
IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Next Media Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

NEXTmedia

NEXT MEDIA LIMITED

壹傳媒有限公司

(Incorporated in Hong Kong with limited liability)

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
ACQUISITION OF INTEREST IN
APPLE DAILY ONLINE LIMITED**

Financial adviser to Next Media Limited



VICKERS BALLAS

Independent financial adviser to the Independent Board Committee



DBS ASIA CAPITAL LTD

A notice convening an extraordinary general meeting of Next Media Limited to be held at the Conference Room on the 1st Floor, 3 Chun Kwong Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, New Territories, Hong Kong on Monday 31 July 2000 at 11:00 a.m. is set out on pages 80 and 81 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

15 July 2000

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	4
The Acquisition Agreement dated 2 June 2000	5
Computation of the number of pageviews	7
Information on Apple Daily Online	7
Reasons for the Acquisition	13
Shareholding structure	14
Outlook	14
General	15
Increase in authorised share capital	15
Recommendation	16
EGM	16
Additional information	16
Letter from the Independent Board Committee	17
Letter from DBS	18
Appendix I – Financial information on the Group	24
Appendix II – Accountants’ report on the business of Apple Websites	57
Appendix III – Pro forma financial information on the Enlarged Group	65
Appendix IV – General information	69
Notice of the EGM	80

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the entire issued share capital of Apple Daily Online
“Acquisition Agreement”	the agreement entered into between the Company and ADL on 2 June 2000 for the Acquisition, the assignment of the domain names of the Apple Websites and the licences to use trade marks and copyright associated with the Apple Websites
“ADL”	Apple Daily Limited, a company owned as to 99.77% by Mr. Lai
“Apple Daily”	Apple Daily Newspaper published by ADL
“Apple Daily Online”	Apple Daily Online Limited, a wholly-owned subsidiary of ADL
“Apple Websites”	all the websites currently operated and owned by Apple Daily Online as set out on page 7 of this circular, including the website with the domain name <i>appledaily.com.hk</i>
“Assignment of Domain Names”	a deed to be entered into between ADL and Apple Daily Online at Completion for the assignment of those of the domain names of the Apple Websites owned by ADL to Apple Daily Online
“associates”	has the same meaning as in the Listing Rules
“Board”	board of Directors
“Company”	Next Media Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Consideration Shares”	362,318,840 new Shares to be issued at HK\$1.38 per Share under the Acquisition Agreement in satisfaction of the consideration for the entire issued share capital of Apple Daily Online

DEFINITIONS

“DBS”	DBS Asia Capital Limited, the independent financial adviser to the Independent Board Committee, a registered investment adviser under the Securities Ordinance
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 31 July 2000 to consider the Acquisition
“Enlarged Group”	the Group and Apple Daily Online
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of Directors comprising Messrs. Yeh V-nee, Hsu Chien-kuo, Gerald and Fok Kwong Hang, Terry, appointed by the Board to consider the terms of the Acquisition and to advise the Independent Shareholders in connection with it
“Independent Shareholders”	the shareholders of the Company, other than Mr. Lai, the other four Directors who are also employees of ADL and who will receive Consideration Shares, the employees of ADL who are not Directors but who will receive Consideration Shares and their respective associates
“Latest Practicable Date”	10 July 2000, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in it
“Licence Agreement”	an agreement to be entered into between ADL and Apple Daily Online at Completion for the licenses to use trade marks and copyright associated with the Apple Websites
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lai”	Mr. Lai Chee Ying, Jimmy, the chairman and controlling shareholder of the Company

DEFINITIONS

“Next International”	Next Media International Holdings Limited
“Nextmedia Websites”	all the websites currently operated and owned by the Group, including the website with the domain name <i>nextmedia.com</i>
“PRC”	the People’s Republic of China
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Cap. 396 of the Laws of Hong Kong)
“Shares”	ordinary shares of HK\$0.20 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tax Deed”	a deed of tax covenant to be entered into between ADL, the Company and Apple Daily Online at Completion
“HK\$”	Hong Kong dollars

LETTER FROM THE BOARD

NEXTmedia

NEXT MEDIA LIMITED

壹傳媒有限公司

(Incorporated in Hong Kong with limited liability)

Executive Directors:

Lai Chee Ying, Jimmy (*Chairman*)

Yeung Wai Hong

Chow On Kiu, Andrew

Ho Kwok Fai, Morris

Ting Ka Yu, Stephen

Kok Hon Kay, Peter

Lim Tai Thong

Registered office:

8 Chun Ying Street

Tseung Kwan O Industrial Estate West

Tseung Kwan O

New Territories

Hong Kong

15 July 2000

Independent non-executive Directors:

Yeh V-nee

Hsu Chien-kuo, Gerald

Fok Kwong Hang, Terry

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF INTEREST IN APPLE DAILY ONLINE

INTRODUCTION

It was announced on 3 June 2000 that the Company had entered into the Acquisition Agreement with ADL to acquire the entire issued share capital of Apple Daily Online for a consideration of HK\$500 million. The consideration is to be satisfied by the issue of 362,318,840 Consideration Shares.

The Acquisition is a very substantial acquisition for the Company under the Listing Rules by virtue of the fact that the consideration for the Acquisition exceeds 100% of the consolidated net asset value of the Group. The Stock Exchange has indicated that the Company will not be treated as a new applicant for listing pursuant to the Listing Rules. As Mr. Lai is a director and the controlling shareholder of both the Company and ADL, the Acquisition is a connected transaction for the Company under the Listing Rules and is conditional upon approval by the Independent Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information on the Acquisition and to give you notice of the EGM. The recommendation of the Independent Board Committee to the Independent Shareholders on the Acquisition is set out on page 17 of this circular. The letter from DBS as the independent financial adviser to the Independent Board Committee is set out on pages 18 to 23 of this circular.

THE ACQUISITION AGREEMENT DATED 2 JUNE 2000

Parties

Seller : ADL. Mr. Lai, a director and the controlling shareholder of ADL, is also the chairman and the controlling shareholder of the Company.

Purchaser : the Company

Assets to be acquired

The entire issued share capital of Apple Daily Online, the principal business of which is the operation of the Apple Websites.

At Completion, ADL will enter into a Licence Agreement with Apple Daily Online giving Apple Daily Online an exclusive royalty-free licence to publish Apple Daily on the Apple Websites and an exclusive royalty-free licence to use associated trade marks and copyrights on the internet and any other electronic media. ADL and Apple Daily Online will also enter into the Assignment of Domain Names at Completion for the assignment of related domain names to Apple Daily Online.

At Completion, the Company, ADL and Apple Daily Online will also enter into the Tax Deed. Under the Tax Deed, ADL is required to pay to the Company an amount equal to any unprovided tax liability of Apply Daily Online which arises as a result of any event occurring or deemed to occur on or before the Completion Date.

Consideration

HK\$500 million, which represents approximately HK\$102 per average daily page view of the Apple Websites in April 2000. Although no independent valuation will be done of the Apple Websites, based on the recent market value of the average page view of websites in Hong Kong and overseas ranging from approximately HK\$360 to HK\$1,740, the Directors believe that the consideration represents a substantial discount to the current market value of the Apple Websites, and that the Acquisition is therefore beneficial to the Company and its shareholders.

LETTER FROM THE BOARD

The consideration will be satisfied by the issue of the Consideration Shares. The Consideration Shares represent approximately 12.6% of the existing issue share capital of the Company and approximately 11.2% of the enlarged issued share capital of the Company.

It was stated in the Company's announcement dated 3 June 2000 that ADL intended to direct the Company to issue approximately 36% of the Consideration Shares to its employees and 64% of the Consideration Shares to ADL. Having further considered its employees' contributions to the success of the Apple Websites and Apple Daily, ADL has directed the Company to issue 181,159,420 new Shares (representing 50% of the Consideration Shares) to its employees and the remaining 181,159,420 new Shares (representing 50% of the Consideration Shares) to ADL. Four of those employees of ADL who will receive part of the Consideration Shares, namely Mr. Ho Kwok Fai, Morris, Mr. Chow On Kiu, Andrew, Mr. Ting Ka Yu, Stephen and Mr. Kok Hon Kay, Peter, are Directors and hence connected persons of the Company.

Those four Directors, Mr. Lai and their respective associates will abstain from voting on the ordinary resolutions to be proposed at the EGM to approve the Acquisition and the issue of the Consideration Shares. Those of ADL's employees who are shareholders of the Company and will receive the Consideration Shares have undertaken or will undertake to the Company that they and their respective associates will also abstain from voting on such resolutions.

The 362,318,840 Consideration Shares are subject to a six-month lock-up period after the date of their issue.

The Consideration Shares will be issued at an issue price of HK\$1.38 per Share, which represents approximately the average closing price of the Shares for the 15 trading days up to and including 30 May 2000. It represents a premium of approximately 45.3% to the closing price of the Shares of HK\$0.95 as quoted on the Stock Exchange on 30 May 2000 and a premium of approximately 10.4% to the closing price of the Shares of HK\$1.25 as quoted on the Stock Exchange on 2 June 2000, the last trading day preceding the date of the announcement of the Acquisition. It also represents a premium of approximately 14% to the closing price of the Shares of HK\$1.21 as quoted on the Stock Exchange as at the Latest Practicable Date.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions

The Acquisition Agreement provides that the date of Completion shall be two days after the day on which the last of the conditions of the Acquisition Agreement shall have been satisfied or such other date as the parties may agree but, in any event, no later than 31 July 2000.

LETTER FROM THE BOARD

Completion of the Acquisition including the issue of the Consideration Shares is conditional upon approval by the Independent Shareholders. It is also subject to the Stock Exchange granting listing of and permission to deal in the Consideration Shares. It is expected that Completion will take place on 31 July 2000.

COMPUTATION OF THE NUMBER OF PAGEVIEWS

The Directors understand that there are different methods of computing the number of pageviews of a website and that there is no generally accepted standard in the industry. The Directors are of the view that:

- the system which Apple Daily Online uses to compute the number of pageviews of the Apple Websites is reliable; and
- the bases on which the number of pageviews of the Apple Websites is computed are fair and reasonable.

