Management Discussion & Analysis

The Board of Directors (the "Board" or the "Directors") of Next Media Limited ("Next Media" or the "Company") is pleased to present the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 September 2006, together with the comparative figures for the corresponding period of last year.

BUSINESSES

The Group is mainly engaged in publishing and printing newspapers, magazines and books. It is also engaged in the sale of newspaper and magazine advertising space in Hong Kong and Taiwan, printing and reprographic services, delivery of internet content, and sale of website advertising space.

FINANCIAL RESULTS

The Group achieved a total revenue of HK$1,636.3 million during the six months ended 30 September 2006. This represented a decrease of 3.1% on the figure of HK$1,688.1 million for the same period in 2005. Much of this decrease was attributable to a decline in the revenue of *Apple Daily*. However, the revenue of all the Group's other Hong Kong publications remained stable.

The Group's EBITDA totalled

HK$271.7 million


CANDID
REAL

The media and publication industry was affected by a generally negative business environment during the six months ended 30 September 2006. The most notable of these were a reduction in advertising expenditure in Taiwan, the growing popularity of online media and, most evidently, fierce competition from free dailies in Hong Kong.

Continuous support from readers coupled with the commitment and dedication of our management team have, nonetheless, enabled the Group to achieve stable results despite of our mired growth. Our performance was in line with market trends, having even outperformed our peers in certain areas.

The Group's earnings totalled HK$271.7 million before interest, tax, depreciation, impairment and amortisation, a decline of 24.8% over the figure of HK$361.4 million for the corresponding period of 2005. Basic earnings per share were HK10.6 cents, compared with HK15.1 cents for the same period last year.

The Group also recorded an unaudited consolidated profit of HK$157.8 million, a reduction of 29.6% on the figure of HK$224.2 million for the corresponding period in 2005. This was mainly the result of a fall in the profit of *Apple Daily*.

NEWSPAPERS PUBLICATION AND PRINTING DIVISION

Hong Kong's economy remained buoyant during the period under review. The unemployment rate decreased and market sentiment continued to improve, while consumer spending stayed steady.

Taiwan's economic conditions were broadly favourable, despite some political uncertainties and a government credit squeeze that had a strong impact on the banking and retail sectors, as well as on advertising spending.

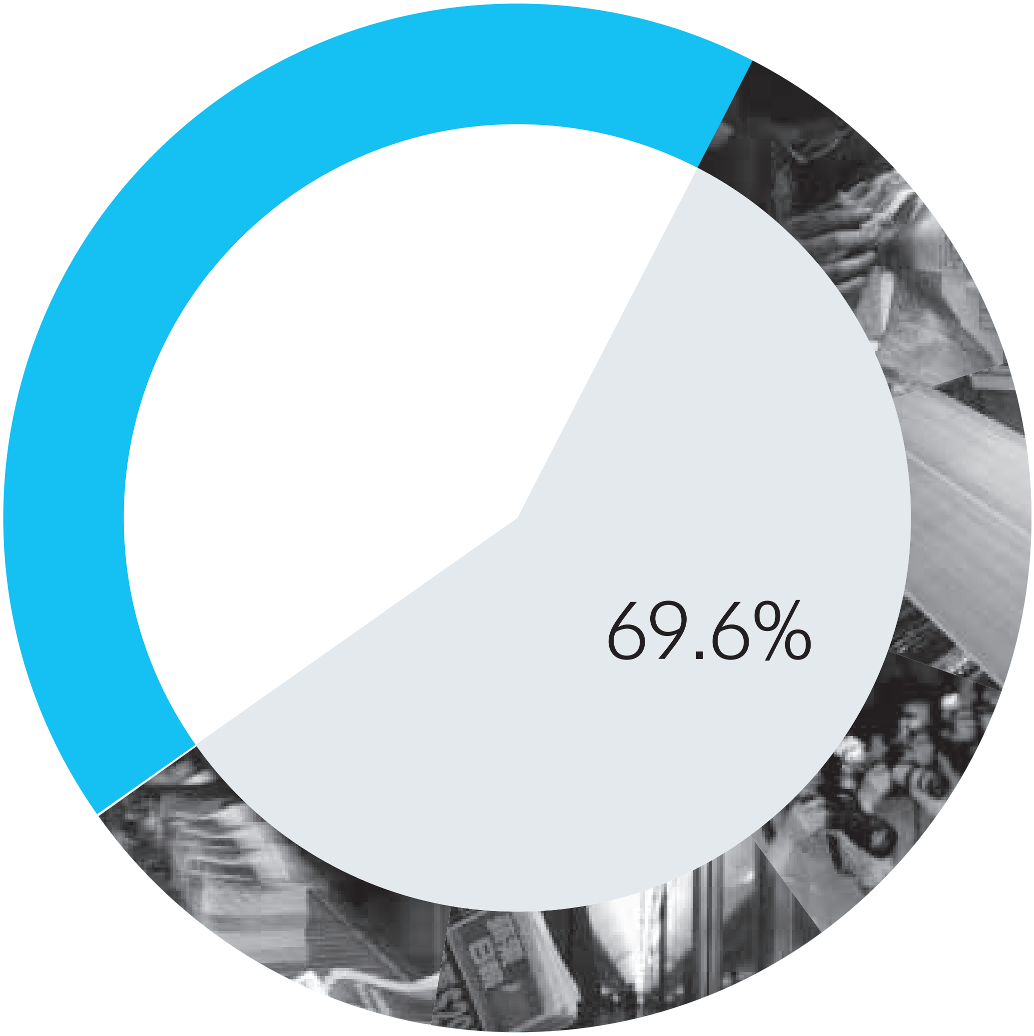
Most of the Newspapers Publication and Printing Division's revenue was attributable to *Apple Daily* and *Taiwan Apple Daily*. In the period under review, the Division achieved a revenue of HK$1,138.7 million, an increase of 0.9% on the figure of HK$1,128.3 million during the corresponding period last year. Its segment profit was HK$123.0 million, compared with HK$126.3 million in the first half of 2005, a drop of 2.6%.

