

Management Discussion and Analysis

Operational Review

Financial Review

INSIGHT

knowledge is its own reward

Management Discussion and Analysis

OPERATIONAL REVIEW

2003 will be remembered by everyone in Asia as the year that the SARS cast its ugly shadow across the region. The early stirrings of the SARS pandemic caused people to rethink almost every aspect of the way they lived their daily lives. Due to the quavering of the overall market sentiment and the limited knowledge of such pandemic, even tasks as routine as buying a morning paper or meeting friends for dinner were regarded as risks that many were unwilling to take.

For Next Media and its employees and shareholders, the outbreak of SARS in March 2003 also affected the business to a certain extent, especially when millions of dollars were invested into facilities and manpower to ensure the successful launch of *Taiwan Apple Daily*. Fortunately, statistics proved that readers in Taiwan were highly receptive to the newspaper, just like the Hong Kong market when *Apple Daily* was launched nine years ago.

Now that the SARS panic and pandemic have receded, with consumer confidence and market recovery back on it leap, it is time once again to take stock of achievements made and lessons learned during the year gone by.

Overview of Major Markets

Hong Kong

The Hong Kong newspaper and magazine market remains fiercely competitive. As of 31 March 2004, there were a total of 51 locally published newspapers and 866 locally published periodicals registered with the Television and Entertainment Licensing Authority.

The SARS crisis led to a dramatic decline in advertising spending across all industries and corporations in Asia. The end result was a serious fall off of advertising revenue that affected almost all publications, including the Group's papers and magazines.

The 2003 ACNielsen Hong Kong Media Index Year-end Report ("ACNielsen 2003 Report") shows that the top two newspapers continue to dominate the daily newspaper market. The two papers' combined readership of around 3,563,000 translates into a market share of 57%.

The ACNielsen 2003 Report also indicates that the weekly magazine market remains every bit as competitive as its newspaper equivalent. The top three publications in this market, the *Sudden Weekly* and *Eat & Travel Weekly* bundle, *Next Magazine* and *Easy Finder* are all popular titles published by the Next Media publishing empire.

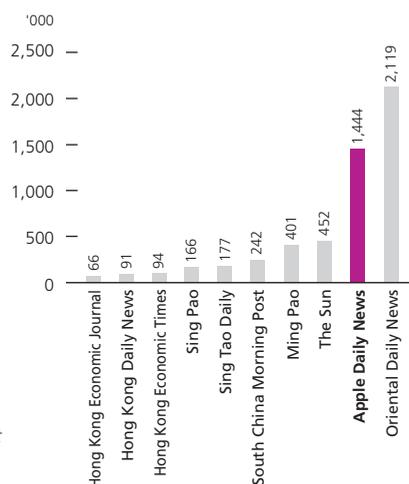
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OPERATIONAL REVIEW (continued)

With a combined readership of around 1,434,000, the three titles accounted for around 23% of the weekly magazine market during 2003, representing a 13.4% increase from the readership figure of approximately 1,264,000 in 2002.

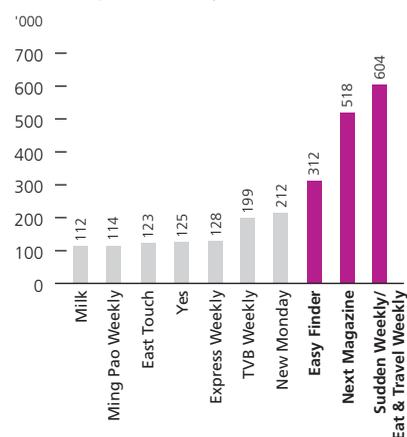
Top Ten Newspapers' Readership in Hong Kong[#]

for the period from January 2003 - December 2003



Top Ten Chinese Weekly Magazines' Readership in Hong Kong[#]

for the period from January 2003 - December 2003



[#] Source: 2003 ACNielsen Hong Kong Media Index Year-end Report

Taiwan

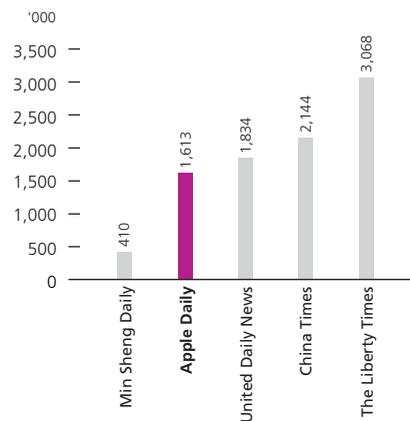
With a population of approximately 22 million, the Taiwan market is around three times the size of that in Hong Kong. According to information from ACNielsen (Taiwan) Ltd. ("ACNielsen Taiwan"), the country's four leading daily papers enjoyed a combined readership of around 8,659,000 for the period of July to December 2003, or approximately 53.7% of the Taiwanese newspaper market. Despite facing keen competition in a crowded market, *Taiwan Apple Daily* has made an impressive debut. Since its launch in May 2003, the paper achieved an average circulation of approximately 406,599 copies for the six months ended December 2003.

According to ACNielsen Taiwan, *Taiwan Next Magazine* continues to maintain its status as the region's most widely read weekly magazine among all readers aged 12 to 60. With an average readership of around 1,610,000 during the last six months of 2003, *Taiwan Next Magazine* enjoyed a 2.4% increase in readership as compared to the average readership of approximately 1,572,000 in the

corresponding period of the previous year. As a result, *Taiwan Next Magazine* is in the lead by approximately 730,000 and 1,121,000 readers from its two closest competitors in the Taiwan magazine market.