INFORMATION ON APPLE DAILY ONLINE

Business

Apple Daily Online was incorporated on 7 April 1999 and commenced business on 5 October 1999. The principal activities of Apple Daily Online are the development and operation of internet and related businesses under the Apple Websites. Currently, all of the Apple Websites in operation are accessible by the public free of charge. Set out below is a list of the domain names of the Apple Websites:

In operation:

appledaily.com.hk
applesoccer.com

applejob.com
tech.atnext.com

appleracing.com

Not yet in operation:

appleshowbiz.com
appleweather.com.hk
jimmylai.com.hk
tungchiao.com
appletech.com.hk
applekids.com.hk
applebook.com.hk

applejob.com.hk
appleshowbiz.com.hk
applenet.com.hk
applezoo.com.hk
appleplant.com.hk
applefinance.com.hk

appleweather.com
appleteens.com.hk
applenews.com.hk
applesport.com.hk
tungchiao.com.hk
applepeople.com.hk

LETTER FROM THE BOARD

appledaily.com.hk

Since its launch in January 1997, *appledaily.com.hk* has become a popular website in Hong Kong. The average daily pageviews of the Apple Websites amounted to approximately 4.90 million, 4.93 million and 4.96 million in April, May and June 2000 respectively.

The website *appledaily.com.hk* started as an electronic edition of Apple Daily, a leading popular Chinese language newspaper in Hong Kong. Specialised sites have been added in the last year. In the next few months, a number of new sites are intended to be made available.

Recently added specialised sites

To complement its main news site, Apple Daily Online has started to operate four specialised sites. They are the Racing site, the Soccer site, the Job site and the Technology site.

Racing site (appleracing.com)

This site started operating in 1999. It has coverage of horse racing news in Hong Kong and Macau. A search engine giving access to the form of more than 1,100 horses racing in Hong Kong was added to the site in May 2000. The number of average daily pageviews in June 2000 was 200,000, with an average of more than 400,000 pageviews on racing days. The racing site intends to start to recruit members in August 2000. It is intended that paid up members will have exclusive access to the search engine and to tips provided by retired jockeys.

Soccer site (applesoccer.com)

This site started operating in February 2000. It is a subsection of the Racing site and carries reports on major international football matches. It provides match results and news coverage of important matches.

Job site (applejob.com)

This site was officially launched in March 2000. It was co-branded with the classified job section of Apple Daily in May 2000. It provides listings and matching services for job seekers and employers.

Technology site (tech.atnext.com)

This site was launched in June this year. It accompanies Appletech, the re-branded weekly technology classified publication. Appletech is a tabloid and is published every Thursday. It is circulated together with Apple Daily and distributed free at popular computer shops and arcades in Hong Kong. The same editorial team provides content for both Appletech itself and the site.

LETTER FROM THE BOARD

Future plans and prospects

News update service

A news update service is intended to be launched at the end of July 2000. Online editors will work closely with their offline colleagues at Apple Daily to post timely news updates on the Apple Websites.

Showbiz site

A Showbiz site integrating the entertainment news sections of Apple Daily and of the Group's four magazines is proposed. The Showbiz site, intended to be launched at the end of July 2000, will provide coverage of local entertainment news and celebrity activities.

The Showbiz site will provide search facilities for movie listings, TV programmes and photographs of stars. It will be linked to Next Media's interactive websites (the Next movie site, the Next TV guide site and the Next photo site).

Interactivity (between the site and its visitors) and interconnectivity (among the site's visitors) are to be features of the Showbiz site. Daily polling, a forum, a message board and a chatroom are intended to be used to create a community of fans. Recruitment of fans' sites has commenced. The site will provide links to the recruited fans' sites.

Finance site

This site is intended to start operating at the end of July 2000. Initially, it will provide market news updates during the Stock Exchange's trading hours. Later, it is intended that a comprehensive database of stock prices and trading volumes of Hong Kong stocks will be built up. The database will be linked to news articles about Hong Kong stocks.

Financial information

Apple Daily Online, a wholly owned subsidiary of ADL, was incorporated in Hong Kong on 7 April 1999. On 5 October 1999, Apple Daily Online acquired the business of the Apple Websites from ADL. Prior to 5 October 1999, the business of the Apple Websites were operated by a department ("the Internet Department") of ADL. The Internet Department had been established since January 1997. Apart from the business of the Apple Websites, neither Apple Daily Online nor the Internet Department has, or has ever had, any other activity. The following is a summary of the results of the Apple Websites for the period from 1 April 1997 to 31 March

LETTER FROM THE BOARD

2000, which include the results of the Internet Department for the period from 1 April 1997 to 4 October 1999 and the results of Apple Daily Online from 5 October 1999 to 31 March 2000:

	Year ended 31st March		
	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000
Turnover	436	1,939	3,788
Production costs	(94)	(643)	(2,404)
Gross Profit	342	1,296	1,384
Personnel costs	(1,836)	(3,568)	(10,911)
Depreciation	(17)	(49)	(699)
Other operating costs	(195)	(734)	(2,544)
Operating loss	<u>(1,706)</u>	<u>(3,055)</u>	<u>(12,770)</u>

Turnover recognized during the relevant periods represented advertising income received and receivables net of discounts.

For the year ended 31 March 1998, Apple Websites consisted of printed news and images from Apple Daily with minor modifications. Not more than ten staff and limited equipment were assigned to support these operations. The major expenses were personnel costs, which represented 89% of the total operating expenses and 421% of the total turnover.

For the year ended 31 March 1999, the advertising income of the Apple Websites recorded significant growth. The turnover increased by approximately 345% from HK\$0.44 million for the year ended 31 March 1998 to HK\$1.94 million for the year ended 31 March 1999. The operating loss increased by approximately 79% from HK\$1.71 million for the year ended 31 March 1998 to HK\$3.06 million for the year ended 31 March 1999, principally as a result of an increase in personnel costs as more people were recruited. The personnel costs represented 82% of the total expenses and 184% of the total turnover for the year ended 31 March 1999.

For the year ended 31 March 2000, the advertising income of the Apple Websites continued to grow. The turnover increased by approximately 95% from HK\$1.94 million for the year ended 31 March 1999 to HK\$3.79 million for the year ended 31 March 2000.

Production costs of about HK\$2.4 million, which have been included in the results of Apple Daily Online for the year ended 31 March 2000, were incurred in payments for articles and of research fees for three specialized sites, Racing site, Soccer site and Job site.

LETTER FROM THE BOARD

The decrease in the gross profit margin and the increase in operating costs of the Apple Websites for the year ended 31 March 2000 were mainly due to the increase in personnel costs which in turn reflected an increase in the number of employees. The full time headcount increased from 12 in September 1999 to 64 in March 2000 and to 85 in June 2000. Part-time staff were also recruited. Personnel costs represented 288% of the total turnover for the year ended 31 March 2000. Additional costs of HK\$10.2 million were incurred in the acquisition of new equipment during the year ended 31 March 2000, and depreciation increased by 1,326% from HK\$0.05 million for the year ended 31 March 1999 to HK\$0.70 million for the year ended 31 March 2000. Apple Daily Online's loss of HK\$12.77 million for the year ended 31 March 2000 reflected the above factors.

Apple Daily Online had net liabilities of approximately HK\$11.5 million and HK\$16.8 million as at 31 March 2000 and 31 May 2000 respectively. ADL has undertaken in writing to Apple Daily Online and the Company that it will waive any claim which it may have against Apple Daily Online and/or the Company arising from or in connection with any amount due from Apple Daily Online to ADL as at the date of Completion with effect from that date. As at 31 May 2000, such amount due to ADL was approximately HK\$30.5 million. On this basis, the pro forma net asset value of Apple Daily Online would amount to approximately HK\$13.68 million as at 31 May 2000.

In order to facilitate the development of its new websites, Apple Daily Online had capital commitments of approximately HK\$5.4 million as at 31 March 2000.

Further financial information on the Apple Websites is set out in Appendix II.

Directors of Apple Daily Online

Apple Daily Online currently has two directors, Mr. Lai and Mr. Kok Hon Kay, Peter, who are also Directors. The Company will nominate two additional directors to the board of Apple Daily Online upon Completion.

Senior management of Apple Daily Online

Ms. Li Yuet Wah, Daisy, aged 39, is the chief editor of Apple Daily Online. She graduated from the Shue Yan College with a Diploma in Journalism in 1984. Prior to joining ADL in 1997, where her main responsibility was the business development of Apple Daily Online, Ms. Li worked at Ming Pao, a Chinese language newspaper in Hong Kong, for 13 years. She was the chairperson of the Hong Kong Journalists Association for three consecutive terms from 1991 to 1994. She has been a member of the Advisory Group on Press Freedom to the United Nations Educational, Scientific and Cultural Organisation since 1997.

LETTER FROM THE BOARD

Employees of Apple Daily Online

As at 30 June 2000, the total number of full-time employees employed by Apply Daily Online was 85. A breakdown of these employees by activities is as follows:

Activities	Number of employees
Design	4
Content development	74
Production	7
Total	<u>85</u>

On 10 July 2000, Apple Daily Online announced a streamlining of its workforce. The streamlining is being undertaken with a view to increasing efficiency and improving competitiveness. The total workforce of Apple Daily Online was reduced by 36 from 85 to 49. These 36 persons were engaged in content development relating to various Apple Websites, including the medical and health site, the racing site, the soccer site and the news update site. The estimated costs (including severance payments) of this streamlining exercise, which will be borne by Apple Daily Online, amount to approximately HK\$0.43 million and represent approximately 3.75% of Apple Daily Online's net liabilities as at 31 March 2000. The streamlining should enable Apple Daily Online to redeploy approximately HK\$12.1 million per annum (equivalent to approximately 46% of Apple Websites' personnel costs) for the development of its internet business. The salaries of content developers are generally higher than those of website designers. As all of the 36 persons streamlined by Apple Daily Online were content developers whilst almost half of the 62 persons streamlined by the Group were website designers, the amount available for redeployment as a result of Apple Daily Online's streamlining is more significant in relative terms than the amount so available for the Group. The Directors have been advised by the directors of Apple Daily Online that the streamlining exercise should not have a material adverse impact on the operations and prospects of the Apple Websites.

Litigation

Neither the Company nor ADL is aware of any litigation or claims of material importance pending or threatened against Apple Daily Online or any of its subsidiaries.