Apple Daily remained Hong Kong's No. 2 daily newspaper, in terms of sales and readership, and it had a market share of 22% among readers aged over 12. Even so, fierce competition – especially from the city's free daily newspapers, a price reduction by one paid daily, and the growing popularity of online media – had an impact on these figures. Between January and June 2006, the newspaper sold an average of 297,289 copies a day, a decline of 13.4% from the figure of 343,187 copies in the same period last year[1], while, its average daily readership figure fell by 9.7%, from 1,327,000 to 1,198,000[2].

The downturn in advertising expenditure in Hong Kong affected the financial performance of *Apple Daily*. Its advertising revenue in the period under review was HK$327.9 million, compared with HK$383.3 million in the same period of 2005, a decline of 14.5%.

The average daily sales of *Taiwan Apple Daily*
in the first half of 2006 were

495,894 copies



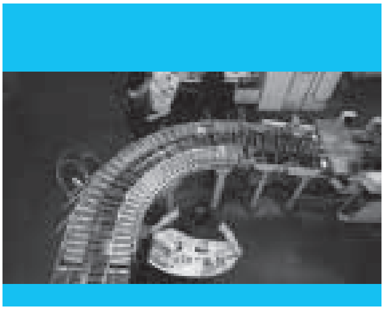
The revenue of the Newspapers Publication and Printing Division amounted to HK$1,138.7 million, which was mainly attributable to *Apple Daily* and *Taiwan Apple Daily*, representing 69.6% of the total revenue of the Group.

Taiwan Apple Daily retained its lead as the island's most widely read daily. Subsequent to an increase in cover price from NT$10 to NT$15, its average daily sales decreased from 531,434 in the first six months of 2005 to 495,894 during the same period of 2006[3], and its readership slipped from 2,637,000 to 2,625,000[4]. Its revenue in the period under review amounted to HK$561.0 million, compared with HK$482.3 million in the same period of 2005, an increase of 16.3%.

Revenue of the Group's external Hong Kong newspaper printing business during the period under review totalled HK$57.1 million, an increase of 36.6% on the figure of HK$41.8 million in the same period of 2005. This was mainly attributable to additional revenue and profit generated by new printing customers.

BOOKS AND MAGAZINES PUBLICATION DIVISION

The Books and Magazines Publication Division achieved a reasonable performance in the face of fierce market competition. Its revenue during the six months ended 30 September 2006 was HK$425.8 million, a decrease of 10.9% on the figure of HK$477.7 million during the same period of 2005. The main factor for this trend was strong competition, which affected both the circulation sales and advertising income of books and magazines.



Next Magazine generated HK$132.1 million in revenue, a decrease of 12.4% compared with the figure of HK$150.8 million in the same period last year. It maintained its status as Hong Kong's second most widely read weekly publication. Although its net circulation declined from a weekly average of 139,197 copies in the six months ended 30 June 2005 to 130,187 during the same period of 2006[1], its readership increased from an average of 515,000 in 2005 to 530,000 during the first six months of 2006[2].

The revenue of the *Sudden Weekly Bundle* decreased to HK$105.2 million during the six months up to 30 September 2006, compared with the HK$123.8 million it generated in the same period of 2005. Despite a slight fall in its sales figures, from an average of 195,706 a week in the first six months of 2005 to 190,406 in the same period of 2006[2], its readership increased from 563,000 to 667,000 in the first half of 2006[2], and it remained the best-selling and most widely read Hong Kong weekly magazine.