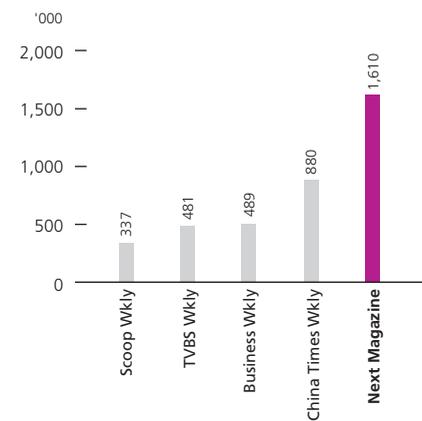
Top Five Newspapers' Readership in Taiwan*

for the period from July 2003 - December 2003



Top Five Weekly Magazines' Readership in Taiwan*

for the period from July 2003 - December 2003



* Source: ACNielsen (Taiwan) Ltd.

Business Performance

The Group's total turnover reached approximately HK\$2,437.1 million during the year under review, which is the second full year since Next Media's acquisition of Database Gateway Limited and its subsidiaries in October 2001. This figure represents an increase of approximately 13.3% over the approximate HK\$2,150.1 million in turnover recorded during the year ended 31 March 2003. As noted in the Financial Review section of this document, a large portion of this increase was generated by the May 2003 launch of *Taiwan Apple Daily*.



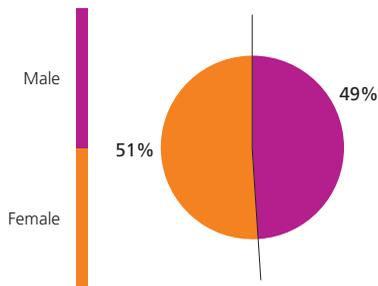
Apple Daily remains many of our readers' favorite way to start the day.

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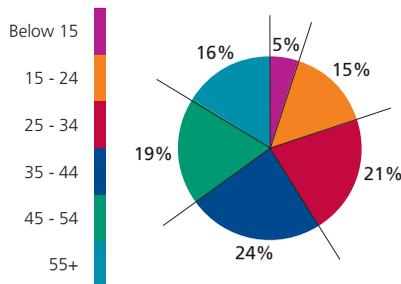
OPERATIONAL REVIEW (continued)

Readership Profile of Apple Daily[#]

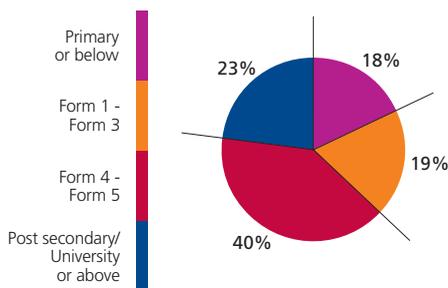
Sex



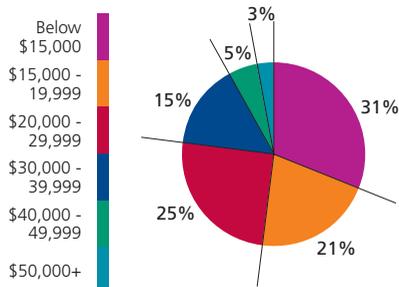
Age



Education



Monthly Household Income (HK\$)



Newspapers Publication and Printing Division

Generating turnover of around HK\$1,531.1 million, the Newspapers Publication and Printing Division continued to be the highest revenue generating division of the Group's operations. The figures for the year ended 31 March 2004 represent a 16.9% increase over the approximate HK\$1,309.4 million turnover for the previous financial year.

Apple Daily

During the year under review, *Apple Daily* continued to consolidate its position as Hong Kong's second most popular daily newspaper. This is a considerable achievement in a market as plagued with uncertainty as Hong Kong was during the SARS crisis. The newspaper remains a major contributor to the Group's results due to its mass middle market appeal. *Apple Daily* contributed to a turnover of approximately HK\$1,207.8 million, which represents a slight decline of 5.5% as compared with the turnover of approximately HK\$1,278.0 million figure for the previous year. A reason for the decline in turnover is directly attributable to the loss of advertising revenue the paper suffered when the SARS epidemic was at its height in April and May of 2003.

ACNielsen 2003 Report shows that *Apple Daily* maintained an average readership of around 1,444,000 in 2003. This figure translates into an encouraging 2.5% increase from the approximate 1,409,000 figure achieved in 2002. The Hong Kong Audit Bureau of Circulation ("HKABC") figures for the six months ended December 2003 indicate that *Apple Daily* had an average circulation of 339,989 copies, a slight 1.1% decrease over the 343,660 figure for the corresponding period in the previous year.

Whilst obviously hampered by the SARS epidemic, *Apple Daily's* figures for the year ended 31 March 2004 underlined the newspaper's pre-eminence in the Hong Kong market. It is again evident that *Apple Daily* remains the first choice newspaper for a broad range of readers with higher education and above average monthly household income levels, as well as its proven appeal for advertisers marketing best-selling branded products and services.

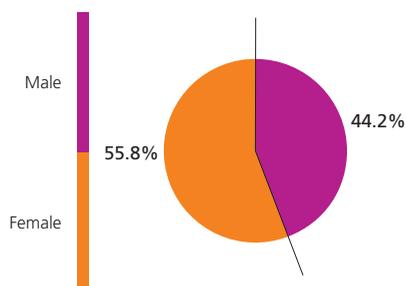
Taiwan Apple Daily

Taiwan Apple Daily has been very well received by the Taiwanese market following its launch on 2 May 2003. Despite the doubling of its special NT\$5 introductory

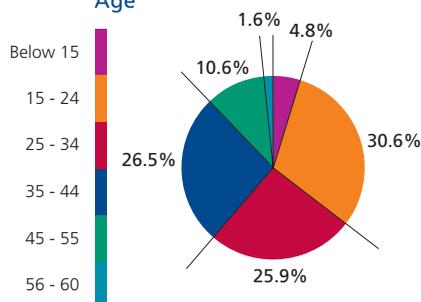
[#] Source: 2003 ACNielsen Hong Kong Media Index Year-end Report

Readership Profile of Taiwan Apple Daily[#]