Pursuant to the Licence Agreement, ADL will agree to indemnify Apple Daily Online from and against all losses suffered by Apple Daily Online in connection with any claim that any part of the content of Apple Daily published and to be published on the Apple Websites contravenes any applicable laws except where such claim arises solely as a result of any modification made by Apple Daily Online to such part of the content, in which case Apple

LETTER FROM THE BOARD

Daily Online shall indemnify ADL from and against all losses suffered by ADL in connection with such claim. Pursuant to the Licence Agreement, ADL will also agree to indemnify Apple Daily Online from and against all losses suffered by Apple Daily Online in connection with any claim that any part of the content published or displayed on any of the Apple Websites before the date of the Completion, whether or not related to the content of Apple Daily, contravenes any applicable laws.

Potential risks

Apple Daily Online's future income from internet advertising will depend substantially upon the increased use of the Apple Websites for information, publication, distribution and commerce and the emergence of the Apple Websites as an effective advertising medium. In addition, the internet market is intensely competitive and there can be no assurance that Apple Daily Online will be able to compete successfully in it.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the printing and publication of magazines, the operation of websites and the provision of other internet-related services. The Directors consider that the Acquisition represents an opportunity to combine two popular portals in Hong Kong, namely appledaily.com.hk and nextmedia.com. The average daily pageviews of the Apple Websites and the Nextmedia Websites were approximately 4.9 million and approximately 1.7 million respectively in April 2000. The Acquisition is expected to facilitate the combination of the media, entertainment and news content of the Nextmedia Websites with that of the Apple Websites. The Directors consider that the Apple Websites can complement the Nextmedia Websites.

The Company expects that the turnover of the Group's internet related business will increase significantly as a result of the Acquisition, albeit from a low base. The turnover of the Apple Websites represented approximately 1% and 2% respectively of the Group's turnover during the two years ended 31 March 2000. Apple Daily Online's main source of income is advertising. Since Apple Daily Online is an internet content provider, the Group does not expect a significant increase in assets and liabilities as a result of the Acquisition. Despite the fact that Apple Daily Online is still making losses, in view of its recent streamlining exercise and the potential benefits of better utilisation of resources, increased efficiency and improved competitiveness of the Enlarged Group as a result of the combination of the Nextmedia Websites and the Apple Websites, the Directors expect that the financial position of the Apple Websites will be improved in the future and they will help to improve the overall financial position of the Enlarged Group in the long term.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is a table showing the shareholding interests of each of the Directors (based on disclosures made for the purpose of the SDI Ordinance) and the public shareholding in the Company as at the Latest Practicable Date and immediately after Completion.

Name of Director	Number of Shares as at the Latest Practicable Date	Percentage shareholding as at the Latest Practicable Date	Number of Shares immediately after Completion	Percentage shareholding immediately after Completion
Mr. Lai	1,588,509,703	55.41	1,769,669,123 ^(note)	54.80
Mr. Yeung Wai Hong	76,400,528	2.66	76,400,528	2.37
Mr. Chow On Kiu, Andrew	15,000,000	0.52	35,760,675	1.11
Mr. Ho Kwok Fai, Morris	45,590,336	1.59	57,658,992	1.79
Mr. Ting Ka Yu, Stephen	9,000,000	0.31	10,225,127	0.32
Mr. Yeh V-nee	130,000	0.005	130,000	0.004
Mr. Kok Hon Kay, Peter	–	–	4,595,637	0.14
Sub-total	1,734,630,567	60.50	1,954,440,082	60.53
Public	1,132,317,271	39.50	1,274,826,596	39.47
Total	<u>2,866,947,838</u>	<u>100</u>	<u>3,229,266,678</u>	<u>100</u>

Note: The change in the extent of Mr. Lai's interest in the Company after Completion only takes account of the 181,159,420 Consideration Shares to be issued to ADL.

OUTLOOK

As stated in the Company's annual report for the year ended 31 March, 2000, the Company aims to become a major market player. Its goal is to combine parts of the old economy, being printing and magazine publishing businesses, with the new electronic economy. To this end, the Company intends to build on its solid experience and strength in the old economy and its creativity and foresight in the new economy.

On 10 July 2000 the Company announced a streamlining of its workforce employed in the Nextmedia Websites. The streamlining is being undertaken with a view to better utilisation of the Enlarged Group's resources (following the combination of the Apple Websites and the Nextmedia Websites) and to increasing efficiency and improving competitiveness. The Group had 647 employees as at 30 June 2000. Of the 266 people employed in the Nextmedia Websites as at 30 June 2000, 62 (who were engaged in content development and website design) are

LETTER FROM THE BOARD

being offered voluntary resignation terms or the opportunity to be transferred elsewhere within the Group. Despite this and even if the Acquisition Agreement does not become unconditional, the Directors consider that the operations and the future prospects of the Nextmedia Websites will not be adversely affected by the streamlining. The costs of the streamlining are estimated to be approximately HK\$1.3 million. The streamlining should enable the Company to redeploy approximately HK\$14.3 million per annum (representing approximately 16.8% of Nextmedia Websites' total personnel costs) to invest in business development.

The Directors expect that the Group's and Apple Daily Online's streamlinings will enable the Enlarged Group to redeploy an aggregate amount of approximately HK\$26.4 million for business development.

Given that Apple Daily Online is still making losses, the Company intends to finance the operating and development costs and the capital commitments of Apple Daily Online from the Group's internal resources and/or external borrowings.

As the internet business forms part of the Group's core business, the Group will continue to develop it. The Directors believe that the Enlarged Group will be in a more competitive position in the local internet industry following the combination of the Nextmedia Websites and the Apple Websites.

GENERAL

The Acquisition is a very substantial acquisition for the Company under the Listing Rules by virtue of the fact that the consideration for the Acquisition exceeds 100% of the consolidated net asset value of the Group. The Stock Exchange has indicated that the Company will not be treated as a new applicant for listing pursuant to the Listing Rules. As Mr. Lai is a director and the controlling shareholder of both the Company and ADL, the Acquisition is a connected transaction for the Company under the Listing Rules and is conditional upon approval by the Independent Shareholders.

INCREASE IN AUTHORISED SHARE CAPITAL

An ordinary resolution will be proposed at the EGM to increase the authorised share capital of the Company from HK\$680 million to HK\$900 million by the creation of 1,100,000,000 Shares. Except as indicated in this document and for issues of Shares which are required to be made under the Company's share option scheme, the Directors currently have no intention to issue any part of the Company's authorised but unissued share capital.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee has been established to consider the terms of the Acquisition Agreement and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition Agreement and as to the manner in which the Independent Shareholders should vote at the EGM. DBS has been appointed as an independent financial adviser to the Independent Board Committee in respect of the fairness and reasonableness of terms of the Acquisition Agreement.

The text of a letter from DBS containing its advice and recommendation to the Independent Board Committee, together with the principal factors taken into account in arriving at its recommendation, is set out on pages 18 to 23 of this circular.

EGM

The EGM is to be held at the Conference Room on the 1st Floor, 3 Chun Kwong Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, New Territories, Hong Kong at 11:00 a.m. on Monday, 31 July 2000. Notice of the EGM is set out on pages 80 and 81 of this circular. At the EGM, ordinary resolutions will be proposed (i) to approve the Acquisition, (ii) to approve the allotment of the Consideration Shares and (iii) to increase the authorised share capital of the Company.

Mr. Lai, Mr. Ho Kwok Fai Morris, Mr. Chow On Kiu, Andrew, Mr. Ting Ka Yu, Stephen and Mr Kok Hon Kay, Peter and their respective associates, being connected persons of the Company in relation to the Acquisition, and those employees of ADL who are also shareholders of the Company and will receive Consideration Shares and their respective associates will abstain from voting at the EGM on the ordinary resolutions (i) and (ii) referred to above.

A form of proxy for use at the EGM is enclosed. Shareholders are requested to complete the enclosed form of proxy and return the same to the Company's registered office at 8 Chun Ying Street, Tseung Kwan O Industrial Estate West, Tseung Kwan O, New Territories, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time of the EGM whether or not they intend to be present at the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meeting should they so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices and the notice of the EGM set out on pages 80 and 81 of this circular.

Yours faithfully,
For and on behalf of the Board
NEXT MEDIA LIMITED
Chow On Kiu, Andrew
Director

NEXTmedia

NEXT MEDIA LIMITED

壹傳媒有限公司

(Incorporated in Hong Kong with limited liability)

To the Independent Shareholders

15 July 2000

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 15 July 2000 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

As members of the Independent Board Committee, we have been appointed by the Board to advise you as to whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Having taken into account the advice from DBS and in particular the principal factors set out in the letter of advice from DBS as set out on pages 18 to 23 in the Circular, we consider that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the Acquisition is in the interests of the Company and the Independent Shareholders. Accordingly, we recommend Independent Shareholders to vote for the ordinary resolutions to be proposed at the EGM relating to the Acquisition and issue of the Consideration Shares, notice of which is set out on pages 80 and 81 of the Circular.

Yours faithfully,

Yeh V-nee

Hsu Chien-kuo, Gerald

Fok Kwong Hang, Terry

Independent Board Committee

LETTER FROM DBS



26th Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

15 July 2000

The Independent Board Committee
Next Media Limited
8 Chun Ying Street
Tsueng Kwan O Industrial Estate West
Tseung Kwan O
New Territories
Hong Kong

Dear Sirs,

Proposed acquisition of Apple Daily Online Limited from Apple Daily Limited

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the terms of the Acquisition Agreement, details of which are set out in the letter from the Board contained in the circular dated 15 July 2000 (the "Document") to the Shareholders. Our role as independent financial adviser is to give our opinion as to whether the terms of the Acquisition Agreement, which is a connected transaction between the Company and its controlling shareholder, are fair and reasonable to the Independent Shareholders. This letter forms part of the Document. Capitalised terms used in this letter have the same meanings as defined in the Document.

In making our recommendations, we have relied on the Company to provide us with all relevant information including the Acquisition Agreement, the audited financial statements of Apple Daily Online for the period from its date of incorporation on 7 April 1999 to 31 March 2000 and the pro-forma financial information relating to the business of the Apple Websites for the three years ended 31 March 2000.

We have assumed that certain representations by the Company relating to the operations and financial position of Apple Daily Online were true at the time they were made and continue to be true as at the date of the Document. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendations. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of the Group or that of Apple Daily Online.