Easy Finder Bundle, one of the most popular infotainment weeklies among Hong Kong youngsters, experienced a decrease in its revenue, which amounted to HK$65.3 million in the six months to 30 September 2006, compared with HK$75.9 million in the same period of 2005. It sold an average of 94,998 copies a week in the first six months of 2006, compared with 99,489 in the same period of 2005[1], while its readership grew to 343,000, up from 294,000[2].

Taiwan Next Magazine remained the island's best-selling and most widely read weekly. The magazine's revenue totalled HK$122.7 million in the six months ended 30 September 2006, compared with HK$126.4 million in the same period last year, a decrease of 2.9%. It achieved average weekly sales of 134,051 copies between January and June 2006, compared with 142,087 copies in the same period of 2005[3]. Meanwhile, its readership averaged 1,350,000, compared with 1,650,000 a year earlier[4].

BOOKS AND MAGAZINES PRINTING DIVISION

The Books and Magazines Printing Division continued to contribute to the Group's results. Despite strong price competition within the printing industry, both regionally and worldwide, the Division achieved a revenue of HK$141.7 million before the elimination of inter-segment transactions of HK$85.4 million during the six months ended 30 September 2006, compared with a figure of HK$166.9 million in the same period of last year, a decrease of 15.1%. It also recorded HK$15.7 million in segment profit, a drop of 36.2% over the figure of HK$24.6 million for the corresponding period of 2005.

The Division upheld its high reputation for quality within the printing industry; and it is expected to maintain its status as a source of stable revenue and profit for the Group.

INTERNET DIVISION

The Internet Division's business remained stable. Its revenue during the period under review was HK$15.5 million, an increase of 6.2% from the figure of HK$14.6 million in the same months of 2005, while its segment profit increased to HK$7.1 million, a 20.3% rise over the figure of HK$5.9 million in the corresponding period of last year. To meet demand created by the growing popularity of online media, the Division has increased the size of its team and considerably expanded the content of its portal.

FUTURE PROSPECTS AND OUTLOOK

The Group believes that Hong Kong's general economic outlook will remain stable in the coming months, and that its business environment will likewise be favourable. Taiwan's economic prospects also look positive, despite the impact of the government's credit squeeze on consumer spending, and some political uncertainties.

In the light of these factors, the Group will maintain its strategy of optimising the established strength and reputation of its core businesses in Hong Kong, while continuing to look to the Taiwan market for potential substantial growth, in terms of both revenue and profit.

While further developing its existing publications in Taiwan, the Group also launched *Sharp Daily*, the Group's first free daily newspaper, during October 2006. The initial print run of 160,000 copies is being distributed to the public in the Taipei area. The Group believes this new daily will appeal to readers and advertisers alike; and it is aggressively and competitively marketing advertising space in its pages.

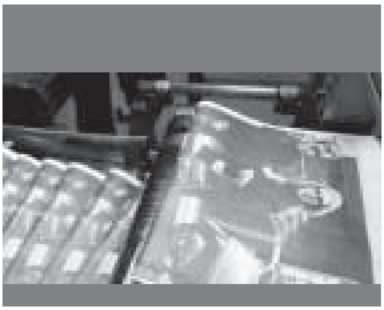
SOURCES:

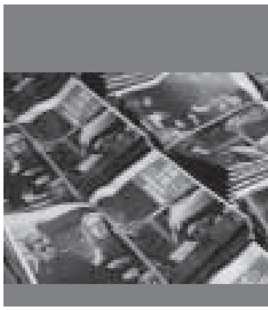
[1] Hong Kong Audit Bureau of Circulations Ltd.

[2] 2006 Nielsen Media Index: Hong Kong Report (July 2005-June 2006)

[3] The Audit Bureau of Circulations, R.O.C.

[4] Media Index (Jan-June 2006), Nielsen Media Research, Taiwan





LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations principally with cash flow generated from its operating activities and, to a lesser extent, bank facilities provided by its principal bankers.

As at 30 September 2006, the Group had banking facilities totalling HK$425.9 million available, of which HK$220.6 million had been utilised. All bank borrowings bear interest at floating rates. There is no seasonality for its borrowing requirements. The Group's bank borrowings were denominated solely in New Taiwanese Dollars.

On the same date, the Group had HK$486.3 million in bank balances and cash reserves. The current ratio was 225.2%, compared to 260.6% as at 31 March 2006. The gearing ratio of the Group as at 30 September 2006, calculated by dividing long-term liabilities (including current portions) by total asset value, decreased to 5.0%, compared with 5.8%, as at 31 March 2006.