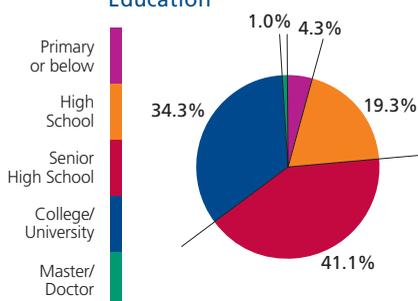
Sex



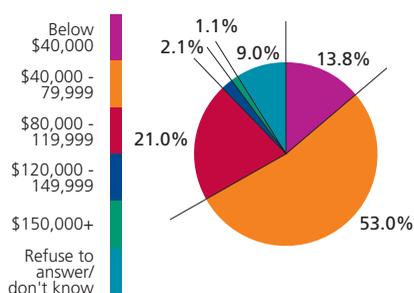
Age



Education



Monthly Household Income (NT\$)



State-of-the-art production and printing facilities at Tseung Kwan O.

cover price on 1 June 2003, the newspaper has continued to increase its popularity with readers from all walks of life. Total revenue generated by *Taiwan Apple Daily* for the year ended 31 March 2004 was approximately HK\$287.6 million.

According to figures published by The Audit Bureau of Circulations, ROC (the "ROCABC"), *Taiwan Apple Daily* recorded a total circulation of 74,814,208 copies during the period from 1 July to 31 December 2003, representing an average daily circulation of approximately 406,599 copies.

The Group believes that *Taiwan Apple Daily* has much room for future growth. This is especially true of the paper's income from run-of-page advertising. The paper's 77:23 average editorial to advertising page ratio in March 2004 represented a major increase over the corresponding 89:11 ratio achieved during the first five months of publication. The Group is confident that it can further increase *Taiwan Apple Daily's* number of advertising pages and further increase advertising revenue as a result.

Taiwan Apple Daily's current list of advertising customers spans a wide range of industries that include property developers, banks, department stores, entertainment businesses and automotive dealerships. Such a broad spectrum of advertisers offers the Group enormous potential to further diversify and enhance its customer base.

Apple Daily Printing Limited

Apple Daily Printing Limited continues to provide the invaluable support services for *Apple Daily's* continued smooth and efficient day-to-day operation, as well as printing services for a variety of external customers. During the year ended 31 March 2004, the revenue derived from these external printing services was approximately HK\$35.7 million, an increase of approximately HK\$4.4 million or 14.1% from the figure generated during the year ended 31 March 2003.

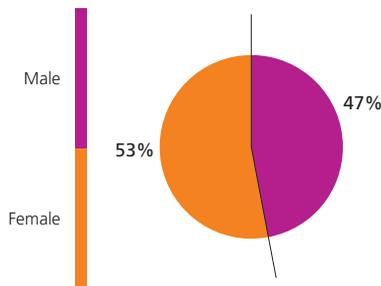
[#] Source: ACNielsen (Taiwan) Ltd.

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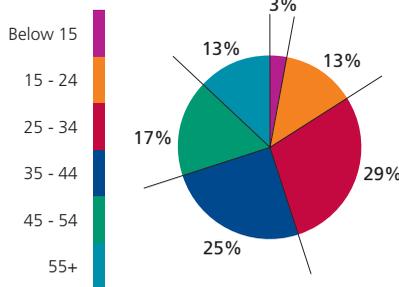
OPERATIONAL REVIEW (continued)

Readership Profile of Next Magazine[#]

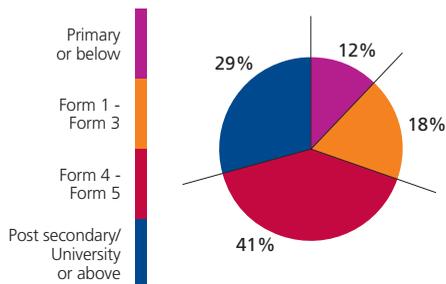
Sex



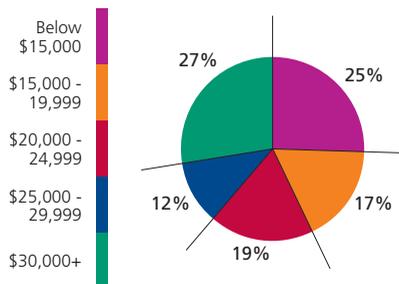
Age



Education



Monthly Household Income (HK\$)



Books and Magazines Publication Division

Next Media's Books and Magazines Publication Division experienced an encouraging increase of around 9.8% in turnover from approximately HK\$715.6 million in the year ended 31 March 2003 to approximately HK\$786.0 million during the year under review. This growth was largely attributable to the increase in revenue generated by *Taiwan Next Magazine*, *Sudden Weekly*, and *Eat & Travel Weekly*.

Next Magazine

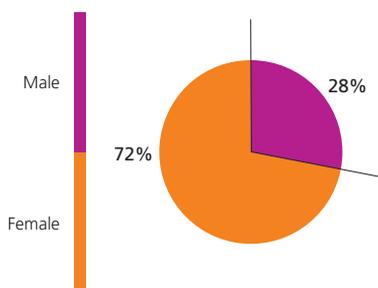
ACNielsen 2003 Report shows that *Next Magazine* maintained its No. 2 position in the Hong Kong weekly magazine market with an average readership of approximately 518,000 during 2003. This figure represents a 13.3% increase over the approximate 457,000 average readership figure achieved in 2002. HKABC figures demonstrate that *Next Magazine* had an average weekly circulation of approximately 147,237 copies during the six months ended December 2003, or a decline of 4.1% over the around 153,459 figure for the corresponding period in the previous year.

More importantly is the fact that *Next Magazine* continues to offer advertisers a higher percentage of readers of both genders with post-secondary/tertiary education levels than any other weekly magazine. This fact alone ensures that the publication remains a "must-buy" for Hong Kong media professionals wishing to reach affluent, young executives and professionals. Given its strong profile and proven appeal for both readers and advertisers, *Next Magazine* suffered a lesser blow than many of its competitors during the SARS crisis. As a result, the publication generated approximately HK\$288.3 million in revenue during the year ended 31 March 2004, which represented a mere 3.3% decrease over the approximate HK\$298.0 million figure for the previous year.