LETTER FROM DBS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Acquisition Agreement, we have considered the following factors and reasons:

(a) The Group's businesses

The Group is mainly engaged in printing services, magazine publishing and the operation of the Nextmedia Websites, which include *nextmedia.com*, *next.com.hk*, *easyfinder.com.hk*, *autoexpress.com.hk*, *jobfinder.com.hk*, *etw.com.hk*. We understand from the Company that the average daily pageviews of the Group's Nextmedia Websites reached 1.7 million in April 2000. Nextmedia Websites are primarily for info-tainment whereas the Apple Websites (principally *appledaily.com.hk*) mainly provide local news. We believe that the Acquisition will enable the Group to provide local news online, backed up by Apple Daily, one of the leading Chinese language newspapers in Hong Kong, so as to complement its existing info-tainment dominant Nextmedia Websites. The addition of the Apple Websites, which have average daily pageviews of 4.9 million, will result in a substantial increase in the number of pageviews of the websites of the Group. The Acquisition will result in better utilisation of the Group's resources and higher efficiency which would otherwise be difficult to achieve. More importantly, the combination of the Nextmedia Websites and Apple Websites will increase the number of pageviews of the Group's websites and place the Group in a better position to generate advertising revenue. Consequently, we are of the view that the Acquisition is beneficial to the development of the Group's internet related businesses.

(b) Consideration payable relating to the Acquisition

The consideration ("Consideration") for the Acquisition is HK\$500 million. Based on the average daily pageviews of the Apple Websites, which amounted to approximately 4.90 million in April 2000, the Consideration represents approximately HK\$102 per average daily pageview. We understand the average daily pageviews of the Apple Websites were approximately 4.93 million and 4.96 million in May and June 2000 respectively.

We have compared the Consideration, in terms of average daily pageview, with valuations of four listed companies that in our view are comparable to that of the Apple Websites. They are *tom.com*, *hongkong.com*, *stareastnet.com*, all of which are listed on the Growth Enterprise Market of the Stock Exchange, and *sina.com*, listed on Nasdaq. As at the Latest Practicable Date, their market valuations, in terms of the value per average daily page view, varied between approximately HK\$530 and HK\$13,500. On this basis, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM DBS

The Consideration will be satisfied by the issue of 362,318,840 Consideration Shares, representing 11.2% of the enlarged issued share capital of the Company, at an issue price (“Issue Price”) of HK\$1.38 per Share. The Issue Price represents the following:

- a premium of approximately 10.4% over the closing price of HK\$1.25 per Share as at 2 June 2000 (the day on which the Acquisition Agreement was entered);
- a premium of approximately 21.1% over the average closing price of HK\$1.14 per Share for the 10 trading days up to and including 2 June 2000;
- a premium of approximately 14% over the closing price of HK\$1.21 per Share as at the Latest Practicable Date; and
- a premium of approximately 15% over the average closing price of HK\$1.20 per Share for the ten trading days up to and including the Latest Practicable Date;
- a premium of HK\$1.342 per Share over the Group’s pro forma adjusted consolidated net tangible assets of HK\$0.038 per Share immediately after Completion and the waiver of the long term borrowings of approximately HK\$30.5 million due to ADL by Apple Daily Online.

As the Issue Price is at a premium to recent Share prices and that it also represents a substantial premium to the Group’s pro forma adjusted consolidated net tangible assets per Share, we are of the view that the terms for the issue of the Consideration Shares are fair and reasonable.

(c) Financial effects

- Decrease in the Group’s net tangible assets per Share

Prior to Completion, the Group’s pro forma adjusted consolidated net tangible assets as at 31 May 2000 were approximately HK\$114.3 million, or 3.9 cents per Share (calculated based on approximately 2,866.95 million Shares currently outstanding). Following Completion and the waiver of the long term borrowings of approximately HK\$30.5 million due to ADL by Apple Daily Online, the Group’s pro forma adjusted consolidated net tangible assets as at 31 May 2000 will increase slightly to approximately HK\$124.0 million. However, since there will be an additional 362.32 million new Shares to be issued as a result of the Acquisition, **the Group’s pro forma adjusted consolidated net tangible assets per Share as at 31 May 2000 will be reduced by approximately 2.6% to 3.8 cents.**

LETTER FROM DBS

- Increase in the Group's operating losses

For the year ended 31 March 2000, the Group incurred net losses of approximately HK\$78.5 million, or approximately 2.7 cents per Share (calculated based on a fully diluted 2,866.95 million Shares currently outstanding). **For the year ended 31 March 2000, pro forma turnover and operating losses in respect of the business of the Apple Websites were approximately HK\$3.8 million and HK\$12.8 million respectively.** This compares with a turnover of approximately HK\$1.9 million and operating losses of HK\$3.1 million for the previous financial year. Details of the track record of the Apple Websites for the three years to 31 March 2000 are set out in the sub-section headed "Financial information" under "Information on Apple Daily Online" contained in the letter from the Board in the Document. We note that operating losses for the year ended 31 March 2000 increased significantly as a result of higher personnel costs and operating costs compared to the year before. In particular, personnel costs increased 2.1 times and represented approximately 2.9 times turnover for the year ended 31 March 2000. Apple Websites' full time staff increased from 12 in September 1999 to 64 in March 2000.

Had the Acquisition been completed on 7 April 1999, **the Group's net losses for the year ended 31 March 2000 would have been increased by 16.3%** to approximately HK\$91.3 million, or to 2.8 cents per Share (calculated based on the enlarged 3,229.27 million Shares following the Acquisition).

Following the Acquisition, the Group is expected to finance the operating losses of Apple Daily Online, at least in the immediate future, and its capital expenditure that may be required for the continued development of its internet business.

(d) Shareholding dilution

As a result of the issue of the Consideration Shares, the Independent Shareholders will suffer a dilution of approximately 11.2%.

We are of the view that such shareholding dilution is acceptable as the Company would have to issue more new Shares (at market prices) if the equity funding for the Acquisition was to be raised from the stock market.

(e) Prospects relating to the Acquisition

The operating losses of the Apple Websites have been increasing during the past three years and there is a risk that it will remain so following Completion. In

LETTER FROM DBS

particular, Apple Daily Online's advertising income depends substantially upon the popularity and increased usage of the Apple Websites for information, publication and electronic commerce. There are a large number of competitors including various internet content providers in this field and there is a high likelihood that such competition will become keener in the future. As most of these competitors are competing in the same market for the same group of advertising customers, it may be difficult to increase advertising revenue of Apple Daily Online. In addition, the expansion of the Group's internet business through the Acquisition will increase the Group's exposure to the same market in which competition is keen.

Nevertheless, we are of the view that information provided by the Apple Websites is unique, as most of the news is derived from Apple Daily, one of the most popular Chinese language newspapers in Hong Kong. Consequently, we believe that the Apple Websites are uniquely placed and are in a position to compete effectively for viewership.

(f) Effects of recent lay-offs of website staff

We note that Apple Daily Online announced on 10 July 2000 that it plans to restructure its businesses by streamlining its workforce by approximately 42.4% and by allocating its resources to those websites with better revenue generating potential. The costs of the streamlining, which will be borne by Apple Daily Online, are expected to amount to approximately HK\$0.43 million. The consolidation enables it to have a future saving in personnel costs of some HK\$12.1 million a year. For the year ended 31 March 2000, personnel expenses accounted for some 77% of the total expenses of the Apple Websites. The streamlining will allow Apple Daily Online to focus on the development of those websites that have better revenue generating potential. The streamlining will also enable Apple Daily Online to lessen its cash flow requirements for its continued investments in hardwares and softwares, which include a contracted capital expenditure of approximately HK\$5.4 million.

It was also announced on 10 July 2000 that the Nextmedia Websites would streamline their existing workforce by approximately 23.3%, saving annual expenses of approximately HK\$14.3 million. On this basis, total savings in personnel expenses of both Apple Daily Online and the Group's existing internet business will amount to HK\$26.4 million. In addition, we are of the view that such streamlining enables the Group to better prepare for the Acquisition and to reap the synergistic benefits that may be derived from it. Apart from such benefits, in our opinion, the Acquisition is likely to place the Enlarged Group in a more competitive position with better prospects of higher income from advertising, corporate sponsorship and merchandising sales.

LETTER FROM DBS

RECOMMENDATION

Having considered the above factors, we are of the view that the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned due to the following reasons:

- Competition in the internet market is extremely keen as there are a lot of existing internet content providers. These internet content providers provide information which is similar to that provided by the Group's websites. Such competition may increase in the future. Nevertheless, we are of the view that the Apple Websites have a much better chance of success compared to the other local internet content providers. This is due to the fact that the content of the Apple Websites is derived from Apple Daily, one of the leading Chinese language newspapers in Hong Kong.
- The Acquisition allows the Group to have better utilisation of resources and higher efficiency which would otherwise be difficult to achieve. There will also be a substantial increase in the number of pageviews of the Group's websites following the Acquisition. This increase in the number of pageviews will improve the competitiveness of the Group in its competition with other local internet content providers and will also generate higher advertising revenue.
- There is the risk that Apple Daily Online will continue to make losses following the Acquisition. However, we are of the view that the recent streamlinings of both the Nextmedia Websites and the Apple Websites enable the Enlarged Group to lessen its cash flow requirements for its continued investments and to redirect its resources to those websites that have better revenue generating potential.
- The Consideration represents a value of HK\$102 per average daily pageview of the Apple Websites which is lower than market valuations of between HK\$530 and HK\$13,500 per average daily pageview of websites of comparable listed companies.
- The Consideration will be satisfied by the issue of Consideration Shares only and will not involve cash. The resulting shareholding dilution of 11.2% and the reduction of net tangible assets per Share of 2.6% are, in our view, acceptable.

Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition Agreement at the EGM.

Yours faithfully,
For and on behalf of
DBS Asia Capital Limited
David Tsang
Managing Director

1. SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>4,500,000,000</u>		<u>900,000,000.00</u>
<i>Issued and fully paid up:</i>		
2,866,947,838	Shares (as at the Latest Practicable Date)	573,389,567.60
<u>362,318,840</u>	Consideration Shares to be issued	<u>72,463,768.00</u>
<u>3,229,266,678</u>		<u>645,853,335.60</u>

Notes:

1. All the existing issued Shares rank pari passu in all respects.
2. The 362,318,840 Consideration Shares to be issued pursuant to the Acquisition will rank pari passu in all respects with the existing issued Shares.
3. If the increase in authorised share capital is not approved, the authorised share capital will remain at HK\$680,000,000.00 (consisting of 3,400,000,000 Shares).

