y, the resulting value of the Group's mastheads and publishing rights as at 31 March 2005 was a total of HK\$1,605.0 million against the corresponding net book value of HK\$1,482.8 million.

Accordingly, a net revaluation surplus of HK\$122.2 million arose on a group basis, which comprised a revaluation surplus of HK\$259.1 million and a revaluation deficit of 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 the carrying value exceeded the estimated recoverable amount and such impairment was not temporary in nature, an impairment loss of HK\$136.9 million was recognised in the profit and loss account for the year ended 31 March 2005.

For those masthead and publishing rights with revaluation surplus amounting to HK\$259.1 million, no adjustment was made to the Group's accounts as it is the Group's accounting policy to state these intangible assets at cost less accumulated amortisation and accumulated impairment loss.

Financial Review (continued)

Prospects and Outlook

Moving Forward

The Group continues to be the largest Chinese-language print media operator in Hong Kong. Over the years, *Apple Daily*, *Next Magazine*, *Easy Finder*, *Sudden Weekly* and *Eat & Travel Weekly* have all built up solid market shares. Consequently, it seems very probable that all these titles will continue to provide the Group with a steady stream of income in the year ahead. The Board is confident that the advertising revenue of the Group's publications will increase in line with the steady improvement in Hong Kong's economy.

The coming year will see Next Media maintain its successful policy of consolidating its dominant position within the Chinese print media market in Hong Kong. The next twelve months will also see the Group carry on its efforts to broaden the impressive foothold its titles have achieved in the Taiwan market. For this reason, the Board believes that *Taiwan Next Magazine* can further consolidate the encouraging progress it has made in terms of both market share and profitability since its 2001 launch.

In common with all media operators, Next Media's operations in both Hong Kong and Taiwan are heavily reliant on newsprint. Industry experts believe the price of newsprint will almost certainly increase in the short-term. Any such increase will definitely affect the Group's financial performance in the year ahead.

Ultimately, the Group's Management is very pleased with the progress *Taiwan Apple Daily* has made. For the six months ended 31 December 2004, *Taiwan Apple Daily* achieved an audited average daily circulation of approximately 503,398. Such steady gains within less than two years of *Taiwan Apple Daily*'s launch represent a considerable achievement which augurs very well for the future.

Taiwan Apple Daily's solid sales performance on the newsstands has been accompanied by encouraging increases in advertising revenue. For the year ended 31 March 2005, this title had accounted for approximately HK\$661.6 million or approximately 34.5% of the Newspapers Publication and Printing Division's total turnover for the year. The Board remains upbeat that these figures will continue to show steady growth as *Taiwan Apple Daily* consolidates and builds on the achievements it has made in its first two years in the Taiwanese market.

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.