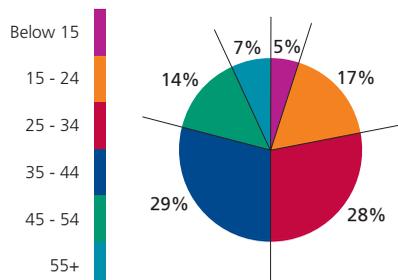
[#] Source: 2003 ACNielsen Hong Kong Media Index Year-end Report

Readership Profile of Sudden Weekly and Eat & Travel Weekly#

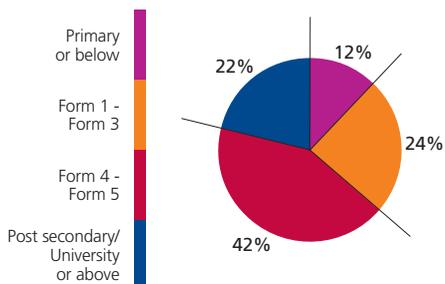
Sex



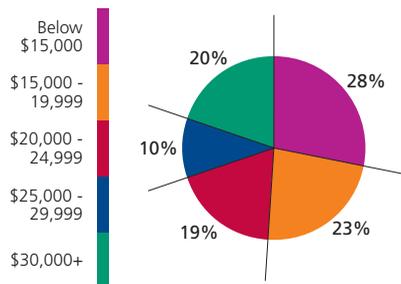
Age



Education



Monthly Household Income (HK\$)



Next Media has assembled one of the most dedicated teams in the publishing industry.

Sudden Weekly and Eat & Travel Weekly

With an average readership of around 604,000 in 2003, the Bundle achieved a healthy growth of around 20.8% over its approximately 500,000 readership figure in 2002. The Bundle has now firmly established its position as the most widely read of all weekly magazines in Hong Kong. Audited circulation figures for the six months ended December 2003 reached 196,539 for the Bundle, demonstrating an encouraging improvement from around 189,216 during the corresponding period in 2002.

Approximately 72.0% of the Bundle's readership are females, while around 74.0% of all readers fall in the 15 to 44 age bracket. Such a proven breadth and depth of appeal further reinforces the success and effectiveness of the Bundle's uniquely up-to-the-minute image and clearly focused positioning and marketing.

For the year ended 31 March 2004, revenue from the Bundle had grown to approximately HK\$212.0 million, a 14.2% increase over the HK\$185.7 million recorded during the year ended 31 March 2003. Both *Sudden Weekly's* and *Eat & Travel Weekly's* market position has been reinforced with the bundling effect and made it the perfect choice for advertisers of various products in its respective market segment.

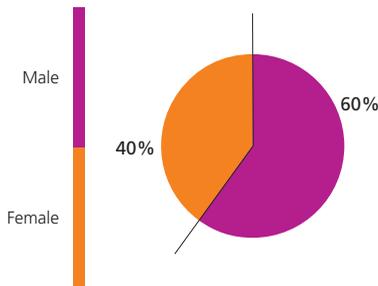
Source: 2003 ACNielsen Hong Kong Media Index Year-end Report

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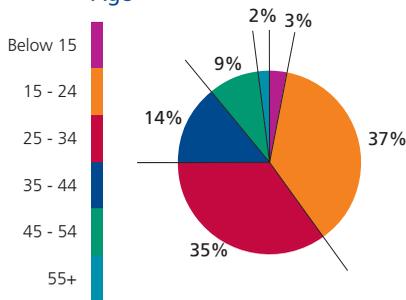
OPERATIONAL REVIEW (continued)

Readership Profile of Easy Finder#

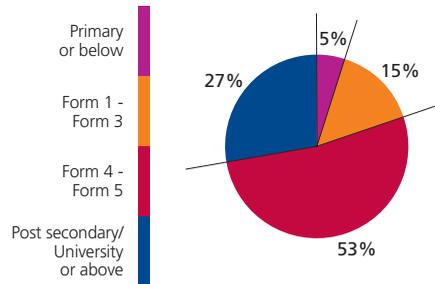
Sex



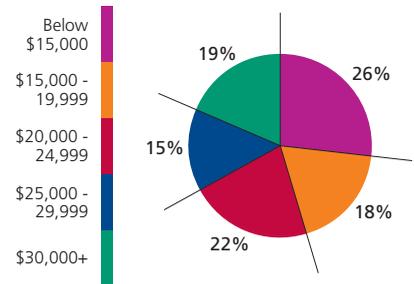
Age



Education



Monthly Household Income (HK\$)