A share option scheme was adopted by the Company on 20 September 1993 under which eligible employees (including executive directors) of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company. As at the Latest Practicable Date, details of options remained outstanding are set out under Note 20 of Appendix I. Save as disclosed in this circular, the Company has no options, warrants or conversion rights convertible into Shares.

2. AUDITED CONSOLIDATED RESULTS

Set out below are summaries of the audited consolidated profit and loss accounts of the Company for each of the three years ended 31 March 2000, the audited consolidated balance sheets of the Company as at 31 March 1999 and 2000 and the audited consolidated cash flow statements of the Company for each of the two years ended 31 March 2000 together with the related notes as extracted from the audited financial statements of the Company for each of the three years ended 31 March 2000.

The consolidated financial statements of the Company for the years ended 31 March 1998 and 1999 were audited by Deloitte Touche Tohmatsu and the consolidated financial statements for the year ended 31 March 2000 were audited by PricewaterhouseCoopers. In order to conform with the latest promulgated Statements of Standard Accounting Practice, certain prior year figures have been reclassified or extended in order to conform with relevant presentation requirements.

Consolidated profit and loss account

Set out below are summaries of the audited consolidated profit and loss accounts of the Company for each of the three years ended 31 March 2000 extracted from the audited financial statements of the Company for the relevant years:

	<i>Note</i>	For the year ended 31 March		
		2000	1999	1998
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	3	217,171,225	239,703,306	398,431,462
Production costs		(133,567,021)	(163,458,876)	(263,873,880)
Gross Profit		83,604,204	76,244,430	134,557,582
Other revenues	3	596,643	256,679	87,757
Personnel costs		(54,201,732)	(41,352,935)	(29,918,672)
Depreciation		(22,980,937)	(21,933,438)	(22,090,713)
Other administrative expenses		(52,988,433)	(59,262,356)	(92,087,408)
Other income	4	33,379,851	1,537,946	216,071
Other expenses	5	(29,447,962)	(105,495,435)	(3,620,617)
Operating loss	6	(42,038,366)	(150,005,109)	(12,856,000)
Finance costs	7	(34,522,842)	(45,047,520)	(47,002,935)
Share of losses of associated companies		(113,133)	(154,856)	(2,335)
Loss before taxation		(76,674,341)	(195,207,485)	(59,861,270)
Taxation	8	(1,836,200)	(1,533,482)	32,717
Loss after taxation		(78,510,541)	(196,740,967)	(59,828,553)
Minority interests		40,217	80,980	290,209
Loss for the year	9	<u>(78,470,324)</u>	<u>(196,659,987)</u>	<u>(59,538,344)</u>
Basic loss per share	10	<u>(6.0 cents)</u>	<u>(83.8 cents)</u>	<u>(25.4 cents)</u>

No dividends were paid or declared by the Company for the three years ended 31 March 2000.

Consolidated balance sheet

Set out below are the audited consolidated balance sheets of the Company as at 31 March 1999 and 31 March 2000 as extracted from the audited financial statements of the Company for each of the two respective years.

	<i>Note</i>	As at 31 March	
		2000 <i>HK\$</i>	1999 <i>HK\$</i>
Intangible assets	13	210,000,000	–
Fixed assets	14	329,123,425	375,010,841
Investments in associated companies	15	5,124,943	(822,433)
Current assets			
Inventories	16	17,362,316	10,153,332
Accounts receivable, deposits and prepayments		56,038,816	43,317,111
Amounts due from related companies	17	13,084,723	–
Bank balances and cash		5,712,548	1,595,935
		92,198,403	55,066,378
Current liabilities			
Accounts payable and accrued charges	18	120,436,132	102,079,268
Amount due to holding company	17	13,026,169	–
Amounts due to related companies	17	10,912,946	–
Current portion of long term liabilities	23	28,496,730	201,507,671
Taxation payable		2,890,969	–
Bank overdraft – secured		4,175,153	15,120,505
		179,938,099	318,707,444
Net current liabilities		(87,739,696)	(263,641,066)
		<u>456,508,672</u>	<u>110,547,342</u>
Share capital	19	526,722,901	46,937,346
Reserves	21	(291,473,705)	(82,217,737)
Shareholders' funds		235,249,196	(35,280,391)
Minority interests	22	2,097,074	2,127,923
Long term liabilities	23	113,713,017	2,586,161
Convertible notes	24	105,000,000	140,000,000
Deferred taxation	25	449,385	1,113,649
		<u>456,508,672</u>	<u>110,547,342</u>

Consolidated cash flow statement

Set out below are the audited consolidated cash flow statements of the Company for each of the two years ended 31 March 2000 as extracted from the audited financial statements of the Company for the year ended 31 March 2000.

	<i>Note</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Net cash (outflow)/inflow from operating activities	<i>26 (a)</i>	(39,477,109)	38,443,640
Returns on investments and servicing of finance			
Interest paid on bank and other borrowings		(24,333,351)	(18,966,776)
Interest paid on finance leases		(1,178,704)	(1,237,241)
Interest received		596,643	256,679
Net cash outflow from returns on investments and servicing of finance		(24,915,412)	(19,947,338)
Taxation			
Hong Kong profits tax (paid)/refunded		(871,856)	188,012
Investing activities			
Proceeds on disposal of interest in a property		–	20,000,000
Proceeds on disposal of tangible fixed assets		13,406,429	2,131,499
Proceeds on disposal of subsidiaries (net of cash and cash equivalents disposed of)		–	1,280,071
Net cash inflow from acquisition of businesses	<i>26(d)</i>	24,201,156	–
Payment for purchase of tangible fixed assets		(12,369,948)	(783,666)
Advance to associated company		(5,061,911)	(4,070)
Investments in associated company		(775,000)	–
Net cash inflow from investing activities		19,400,726	22,623,834
Net cash (outflow)/inflow before financing		(45,863,651)	41,308,148

Consolidated cash flow statement (continued)

	<i>Note</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Financing			
New bank loans and other borrowings	<i>26(b)</i>	128,909,076	69,289,993
Repayment of bank loans and other borrowings	<i>26(b)</i>	(180,794,967)	(103,230,998)
Repayment of obligations under finance leases	<i>26(b)</i>	(7,316,464)	(6,832,598)
Decrease/(increase) in bank deposits pledged for banking facilities		100,000	(100,000)
Repayment to minority shareholders of a subsidiary		–	(26,163)
Proceeds from placing of new shares	<i>26(b)</i>	126,000,000	–
Proceeds from exercise of share options	<i>26(b)</i>	6,979,362	–
Payment of share issuing expenses	<i>26(b)</i>	(12,818,541)	–
Net cash inflow/(outflow) from financing		<u>61,058,466</u>	<u>(40,899,766)</u>
Increase in cash and cash equivalents		15,194,815	408,382
Cash and cash equivalents at beginning of the year		(13,624,570)	(13,991,216)
Effect of foreign exchange rate changes		<u>(32,850)</u>	<u>(41,736)</u>
Cash and cash equivalents at end of the year		<u><u>1,537,395</u></u>	<u><u>(13,624,570)</u></u>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		5,712,548	1,595,935
Less: bank deposits pledged for banking facilities		–	(100,000)
Bank overdrafts		<u>(4,175,153)</u>	<u>(15,120,505)</u>
		<u><u>1,537,395</u></u>	<u><u>(13,624,570)</u></u>

Notes to the financial statements*For the year ended 31 March 2000***1. General**

The Company is a public company listed on The Stock Exchange of Hong Kong Limited (“The Stock Exchange”).

Prior to 20 October 1999, the Company was a subsidiary of Seapower International Holdings Limited (“Seapower”). On 20 October 1999, the Group completed the following acquisitions from Next Media International Holdings Limited (“Next International”):

- (a) Acquisition of the business of a magazine, namely Easy Finder Magazine, at a total consideration of HK\$237.6 million settled by the issue of 1,188 million new shares of the Company, fully paid at HK\$0.2 per share. The transaction was effected by acquiring from Next International all the issued share capital of Easy Finder Limited, Job Finder Limited and Easy Media Limited and from Next Media Marketing Limited (previously known as Easy Finder Advertising Limited and a wholly owned subsidiary of Next International), certain assets necessary for the provision of the advertising business; and
- (b) Acquisition of the business of certain internet websites, including nextmedia.com, at a total consideration of HK\$97.5 million settled by the issue of 487.5 million new shares of the Company, fully paid at HK\$0.2 per share. The transaction was effected by acquiring from Next International all the issued share capital of Next Media Interactive Limited (“Next Interactive”).

Following the above transactions, the Company became a subsidiary of Next International.

Also on 20 October 1999:

- (c) Seapower Resources International Limited (“SRI”) disposed of its holding of the Company’s convertible notes (with nominal value of HK\$105,000,000) plus the interest accrued thereon from 26 June 1999 to 19 October 1999 amounting to HK\$2.8 million to Next International at a cash consideration of HK\$12 million;
- (d) Seapower, SRI and Seapower Consortium Company Limited (“SCC”) together assigned to Next International interest receivable from the Company on certain loans and the interest accrued on the convertible notes prior to 26 June 1999 (amounting to an aggregate of HK\$26.64 million) for a cash consideration of approximately HK\$7.99 million; and
- (e) Next International granted a waiver to the Company in respect of a portion of the above interests amounting to HK\$21.4 million which has been recorded as other income in the consolidated profit and loss account of the Group.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Basis of preparation

As at 31 March 2000, the Group's current liabilities exceeded its current assets by approximately HK\$87,740,000 (1999: HK\$263,641,000). Taking into consideration the financial resources available to the Group including a loan of HK\$200,000,000 provided by a Director of the Company subsequent to the year end date (see Note 32(c) for details), the Directors are of the opinion that the Group will be able to meet its liabilities as and when they fall due and to continue operating for the foreseeable future. Accordingly, the Directors have prepared the accounts on a going concern basis.

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings and magazine masthead.