ASSETS PLEDGED

As at 30 September 2006, the Group had pledged its Taiwan properties and certain printing equipment in Hong Kong and Taiwan with an aggregate carrying value of HK$644.1 million to various banks as security for bank loans and general banking facilities granted to the Group.

To cater for the Group's future development, Apple Daily Limited, one of its subsidiaries, has arranged a four-year syndication for HK$240.0 million on a club-deal basis. The deal involved the pledge of further properties and printing equipment with a carrying value as at 30 September 2006 of HK$362.2 million. It was closed and signed on 9 October 2006 with three major banks in Hong Kong, all of which participated on an equal-footing status.

EXCHANGE EXPOSURE AND CAPITAL EXPENDITURE

The Group's assets and liabilities are mainly denominated either in Hong Kong Dollars or New Taiwanese Dollars. The Group's exchange exposure to New Taiwanese Dollars is due to its existing magazines and newspapers publishing businesses in Taiwan.

The Group's strategy is to reduce its exchange rate exposure by arranging local currency bank loans. To this end, the Group arranged a four-year term loan for NT$1.2 billion with local banks in Taiwan, and this loan was fully drawn down in April and June 2005. The Group's net currency exposure as at 30 September 2006 was NT$4,690.6 million (the equivalent of about HK$1,104.2 million). The Group will closely monitor its overall currency exposure and, when considered appropriate, it will further hedge against such exposure.

During the six months ended 30 September 2006, the Group's capital expenditure amounted to HK$126.9 million, including HK$107.5 million for its Taiwan operations. As at 30 September 2006, the capital expenditure committed for its operations amounted to HK$8.2 million, including HK$5.9 million for its Taiwan operations.

SHARE CAPITAL STRUCTURE

During the period under review, 185,600 ordinary shares with a par value of HK$1.00 each were issued as a result of the exercise of certain share options at an exercise price of HK$1.67 per share.

As at 30 September 2006, the total issued share capital of the Company was HK$3,101,828,881 divided into 1,491,828,881 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.

CONVERSION OF PREFERENCE SHARES

On 5 October 2006, Mr. Lai Chee Ying, Jimmy ("Mr. Lai") converted 920,000,000 preference shares into 920,000,000 new ordinary shares at the conversion price of HK$1.75 per new ordinary share (the "Conversion"). As a result of the Conversion, the total number of issued ordinary shares has increased to 2,411,828,881 and Mr. Lai's shareholding in the Company has increased to 73.93% of the issued ordinary share capital of the Company as enlarged by the Conversion.

CONTINGENT LIABILITIES

As at 30 September 2006, the Group had contingent liabilities in respect of a number of litigation proceedings arising from its publishing business in Hong Kong and Taiwan. In addition, the Group had a dispute with UDL Contracting Limited – the contractor assigned to construct the printing facility of a subsidiary, Apple Daily Printing Limited – over amounts payable in respect to the construction of the printing facility in Tseung Kwan O. This dispute is currently under arbitration, and the final outcome is uncertain.

In connection with the acquisition of Database Gateway Limited in October 2001 (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 (including the dispute with UDL Contracting Limited) involving the businesses acquired through the Acquisition. In relation to the Indemnity, Mr. Lai has procured a bank guarantee of HK$60.0 million in favour of the Group in respect of his obligations under the Indemnity. Having taken the advice of the Group's legal counsel and the Indemnity given by Mr. Lai into consideration, the Directors believe that any ultimate liability under these proceedings will not have a material impact on the Group's financial position.

As at 30 September 2006, the Company had contingent liabilities in relation to corporate guarantees given by the Company to financial institutions for facilities utilised by certain of its subsidiaries amounting to HK$77.3 million.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2006, the Group employed a total of 3,572 employees, of whom 1,929 employees were in Hong Kong, 1,636 employees were in Taiwan, and 7 employees were in Canada. There were no material changes to the policies relating to employee remuneration, bonuses, share options schemes and staff development disclosed in the 2005/06 annual report. Total staff costs for the six months ended 30 September 2006 amounted to HK$528.4 million (for the six months ended 30 September 2005: HK$500.7 million).

DIVIDEND

The Directors have declared an interim dividend of HK4.0 cents per ordinary share (2005/06: an interim dividend of HK5.0 cents and a special dividend of HK25.0 cents), amounting to HK$96.5 million. It is payable to shareholders whose names appear on the Register of Members of the Company on 20 December 2006.

BOOK CLOSURE

The Register of Members of the Company will be closed from 18 to 20 December 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 Investors Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 15 December 2006 in order to qualify for the interim dividend. Dividend warrants will be despatched on or around 28 December 2006.

FORWARD LOOKING STATEMENTS

This document contains statements that are "forward-looking" or which use certain forward-looking terminology. These statements are based on the current beliefs, assumptions, expectations and projections of the Directors of the Company regarding 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.