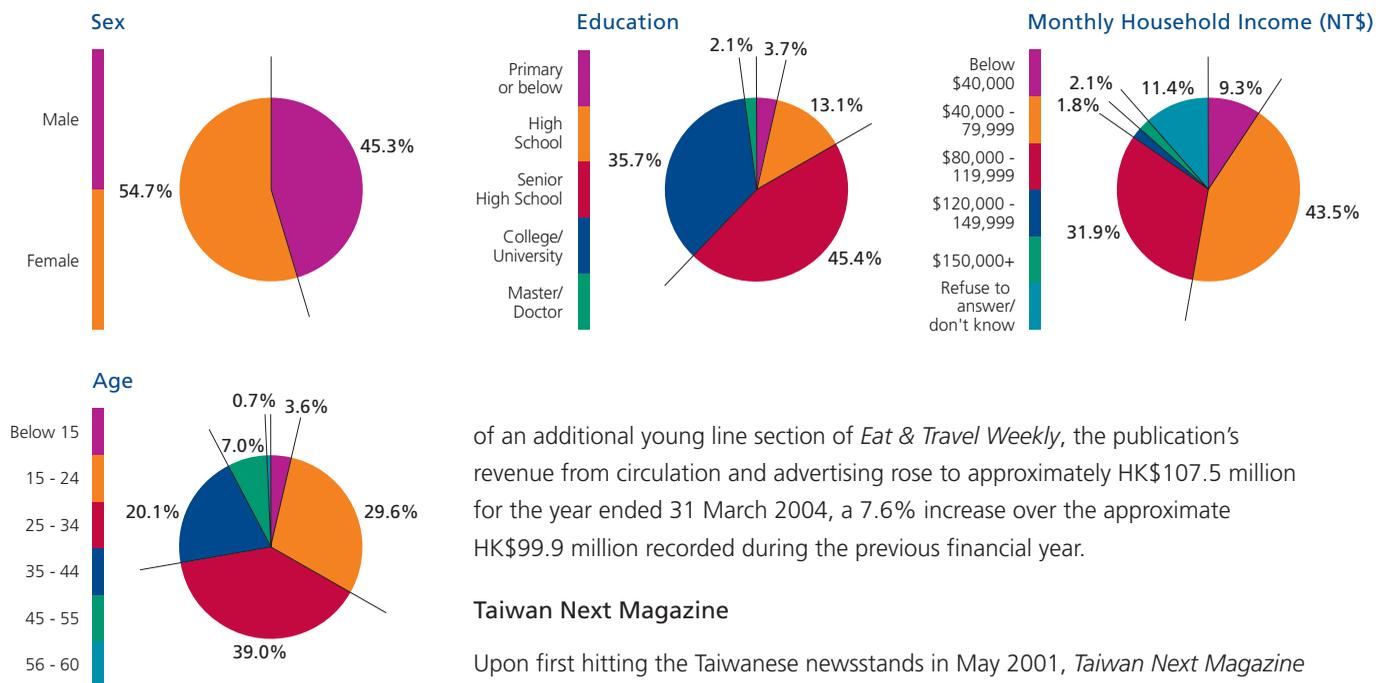
Easy Finder

Another Next Media publication, *Easy Finder* is ranked third in the Hong Kong weekly magazine market with an average readership of approximately 312,000 in 2003. This figure represents a slight 1.6% increase over last year's average readership figure of approximately 307,000. As a result of its emphasis on fashion and trends, *Easy Finder* remains a hugely popular publication with younger, more brand-conscious readers as evidenced by the fact that approximately 72.0% of whom are in the 15 to 34 year old age bracket. As the perfect choice with advertisers in search of a young market, *Easy Finder* also remains a firm fixture on the space buying schedules of up-to-the minute brands. Coupled with the effect

Source: 2003 ACNielsen Hong Kong Media Index Year-end Report



Readership Profile of Taiwan Next Magazine[#]



[#] Source: ACNielsen (Taiwan) Ltd.

of an additional young line section of *Eat & Travel Weekly*, the publication's revenue from circulation and advertising rose to approximately HK\$107.5 million for the year ended 31 March 2004, a 7.6% increase over the approximate HK\$99.9 million recorded during the previous financial year.

Taiwan Next Magazine

Upon first hitting the Taiwanese newsstands in May 2001, *Taiwan Next Magazine* quickly established an unrivalled reputation for its bold, truthful and uncompromising journalism. The intervening years have seen even larger numbers of both readers and advertisers adopt the publication as their weekly magazine of choice.

The year ended 31 March 2004 saw *Taiwan Next Magazine* continue to maintain its dominant position as the most widely read of all weekly magazines in Taiwan. Statistics from ACNielsen Taiwan indicate that the title achieved an average readership of approximately 1,610,000 during the six months ended 31 December 2003, representing an increase of 2.4% when measured against the figure of approximately 1,572,000 for the corresponding period in 2002. As audited by the ROCABC, *Taiwan Next Magazine's* circulation for the six months to December 2003 was 3,524,055 copies. This figure represents a weekly circulation of around 135,541, or a slight decrease of 5.1% when compared against the corresponding figure of the equivalent period in 2002.

Next Media's journalists and photographers leave no stone unturned in their search for the truth.



Management Discussion and Analysis

OPERATIONAL REVIEW (continued)

Taiwan Next Magazine's increase in advertising pages also brought forth a steady growth in the publication's advertising revenue. Total advertising income for *Taiwan Next Magazine* during the year ended 31 March 2004 increased by 84.6% from the previous year. Such growth ensured that the publication was able to achieve its targeted break even in May 2003 and report a segment profit of approximately HK\$9.5 million for the year ended 31 March 2004 as a whole.

The board of directors of the Company (the "Directors" or the "Board") remains confident that *Taiwan Next Magazine's* enduring appeal for readers will ensure the publication continues to be an essential media buy for advertisers.

Books and Magazines Printing Division



Commercial printing continues to play a vital role in Next Media's operations.

Next Media's Books and Magazines Printing Division continued to play a vital role in complementing the Group's publishing business during the year ended 31 March 2004. Before the elimination of intra-group segment transactions worth of approximately HK\$156.7 million, turnover for the Books and Magazines Printing Division for the year ended 31 March 2004 totalled approximately HK\$256.0 million. This figure represents an increase of around 5.7% on the approximate HK\$242.1 million pre-elimination figure for the year ended 31 March 2003.

The Books and Magazines Printing Division continues to provide services to external customers from Hong Kong, Taiwan, North America, Europe and Australasia. During the year ended 31 March 2004, these customers contributed to a revenue of approximately HK\$99.3 million, or a decrease of 10.3% on the approximate HK\$110.7 million recorded for the previous financial year.

Commercial printing is another area in which the Group is confident of receiving a steady income stream.

Internet Division

During the year under review, revenues from the Internet Division grew from approximately HK\$14.4 million to approximately HK\$20.9 million, representing a year-on-year increase of 45.1%. Segment profits for the year ended 31 March 2004 for this Division experienced a dramatic surge and increased from around HK\$3.6 million in the year ended 31 March 2003 to approximately HK\$9.5 million.