The following new Statements of Standard Accounting Practice ("SSAP") have been adopted in the preparation of these accounts:—

- SSAP 1 – Presentation of financial statements (Revised)
- SSAP 2 – Net profit or loss for the period, fundamental errors and changes in accounting policies (Revised)

Where necessary, comparative figures have been adjusted or extended to take into account the presentation requirements of the above new SSAP. There are no changes that affect operating profit resulting from the adoption of the requirements of the above standards in these accounts.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. The results of subsidiaries/businesses acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

A company is a subsidiary if more than 50% of the voting power or issued share capital is held for the long-term or the composition of the board of directors is under control.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and over whose management significant influence is exercised.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets or liabilities of the associated companies.

(d) Goodwill

Goodwill or capital reserve represents respectively the excess or shortfall of the purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies at the date of acquisition and is directly taken to reserves in the year of acquisition.

(e) Revenue recognition

Revenue from the provision of printing and reprographic services is recognised upon the provision of the services.

Sales of magazines are recognised on the date of publication less provision for unsold copies.

Magazine advertising income is recognised upon the publication of the magazine in which the advertisement is placed.

Internet advertising income is recognised pro-rata on a straight line basis over the period in which the advertisement is displayed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(f) Retirement benefits costs

The Group contributes to a defined contribution retirement scheme for all of its employees after probation period. Both the Group and employees are required to contribute each month an amount equal to 5% of the monthly wages including basic salary, commission and certain bonuses. The assets of the scheme are held separately from the Group in funds under the control of trustees. The Group's contributions to this scheme are expensed as incurred and can be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the scheme.

(g) Masthead and publishing rights of magazines

The masthead and publishing rights of magazines held by the Group, are stated at valuation, on the basis of “fair market value in continued use”. Values are assessed at intervals not more than three years by independent valuers. In each of the intervening years, valuations are assessed by the directors based on the annual results achieved by the magazines. Any increase in valuation would be credited to revaluation reserve. Any reduction in valuation is charged to profit and loss account unless it represents a reversal of previous revaluation increases, in which case it is charged against the revaluation reserve.

(h) Fixed assets

Fixed assets, other than leasehold land and buildings, are stated at cost less accumulated depreciation.

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed every three years. In the intervening years, the directors review the carrying values of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the property valuation reserve. Decreases in valuation are first offset against increases from earlier valuations in respect of the same leasehold land and building and are thereafter charged to operating profit. Any subsequent increases are credited to operating profit up to the amount previously charged. Upon the disposal of a leasehold land and building, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Buildings	Over the lease period
Leasehold improvements	20 – 33.33%
Plant and machinery	6.67 – 10%
Furniture, fixtures and equipment	4 – 33.33%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(i) Assets under leases*(i) Finance leases*

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is arrived at with reference to the suppliers' invoiced cost and is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) Cash and cash equivalents

Cash and short-term investments, which are readily convertible into cash and have original maturities of three months or less at the date of acquisition, are classified as cash and cash equivalents.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(n) Translation of foreign currencies

Translations in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of all overseas subsidiaries and associated companies are translated at the rates of exchange ruling at the balance sheet date and the resulting exchange differences are dealt with as a movement in reserves.

3. Turnover and revenue

The Group is engaged in the provision of printing and reprographic services, the publication of magazines, the delivery of internet content and the sale of advertising space in magazines and on websites. Revenues recognised during the year are as follows:

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Turnover		
Printing and reprographic services	148,552,063	217,578,043
Sales of magazines and books	28,881,111	8,470,920
Magazine advertising income	38,540,452	12,741,147
Internet advertising income	1,197,599	–
Public relations services	–	913,196
	<u>217,171,225</u>	<u>239,703,306</u>
Other revenues		
Interest income on bank deposits	<u>596,643</u>	<u>256,679</u>
Total revenues	<u><u>217,767,868</u></u>	<u><u>239,959,985</u></u>

4. Other income

Included in other income is a waiver of interest totalling HK\$21.4 million by Next International, see Note 1 (e) for details.

5. Other expenses

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Loss on disposal of fixed assets	29,447,962	7,781,799
Provision for impairment of plant and machinery	–	57,494,811
Deficit on revaluation of land and buildings	–	25,218,825
Amount paid for acquisition of property written off	–	15,000,000
	<u>29,447,962</u>	<u>105,495,435</u>

6. Operating loss

Operating loss is stated after charging the following:

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Auditors' remuneration:		
Current year	1,177,200	1,280,000
Underprovision in previous years	127,174	65,000
Depreciation:		
Assets owned by the Group	21,987,525	20,680,014
Assets held under finance leases	993,412	1,253,424
Staff costs (excluding retirement benefits)	85,480,336	90,357,282
Cost of materials consumed in production	66,049,747	101,705,404
Provision for bad and doubtful debts	6,200,171	8,091,526
Operating lease expenses on:		
Properties	2,225,263	647,557
Other assets	–	17,852
Retirement benefit scheme contributions, net of forfeited contributions of HK\$1,024,000 (1999: HK\$623,214) (note 11)	<u>1,280,780</u>	<u>2,432,592</u>

7. Finance costs

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Interest expense on:		
– Bank borrowings	20,787,112	27,595,205
– Finance leases	1,178,704	1,237,241
– Convertible notes	9,010,787	13,554,253
– Balances with related companies	–	34,445
– Other borrowings	3,546,239	2,626,376
	<u>34,522,842</u>	<u>45,047,520</u>

8. Taxation

Hong Kong profits tax has been provided in the profit and loss account at the rate of 16% (1999: 16%) on the estimated assessable profit of certain subsidiaries for the year.

The amount of taxation charged to the consolidated profit and loss account represents:

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Hong Kong profits tax	2,546,157	–
(Over)/under provision in prior years	(49,468)	1,466,792
Deferred taxation (Note 25)	(667,423)	66,690
	<u>1,829,266</u>	<u>1,533,482</u>
Share of taxation attributable to associated companies	<u>6,934</u>	–
	<u><u>1,836,200</u></u>	<u><u>1,533,482</u></u>

9. Loss for the year

Loss for the year is dealt with in the accounts of the Company to the extent of a loss of HK\$118,019,434 (1999: HK\$334,101,921).

10. Loss per share

The calculation of the basic loss per share is based on the loss for the year of HK\$78,470,324 (1999: HK\$196,659,987) and the weighted average number of 1,318,353,440 shares (1999: 234,686,728 shares) in issue during the year.

No diluted loss per share has been presented as the exercise of the conversion rights attached to the convertible notes and the exercise of the share options would be anti-dilutive.

11. Retirement benefit costs

The Group contributes to a defined contribution retirement scheme for its employees. Contributions to the scheme by the Group and employees are calculated at 5% of the monthly wages including basic salary, commission and certain bonuses.

The Group's retirement benefit costs charged to profit and loss account for the year ended 31 March 2000 have been set out in Note 6.

As at 31 March 2000, the Group had contributions payable amounting to HK\$406,622 (1999: HK\$575,547) included in accounts payable and accrued charges under current liabilities in the consolidated balance sheet.

12. Directors' and senior management's emoluments*(a) Directors' remuneration*

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Fees		
Executive Directors	–	–
Independent Non-executive Directors	–	–
Other emoluments – Executive Directors		
Salaries and other benefits	1,602,062	2,420,739
Gratuities	292,616	–
Retirement benefit scheme contributions	52,500	90,490
	<u>1,947,178</u>	<u>2,511,229</u>

The directors' emoluments disclosed above included expenses of HK\$276,772 (1999: HK\$610,939) paid by the Group under an operating lease in respect of residential accommodation provided to a director.

In addition to the directors' remuneration disclosed above, certain former directors, who retired during the year, were granted share options to subscribe for ordinary shares of the Company under the share option scheme. Details of these share options are disclosed in Note 20.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of Directors	
	2000	1999
HK\$Nil – HK\$1,000,000	12	7
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>2</u>

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (1999: two) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1999: three) individuals during the year are as follows:

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Salaries and other benefits	1,450,776	2,209,250
Retirement benefits scheme contributions	43,140	93,966
	<u>1,493,916</u>	<u>2,303,216</u>

The emoluments of these individuals fell within the following bands:

Emolument bands	Number of Employees	
	2000	1999
HK\$Nil – HK\$1,000,000	<u>3</u>	<u>3</u>

13. Intangible assets

These represent the masthead and the publishing rights of Easy Finder Magazine which are carried at the valuation upon the Group's acquisition of the magazine business on 20 October 1999, which was in turn based on an independent valuation performed by Ernst & Young Corporate Finance Pty Limited on 31 July, 1999. As at 31 March 2000, the Directors of the Company are of the opinion that there has been no material changes on the fair value since the date of acquisition.

14. Fixed assets

	Land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation						
At 1 April 1999	201,077,300	17,095,460	307,736,755	4,666,879	2,582,062	533,158,456
Currency realignments	102,810	16,698	187,207	18,820	–	325,535
Additions	–	1,452,844	3,205,657	11,290,674	–	15,949,175
Acquisition of businesses	–	38,886	–	3,491,982	225,203	3,756,071
Disposals	–	(5,435,294)	(79,631,498)	(2,128,880)	(2,503,537)	(89,699,209)
At 31 March 2000	201,180,110	13,168,594	231,498,121	17,339,475	303,728	463,490,028
Accumulated depreciation						
At 1 April 1999	–	676,332	153,367,384	2,860,807	1,243,092	158,147,615
Currency realignments	31,304	4,587	32,213	14,765	–	82,869
Charge for the year	4,231,100	420,518	16,821,235	1,411,206	96,878	22,980,937
Disposals	–	(287,865)	(44,165,393)	(1,152,194)	(1,239,366)	(46,844,818)
At 31 March 2000	4,262,404	813,572	126,055,439	3,134,584	100,604	134,366,603
Net book values						
At 31 March 2000	<u>196,917,706</u>	<u>12,355,022</u>	<u>105,442,682</u>	<u>14,204,891</u>	<u>203,124</u>	<u>329,123,425</u>
At 31 March 1999	<u>201,077,300</u>	<u>16,419,128</u>	<u>154,369,371</u>	<u>1,806,072</u>	<u>1,338,970</u>	<u>375,010,841</u>

The analysis of the cost or valuation at 31 March 2000 of the above assets is as follows:

	Land and buildings HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Total HK\$
At cost	–	13,168,594	231,498,121	17,339,475	303,728	262,309,918
At directors' valuation	201,180,110	–	–	–	–	201,180,110
	<u>201,180,110</u>	<u>13,168,594</u>	<u>231,498,121</u>	<u>17,339,475</u>	<u>303,728</u>	<u>463,490,028</u>

Except for the overseas freehold land and building with a net book value of HK\$1,084,373 (1999: HK\$1,077,300) held by a subsidiary of the Company, all remaining land and buildings of the Group are situated in Hong Kong and are held for a period of 50 years commencing 6 July 1995.