Revenues for the Internet Division are mainly derived from content licensing and subscription fees and advertising revenue. The Division's impressive revenue growth during the year under review was largely attributable to an increase in advertising revenue and the growth of its overseas subscriber base.

Although it adversely affected the Group's newspaper and magazine publications, the SARS crisis of 2003 had a positive effect on Internet usage. Reluctant to venture outdoors, an increasingly large number of Hong Kong residents relied on the Internet to obtain news, medical information and carry out banking transactions. Eager to find out what was happening "back home", Hong Kong emigrants also logged onto the Internet in large numbers. At the peak of the SARS crisis, the Internet Division's pageviews were receiving over 10 million hits daily. Advertisers were quick to exploit this change in people's reading patterns and started to re-allocate certain portions of their marketing budgets to the Internet.

The Group remains optimistic that Internet advertising revenue will continue to grow as more and more advertisers consider adding the Internet to their marketing initiatives. As a result, the Division will continue to seek opportunities to increase its revenue streams, while maintaining tight controls on costs.

Through the years, Next Media has invested heavily in new technologies in order to sharpen its competitive edge.



Management Discussion and Analysis

Outstanding photographs from Next Media publications in 2003/04



- 08.04.03** Family, friends and fans of Cantonese legend Leslie Cheung gather to pay their last respects following the singer's suicide.
- 08.05.03** 2003 was the year that facemasks became Hong Kong and Taiwan's most unwelcome fashion accessory.
- 09.07.03** An estimated 50,000 protestors surround the Legco Building at night to protest against the Article 23 legislation.
- 10.07.03** Rescue teams retrieve a bus which crashed through railing along the busy Tuen Mun highway, killing 21 and injuring 20 passengers.

- 08.08.03** The August visit of Real Madrid provided Hong Kong with a much needed post-SARS treat.
- 21.07.03** Conservationists battle frantically to free a sperm whale which became beached at Tai Wan Beach, Sai Kung.
- 17.07.03** Former Hong Kong Government Financial Secretary, Anthony Leung faces the press following his purchase of a Lexus car just weeks before announcing a rise in luxury vehicle taxes in his 2003 budget.



04.10.03



13.11.03



29.01.04



20.03.04



30.10.03



01.07.03



27.03.04



03.11.03

04.10.03 Environmentalists unfurl a banner protesting the Hong Kong Government's plans to reclaim Victoria Harbour.
13.11.03 Icon Anita Mui enchants her fans in a final concert series before cervical cancer claims her life.
29.01.04 No sooner had the spectre of SARS receded than Asia was shaken by the threat of avian flu.
20.03.04 March 2004 saw Taiwan hold one of the most turbulent and controversial elections in its history.

30.10.03 American Chamber of Commerce Chairman, Jim Thompson under fire amidst the events leading up to Hong Kong's controversial Harbour Fest.
01.07.03 July 2003 saw an estimated 500,000 Article 23 protestors take to the streets, making it Hong Kong's biggest demonstration since the Handover.
03.11.03 The stray Yuen Long crocodile, shown basking in the sun, became an instant media celebrity while thwarting repeated capture attempts.
27.03.04 Schoolchildren protest the Hong Kong Government's decision to close their schools because of falling attendance levels and budget difficulties.

Management Discussion and Analysis

FINANCIAL REVIEW

Consolidated Financial Results

Turnover

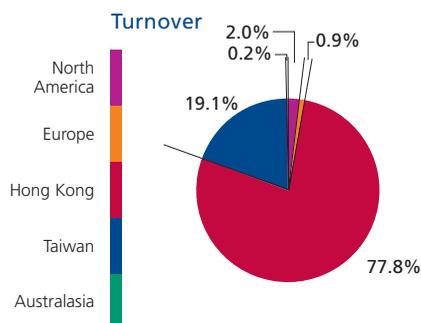
During the year under review, total turnover for the Group grew from around HK\$2,150.1 million to approximately HK\$2,437.1 million. This figure represents a 13.3% increase over the year ended 31 March 2003. The improved turnover was largely due to the launch of *Taiwan Apple Daily*, which contributed approximately HK\$287.6 million or 11.8% of the year ended 31 March 2004 total.

Broken down by principal markets, Hong Kong continued to be the largest revenue earner, contributing around HK\$1,896.9 million worth of turnover. Much of the 1.7% decrease over the approximate HK\$1,929.5 million corresponding figure for the year ended 31 March 2003 is directly attributed to losses in advertising revenue caused by the SARS epidemic during its April and May 2003 peak.

Taiwan remained the Group's second largest source of revenue with a turnover of around HK\$465.5 million representing a year on year increase of 257.5% over the approximate HK\$130.2 million figure for the year ended 31 March 2003. This market also continued to maintain its encouraging upward trend; an increase of 84.6% in advertising revenue from *Taiwan Next Magazine* further enhancing the Group's turnover during the year.

Viewed in terms of principal activities, newspapers publishing and printing continued to be Next Media's largest source of revenue. During the year ended 31 March 2004, the Group's Newspapers Publication and Printing Division contributed approximately HK\$1,531.1 million or 62.8% of the total turnover. These figures represent an approximate HK\$221.7 million or 16.9% increase over the approximate HK\$1,309.4 million, representing 60.9% of the total turnover in the year ended 31 March 2003.

Approximately HK\$786.0 million or 32.3% worth of turnover was added by the Group's Books and Magazines Publication Division. The Books and Magazines Printing Division generated around HK\$99.3 million or approximately 4.1% of the Group's total turnover after elimination of intra-group segment transactions. The Internet Division generated around HK\$20.9 million or approximately 0.8% of the Group's total turnover for the year ended 31 March 2004. The Books and Magazines Publication Division and the Internet Division showed respective increases of 9.8% and 45.1% over the corresponding figures of approximately HK\$715.6 million and HK\$14.4 million achieved during 2003.



Dividend

The Board does not recommend the payment of any dividend for the year ended 31 March 2004.