As at 31 March 2000, the Group's land and buildings were carried at the valuation performed by Chesterton Petty Limited, an independent valuer, at 31 March 1999, less depreciation, as follows:

	<i>HK\$</i>
Leasehold land and buildings situated in Hong Kong valued on a depreciated replacement cost basis (Note), less depreciation	195,833,333
Freehold land and buildings situated outside Hong Kong valued on an open market basis, less depreciation	<u>1,084,373</u>
	<u><u>196,917,706</u></u>

Note: The relevant property is held by the Company under a lease agreement dated 6 July 1995 with The Hong Kong Industrial Estates Corporation ("HKIEC") which restricts the usage of the premises to the publishing and printing of magazines, directories and books. The Company's interest in the property is transferable subject to the right of first refusal to purchase by HKIEC. Accordingly, the property was valued on a depreciated replacement cost basis which is the aggregate of the land value in its existing use and the estimated replacement costs of the buildings.

As at 31 March 2000, the directors of the Company have reviewed the carrying value of the Group's land and buildings and are of the opinion that the fair value is not materially different from the above carrying amount.

The carrying amount of leasehold land and buildings held by the Group would have been HK\$221,967,858 (1999: HK\$226,728,414) had they been stated at cost less accumulated depreciation.

At 31 March 2000, the net book value of fixed assets held by the Group under finance leases amounted to HK\$11,672,588 (1999: HK\$19,145,048).

At 31 March 2000, the Group's land and buildings and certain plant and machinery with an aggregate net book value of HK\$63 million (1999: HK\$111 million) were pledged as security for the Group's banking facilities (see note 23 (a)).

15. Investments in associated companies

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Share of net liabilities	(4,480,354)	(5,365,819)
Share of goodwill	29,997,126	–
	<u>25,516,772</u>	<u>(5,365,819)</u>
Goodwill written off directly to reserves	(29,997,126)	–
	<u>(4,480,354)</u>	<u>(5,365,819)</u>
Amounts due from associated companies	9,605,305	4,930,736
Amount due to an associated company	(8)	(387,350)
	<u>5,124,943</u>	<u>(822,433)</u>
Unlisted shares, at cost	<u>32,390,008</u>	<u>1,390,008</u>

The following is a list of the principal associated companies at 31 March 2000:

Name of associated company	Place of incorporation/ operation	Principal activities	Interest held indirectly
China Capital Communications Corporation Limited	Hong Kong	Inactive	50%
C M Paramount Printing Company Limited	British Virgin Islands	Inactive	50%
Igloo Finance Limited	British Virgin Islands/ Hong Kong	Provision of internet contents	40%

16. Inventories

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Raw materials	16,295,435	7,347,867
Work in progress	1,066,881	1,933,327
Finished goods	–	872,138
	<u>17,362,316</u>	<u>10,153,332</u>

17. Balances with holding and related companies

Except for amounts due from related companies of approximately HK\$8,936,000 and amounts due to related companies of approximately HK\$7,047,000, which are interest bearing at 7.5%, all other balances with holding and related companies are interest free and unsecured, and have no fixed terms of repayment.

18. Accounts payable and accrued charges

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Accounts payable	43,942,929	33,264,531
Amount due to an associated company (note (a))	30,225,000	–
Interest payable on convertible notes (note (b))	11,754,744	24,101,819
Other accounts payable and accrued charges	34,513,459	44,712,918
	<u>120,436,132</u>	<u>102,079,268</u>

(a) During the year a subsidiary of the Group acquired 40% of the issued share capital of Igloo Finance Limited (“Igloo”), which is engaged in the operation of an internet website, namely gohome.com. The purchase consideration amounting to HK\$31 million was settled by way of the following:

- (i) Cash of US\$0.1 million (equivalent to approximately HK\$0.775 million); and
- (ii) A package of printed advertising and internet online advertising and content with a total value of HK\$30.2 million to be provided to Igloo by certain related parties beneficially owned by Mr. Lai, who is the controlling shareholder of the Company. The consideration payable of HK\$30.2 million will be settled by the Group’s payment of these advertising services provided to Igloo.

(b) These represent interest payable to Next International which acquired the convertible notes from SRI during the year, see Note 1 (c).

19. Share capital

	<i>Notes</i>	Authorised	
		Ordinary shares of HK\$0.20 each	
		<i>No. of shares</i>	<i>HK\$</i>
At 1 April 1999		2,250,000,000	450,000,000
Increase in authorised ordinary share capital	(a)	1,150,000,000	230,000,000
		<u>3,400,000,000</u>	<u>680,000,000</u>
		Issued and fully paid	
		Ordinary shares of HK\$0.20 each	
		<i>No. of shares</i>	<i>HK\$</i>
At 1 April 1999		234,686,728	46,937,346
Issue of new shares	(b)	2,305,500,000	461,100,000
Exercise of the rights under the convertible notes	(c)	77,777,777	15,555,555
Exercise of share options	(d)	15,650,000	3,130,000
		<u>2,633,614,505</u>	<u>526,722,901</u>

- (a) By an ordinary resolution passed on 16 October 1999, the authorised share capital of the Company was increased from HK\$450,000,000 to HK\$680,000,000 by the creation of 1,150,000,000 shares of HK\$0.20 each.
- (b) Pursuant to ordinary resolutions passed in the Extraordinary General Meeting on 16 October 1999, 2,305,500,000 ordinary shares were issued in connection with the following transactions:
- The Group acquired from Next International the business of Easy Finder Magazine at a total consideration of HK\$237,600,000 by the issue of 1,188,000,000 new shares, fully paid at par.
 - The Group acquired from Next International the business of Next Interactive at a total consideration of HK\$97,500,000 by the issue of 487,500,000 new shares, fully paid at par.
 - Placement of 630,000,000 new shares at HK\$0.20 each to increase working capital.
- (c) On 29 June and 9 August 1999, SRI exercised its conversion rights in respect of convertible notes in the aggregate principal amount of HK\$35,000,000 into 77,777,777 ordinary shares of the Company at a conversion price of HK\$0.45 per share.
- (d) Total ordinary shares of 15,650,000 were issued at prices ranging from HK\$0.20 to HK\$1.14 per share to certain share option holders upon the exercise of their rights under the share option scheme at various dates during the period from December 1999 to February 2000.

20. Share option scheme

Pursuant to the share option scheme adopted by the Company on 20 September 1993 (the “Scheme”), the following options have been granted to employees of the Group to subscribe for shares in the Company in accordance with the terms of the Scheme. The options are exercisable within 10 years from the respective dates of grant. A summary of movements in share options under the Scheme during the year is as follows:

	Exercise price <i>HK\$</i>	Number of options	Exercise price <i>HK\$</i>	Number of options	Exercise price <i>HK\$</i>	Number of options
At 1 April 1999	2.0	3,350,000	1.50	11,200,000	–	–
Issue during the year	–	–	–	–	0.20	10,800,000
Lapsed during the year	2.0	(850,000)	1.50	(8,700,000)	–	–
Adjustments (Note (a))	1.14	1,883,361	0.86	1,883,361	0.20	7,646,447
Exercised during the year	1.14	(2,350,000)	0.86	(2,500,000)	0.20	(10,800,000)
At 31 March 2000	<u>1.14</u>	<u>2,033,361</u>	<u>0.86</u>	<u>1,883,361</u>	<u>0.20</u>	<u>7,646,447</u>

Included in the summary above are share options granted to the Company’s former directors, the movements of which are as follows:

	Exercise price <i>HK\$</i>	Number of options	Exercise price <i>HK\$</i>	Number of options	Exercise price <i>HK\$</i>	Number of options
At 1 April 1999	2.0	1,000,000	1.50	6,700,000	–	–
Issue during the year	–	–	–	–	0.20	6,600,000
Lapsed during the year	2.0	–	1.50	(4,700,000)	–	–
Adjustments (Note (a))	1.14	753,345	0.86	1,506,689	0.20	4,972,074
Exercised during the year	1.14	(1,000,000)	0.86	(2,000,000)	0.20	(6,600,000)
At 31 March 2000	<u>1.14</u>	<u>753,345</u>	<u>0.86</u>	<u>1,506,689</u>	<u>0.20</u>	<u>4,972,074</u>

- (a) These represent adjustments to the number of options and the exercise price resulting from changes in the Company’s capital structure during the year, pursuant to the provisions in the Scheme.

21. Reserves

	Share premium <i>HK\$</i>	Property revaluation reserve <i>HK\$</i>	Translation reserve <i>HK\$</i>	Goodwill reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>	
At 1 April 1998	192,963,144	36,066,085	(651,592)	(133,896,803)	(134,743,344)	(40,262,510)	
Accumulated losses absorbed under capital reduction	-	-	-	-	187,749,382	187,749,382	
Currency realignments	-	-	128,658	-	-	128,658	
Eliminated on disposal of subsidiaries	-	-	-	1,927,864	-	1,927,864	
Net deficit on revaluation of land and buildings	-	(35,101,144)	-	-	-	(35,101,144)	
Excess depreciation on revalued properties	-	(713,481)	-	-	713,481	-	
Loss for the year	-	-	-	-	(196,659,987)	(196,659,987)	
At 31 March 1999	192,963,144	251,460	(522,934)	(131,968,939)	(142,940,468)	(82,217,737)	
Company and subsidiaries	192,963,144	251,460	(522,934)	(131,968,939)	(136,187,299)	(75,464,568)	
Associated companies	-	-	-	-	(6,753,169)	(6,753,169)	
At 31 March 1999	192,963,144	251,460	(522,934)	(131,968,939)	(142,940,468)	(82,217,737)	
	Note	Share premium <i>HK\$</i>	Property revaluation reserve <i>HK\$</i>	Translation reserve <i>HK\$</i>	Goodwill reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 April 1999		192,963,144	251,460	(522,934)	(131,968,939)	(142,940,468)	(82,217,737)
Issuing expenses	<i>19 (b)</i>	(12,818,541)	-	-	-	-	(12,818,541)
Conversion of convertible notes	<i>19 (c)</i>	19,444,445	-	-	-	-	19,444,445
Exercise of share options	<i>19 (d)</i>	3,849,362	-	-	-	-	3,849,362
Currency realignments		-	-	246,487	-	-	246,487
Goodwill arising from acquisition of magazine and internet businesses		-	-	-	(111,510,271)	-	(111,510,271)
Goodwill arising from acquisition of an associated company		-	-	-	(29,997,126)	-	(29,997,126)
Loss for the year		-	-	-	-	(78,470,324)	(78,470,324)
At 31 March 2000		203,438,410	251,460	(276,447)	(273,476,336)	(221,410,792)	(291,473,705)
Company and subsidiaries		203,438,410	251,460	(276,447)	(273,476,336)	(214,537,556)	(284,600,469)
Associated companies		-	-	-	-	(6,873,236)	(6,873,236)
At 31 March 2000		203,438,410	251,460	(276,447)	(273,476,336)	(221,410,792)	(291,473,705)

22. Minority interests

At the balance sheet date, the minority interests included loans from minority shareholders of a subsidiary of HK\$375,573 (1999: HK\$358,587). The loans are unsecured and non-interest bearing, and have no fixed repayment terms.