EBITDA and Net Profit

During the year ended 31 March 2004, Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") reached approximately HK\$221.0 million, a decrease of 65.2% over the approximate HK\$635.6 million recorded during the previous year.

The year ended 31 March 2004 saw the Group as a whole return a segment loss of just HK\$35.0 million from HK\$418.9 million segment profit (as restated) recorded in the year ended 31 March 2003. The segment loss for the Group's Newspapers Publication and Printing Division was around HK\$192.6 million, from HK\$361.9 million profit (as restated) achieved for the year ended 31 March 2003. The deterioration in performance was primarily due to the segment loss of approximately HK\$573.8 million sustained by *Taiwan Apple Daily*.

The year ended 31 March 2004 saw the Group's Books and Magazines Publication Division generate a segment profit of approximately HK\$103.9 million, an encouraging 304.3% increase over the approximate HK\$25.7 million segment profit (as restated) recorded during the previous financial year. This increase is mainly due to the turnaround of *Taiwan Next Magazine* from a loss to a profit representing approximately HK\$57.5 million increase in segment profit. The Group's Books and Magazines Printing Division generated a segment profit of around HK\$44.2 million during the same period. This figure represents an increase of 60.1% when measured against the Division's approximate HK\$27.6 million segment profit for the year ended 31 March 2003. The Internet Division was also profitable, recording a segment profit of around HK\$9.5 million, a healthy increase of 163.9% over the approximate HK\$3.6 million profit recorded in the previous year.

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FINANCIAL REVIEW (continued)

Operating Expenses

The year under review saw the Group's total operating expenses reach approximately HK\$2,453.0 million, a 42.6% increase over the approximate HK\$1,720.5 million (as restated) figure recorded during the year ended 31 March 2003. Some 65.5% or around HK\$1,605.7 million of this sum was made up of production costs, including direct production staff costs. Much of this increase is largely attributable to the Group's expansion of its Taiwan activities, including the May 2003 launch of *Taiwan Apple Daily*. Personnel costs, excluding direct production staff costs, totalled around HK\$319.2 million or 13.0% of the Group's total operating costs during the year ended 31 March 2004. This figure represents a HK\$22.4 million or 7.5% increase over the corresponding HK\$296.8 million or 17.3% figures for 2003. Depreciation of fixed assets accounted for approximately HK\$137.9 million or 5.6% of this total, measured against approximately HK\$102.8 million or 6.0% in the year ended 31 March 2003.

Taxation

Taxes levied on the Group during the year just ended totalled some HK\$74.1 million, a decrease of 15.8% over the approximate HK\$88.0 million (as restated) figure for the year ended 31 March 2003. This fall was mainly the result of a drop in profits that the Group derived from its Hong Kong operations and recognition of certain deferred tax assets.

Financial Position

Current Assets and Current Liabilities

As at 31 March 2004, the Group's current assets stood at approximately HK\$983.1 million, an increase of approximately 3.0% or HK\$28.3 million as at 31 March 2003. The Group's current liabilities dropped by around 3.6% to reach approximately HK\$483.5 million as compared to approximately HK\$501.3 million as at 31 March 2003. The primary causes of the decrease in liabilities are the decrease in taxation payable and the decrease in current portion of long-term liabilities. As at 31 March 2004, the Group had a total of approximately HK\$373.6 million cash on hand. The current ratio as at 31 March 2004 was 203.3%, compared to a ratio of 190.5% at the previous financial year end.

Accounts Receivable

As at 31 March 2004, the Group's accounts receivable stood at approximately HK\$409.8 million representing a 40.1% increase from the approximate HK\$292.5 million recorded at the previous year end. Such increase mainly comes from additional accounts receivable from the new *Taiwan Apple Daily* business. The average turnover for accounts receivable during the year under review was 52.7 days measured against 51.4 days in the year ended 31 March 2003.

Accounts Payable

As at 31 March 2004, the Group's accounts payable dropped to approximately HK\$97.4 million, a decrease of 4.5% over the approximate HK\$102.0 million figure as at 31 March 2003. The same period saw a decrease in average accounts payable turnover from 56.0 days in last year to 40.9 days in this year as the consumption of paper nearly doubled after the launch of *Taiwan Apple Daily*.

Long-term and Short-term Liabilities

As at 31 March 2004, the Group's long-term liabilities, including current portions, totalled around HK\$296.4 million. This figure represents an increase of 7.4% over the approximate HK\$275.9 million figure as at 31 March 2003. As at 31 March 2004, the current portion of the Group's long-term liabilities stood at approximately HK\$60.6 million, a 14.0% decrease over the figure of around HK\$70.5 million as at the previous financial year end.

On 3 November 2003, Apple Daily Limited, a wholly owned subsidiary of the Company, was granted a HK\$300.0 million Transferable Term Loan/Revolving Credit Facility (the "Syndicated Loan Facility") from a syndicate of seven banks arranged by Sumitomo Mitsui Banking Corporation. The Syndicated Loan Facility is divided into two tranches, being Tranche A, a 5-year HK\$200.0 million term loan facility, and Tranche B, a 3-year HK\$100.0 million revolving credit facility. Apple Daily Limited used proceeds from Tranche A to refinance part of its then existing loans. If necessary, proceeds from Tranche B will be used to fund the Company's future business expansion plans and capital expenditure requirements.

The Syndicated Loan Facility offers additional advantages in that it will enable the Group to lower its overall funding costs while broadening its base of lending banks.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Borrowing and Gearing

Next Media's primary mean of financing its operations remains cash flow generated by its operating activities and, to a lesser extent, banking facilities provided by its principal bankers.

As at 31 March 2004, the Group's available banking facilities totalled around HK\$598.7 million, approximately HK\$304.3 million of which 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 ended 31 March 2004, Hong Kong Dollars and New Taiwanese Dollars accounted for the bulk of the Group's bank borrowings. As at 31 March 2004, the Group had cash on hand worth around HK\$373.6 million. The Group's gearing ratio as at 31 March 2004 was 6.7% compared against the 6.2% (as restated) figure recorded as at 31 March 2003. The Group's gearing ratios are calculated by dividing long-term liabilities, including current portions, by total asset value.

Share Capital Structure

During the year under review, the Company issued 244,973,400 ordinary shares with a par value of HK\$1.00. The major part of the new shares issue resulted from the conversion of 240,000,000 HK\$1.75 convertible non-voting non-cumulative preference shares ("Preference shares") held by Mr. Lai Chee Ying, Jimmy ("Mr. Lai") at a conversion price of HK\$1.75 per ordinary share. 4,973,400 ordinary shares with a par value of HK\$1.00 were also issued as a result of the exercise of certain share options by option holders at an exercise price of HK\$1.67 per share.

As at 31 March 2004, the Company's total issued share capital was around HK\$3,088.6 million. This figure is made up of 1,478,634,576 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.

Cash Flow

During the year just ended, the Group's net cash outflow from operating activities reached around HK\$20.6 million, a cash inflow of HK\$650.5 million was generated from the Group's operations during the year ended 31 March 2003.

The outflow of investment-related cash during the year ended 31 March 2004 totalled approximately HK\$120.6 million. This figure represents a decrease of 83.6% over the outflow of around HK\$735.0 million in the previous financial year.

Net cash inflow from financing activities during the year ended 31 March 2004 totalled around HK\$16.6 million, compared against approximately HK\$14.5 million in 2003. This figure was mainly made up of new bank loans worth approximately HK\$231.3 million. The latter figure was partially offset by bank loan repayments of around HK\$215.3 million.

Exchange Rate Exposure and Capital Expenditure

Group assets and liabilities are mainly denominated in either Hong Kong Dollars or New Taiwanese Dollars. As a result of its magazine and newspaper publishing business activities in Taiwan, the Group faces certain exchange rate exposure to New Taiwanese Dollars. It is the Group's intention to reduce this exchange rate exposure by arranging bank loans in New Taiwanese Dollars whenever and wherever possible. The Group's net currency exposure as at 31 March 2004 was approximately NT\$4,127.2 million (approximately HK\$974.1 million), a 34.6% increase over the approximate NT\$3,067.4 million (approximately HK\$687.8 million) figure as at 31 March 2003. The Group will continue to monitor its overall currency exposure very carefully, taking steps to hedge against such exposure when and where appropriate.

The Group's capital expenditure for the year ended 31 March 2004 totalled approximately HK\$142.3 million, some HK\$114.7 million of which was for the Group's operations in Taiwan. At the end of the year under review, the Group had committed further capital expenditure worth around HK\$14.4 million for its operations. This figure included approximately HK\$5.7 million for the Group's operations in Taiwan.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Pledge of Assets

As at 31 March 2004, certain of the Group's Hong Kong and Taiwanese property portfolio and printing equipment with an aggregate net book value of around HK\$1,013.6 million were pledged to various banks as security for bank loans and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 March 2004, the Group had contingent liabilities in respect of a number of litigation proceedings in Hong Kong and Taiwan. Such proceedings are a normal occurrence in the publishing business. The Group was also involved in a dispute with UDL Contracting Limited, the contractor responsible for the construction of the printing facility for the Company's subsidiary, Apple Daily Printing Limited. The dispute, which concerns amounts payable for the construction of the facility, is currently under arbitration and the final outcome of the proceedings remains uncertain.

Following 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. The Indemnity will protect 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.

Having taken into consideration the advice of the Group's legal counsel and the Indemnity given by Mr. Lai, the Directors of the Company are of the opinion that any ultimate liability resulting from these proceedings will have no material impact on the Group's financial position.

The Company also has contingent liabilities in relation to corporate guarantees it has provided to financial institutions for facilities utilised by certain subsidiaries of the Company. As at 31 March 2004, these contingent liabilities totalled approximately HK\$224.9 million.

Prospects and Outlook

Moving Forward

Next Media remains Hong Kong's largest Chinese-language print media group. *Apple Daily*, *Next Magazine*, *Easy Finder*, *Sudden Weekly* and *Eat & Travel Weekly* have all achieved solid market shares and will ensure the Group continues to enjoy a stable revenue stream. More encouragingly, the Board believes that each of these publications will generate additional advertising revenue as the Hong Kong economy continues to improve.

The financial year 2004/05 will see Next Media carry on its policy of consolidating its dominant position within the Hong Kong Chinese print media market. At the same time, the Group will make substantial efforts to cement its foothold within the Taiwan market. The Board is confident that *Taiwan Next Magazine* will continue to both build on its achievements and remain profitable. It should be noted, however, that the title is unlikely to make a major contribution to the Group's result during the coming year.

Newsprint and paper costs account for a substantial portion of Next Media's production costs in both Hong Kong and Taiwan. Prices on the world's paper markets are expected to continue to rise throughout the year ending 31 March 2005. This upward trend will inevitably impact on the Group's financial performance in the coming year.

It seems likely that the launch of *Taiwan Apple Daily* will continue to affect the Group's financial performance and results for the year ending 31 March 2005. This may mean that the Group, in the coming year, will not return to the profit level for the year ended 31 March 2003. However, the Group's management remains committed to doing everything possible to ensure that all costs incurred will help to pave way for *Taiwan Apple Daily's* future success.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Encouragingly, the large scale investment involved in the launch of *Taiwan Apple Daily* has already started to bear fruit. For the six months ended 31 December 2003, *Taiwan Apple Daily* had an audited average daily circulation of approximately 406,599 copies.

Its impressive performance on Taiwanese newsstands is mirrored in its increased advertising revenue. For the year ended 31 March 2004, the paper had contributed approximately HK\$287.6 million or 18.8% of the Newspapers Publication and Printing Division's turnover for the year. The Board remains confident that as *Taiwan Apple Daily* consolidates and further strengthens its position in the market, these figures will continue to show steady growth.

Forward-looking Statements

This document contains certain 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.