23. Long-term liabilities

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Loans:		
Secured	138,201,658	186,885,964
Unsecured	–	9,462,542
	<u>138,201,658</u>	<u>196,348,506</u>
Finance lease obligations	4,008,089	7,745,326
	<u>142,209,747</u>	<u>204,093,832</u>
Current portion of long-term liabilities	(28,496,730)	(201,507,671)
	<u>113,713,017</u>	<u>2,586,161</u>
The analysis of the above is as follows:		
Bank loans (note (a)) repayable:		
– within one year	25,461,658	180,819,046
– in the second year	22,840,000	22,972
– in the third to fifth year	89,900,000	–
	<u>138,201,658</u>	<u>180,842,018</u>
Other loans repayable:		
– within one year	–	15,137,038
– in the second year	–	369,450
	<u>–</u>	<u>15,506,488</u>
Finance lease obligations repayable:		
– within one year	3,035,072	5,551,587
– in the second year	973,017	2,193,739
	<u>4,008,089</u>	<u>7,745,326</u>
	<u>142,209,747</u>	<u>204,093,832</u>
Less: current portion	(28,496,730)	(201,507,671)
Amount due after one year	<u>113,713,017</u>	<u>2,586,161</u>

(a) As at 31 March 2000, the Group's bank loans and overdraft are secured by the following:

- The Group's land and buildings with an aggregate net book value of approximately HK\$196 million;
- The Group's printing machinery with an aggregate net book value of approximately HK\$63 million; and
- Corporate guarantee to the extent of approximately HK\$143.5 million given by Next Media (Holdings) Limited, a fellow subsidiary.

24. Convertible notes

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Principal amount at 31 March	<u>105,000,000</u>	<u>140,000,000</u>

The convertible notes were interest bearing at HIBOR+2% per annum. As at 31 March 1999, the convertible notes issued by the Company were held by SRI.

During the year, SRI converted part of the convertible notes amounting to HK\$35,000,000 and disposed of the remaining HK\$105,000,000 to Next International. Please refer to Notes 19(c) and 1(c) respectively for details.

Subsequent to the year end date, Next International exercised its conversion rights in full. See Note 32(a).

25. Deferred taxation

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
At 1 April	1,113,649	1,046,959
Currency realignment	3,159	–
Transfer from/(to) profit and loss account	<u>(667,423)</u>	<u>66,690</u>
At 31 March	<u>449,385</u>	<u>1,113,649</u>

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Tax effect of timing difference in relation to:		
Tax losses carried forward	(165,289)	(209,114)
Accelerated depreciation allowances	614,674	1,322,763
	<u>449,385</u>	<u>1,113,649</u>

The potential deferred taxation liability/(asset) not provided for in the accounts comprises:

Accelerated depreciation allowance	30,010,064	31,044,000
Tax losses	(84,292,339)	(73,420,000)
Others	(654,216)	–
	<u>(54,936,491)</u>	<u>(42,376,000)</u>

Deferred tax has not been provided on the accumulated surplus arising on the revaluation of leasehold land and buildings situated in Hong Kong as the profits, if any, arising on future disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

26. Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash inflow from operating activities

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Loss before taxation	(76,674,341)	(195,207,485)
Depreciation	22,980,937	21,933,438
Loss on disposal of fixed assets	29,447,962	7,781,799
Waiver of interest	(21,357,862)	–
Amount paid for the acquisition of a property	–	15,000,000
Amortisation of deferred publishing expenses	–	99,974
Loss on disposal of subsidiaries	–	665,357
Provision for impairment in value of plant and machinery	–	57,494,811
Deficit on revaluation of land and buildings	–	25,218,825
Share of results of associated companies	113,133	154,856
(Increase)/decrease in inventories	(5,919,749)	29,858,071
(Increase)/decrease in accounts receivables, deposits and prepayments, and amounts due from related companies	(16,540,078)	48,084,689
Decrease in accounts payable and accrued charges and amounts due to related companies	(5,499,849)	(17,972,356)
Effect of foreign exchange rate changes	46,539	540,820
Interest income	(596,643)	(256,679)
Interest expenses	34,522,842	45,047,520
Net cash (outflow)/inflow from operating activities	<u>(39,477,109)</u>	<u>38,443,640</u>

(b) Analysis of changes in financing

	1999					
	Minority interests <i>HK\$</i>	Bank and other borrowings <i>HK\$</i>	Obligations under finance leases <i>HK\$</i>	Convertible notes <i>HK\$</i>		
Balance at 1 April 1998	2,141,618	220,806,202	14,619,630	140,000,000		
New bank and other borrowings	–	69,289,993	–	–		
Repayment of bank and other borrowings	–	(103,230,998)	–	–		
Bank loan interest capitalised as loan principal	–	3,243,042	–	–		
Repayment of obligations under finance leases	–	–	(6,832,598)	–		
Minority shareholders' share of property revaluation reserve	107,769	–	–	–		
Minority shareholders' share of loss for the year	(80,980)	–	–	–		
Exchange realignment	(14,321)	(20,689)	(41,706)	–		
Repayment to minority shareholders of a subsidiary	(26,163)	–	–	–		
Balance at 31 March 1999	<u>2,127,923</u>	<u>190,087,550</u>	<u>7,745,326</u>	<u>140,000,000</u>		
	2000					
	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Minority interests <i>HK\$</i>	Bank and other borrowings <i>HK\$</i>	Obligations under finance leases <i>HK\$</i>	Convertible Notes <i>HK\$</i>
Balance at 1 April 1999	46,937,346	192,963,144	2,127,923	190,087,550	7,745,326	140,000,000
Placing of new shares	126,000,000	–	–	–	–	–
Issue of new shares for acquisition of businesses	335,100,000	–	–	–	–	–
Share issuing expenses	–	(12,818,541)	–	–	–	–
Exercise of the rights under the convertible notes	15,555,555	19,444,445	–	–	–	(35,000,000)
Exercise of share options	3,130,000	3,849,362	–	–	–	–
New bank and other borrowings	–	–	–	128,909,076	–	–
Repayment of bank and other borrowings	–	–	–	(180,794,967)	–	–
Inception of new finance leases	–	–	–	–	3,579,227	–
Repayment of obligations under finance leases	–	–	–	–	(7,316,464)	–
Minority shareholders' share of loss for the year	–	–	(40,217)	–	–	–
Exchange realignment	–	–	9,368	–	–	–
Balance at 31 March 2000	<u>526,722,901</u>	<u>203,438,410</u>	<u>2,097,074</u>	<u>138,201,659</u>	<u>4,008,089</u>	<u>105,000,000</u>

(c) Major non-cash transactions

Save as disclosed in Note 18(a)(ii) and 19(b), and the inception of new finance leases as shown under Note 26(b), the Group had not entered into any other material non-cash transactions during the year.

(d) Purchase of magazine and internet website businesses (see details set out in Note 1)

HK\$

Net assets acquired at fair value:	
Fixed assets	3,756,071
Intangible assets — masthead and publishing rights	210,000,000
Inventories	1,289,235
Accounts receivable and other receivables	9,266,349
Bank balances and cash	24,201,156
Accounts payable and other payables	(23,656,946)
Provision for taxation	(1,266,136)
	<u>223,589,729</u>
Goodwill	<u>111,510,271</u>
	<u><u>335,100,000</u></u>
Satisfied by	
Issue of new shares, fully paid at par	<u><u>335,100,000</u></u>

The businesses acquired during the year utilised HK\$12,695,492 of the Group's net operating cash flows, received HK\$1,148,308 in respect of the net returns on investments and servicing of finance, paid HK\$871,856 in respect of taxation and utilised HK\$10,266,144 for investing activities.

Net cash inflow in respect of the purchase of businesses represents the bank balances and cash of the businesses at the date of acquisition.

27. Contingent liabilities

At 31 March 2000, the Group was involved in litigation proceedings in Hong Kong arising in the normal course of its publishing business. Although the final outcome of these proceedings is uncertain, the Directors of the Company, having taken into consideration the advice from the Group's legal counsel, are of the opinion that the ultimate liability, if any, under these proceedings would not have a material impact on the financial position of the Group.

28. Commitments

(a) Capital commitments for property, plant and machinery

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Contracted but not provided for	11,634,354	–
Authorised but not contracted for	–	73,000,000
	<u>11,634,354</u>	<u>73,000,000</u>

(b) Commitments under operating leases

At 31 March 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Within one year	187,195	161,902
In the second to fifth year inclusive	168,714	305,568
	<u>355,909</u>	<u>467,470</u>

29. Related party transactions

The Company was a subsidiary of Seapower prior to 20 October 1999 when it became a subsidiary of Next International (see details in Note 1). During the year, the Group had the following material transactions with related parties:

Nature and terms of transactions	Related Party	Revenue/ (Expenses or payments)	
		2000 HK\$	1999 HK\$
(a) Transactions with Seapower, its subsidiaries and its associated companies up to 20 October 1999:			
Interest on convertible notes payable by the Company calculated at HIBOR+2% per annum	Seapower SRI	– (2,535,822)	(7,486,318) (6,067,935)
Interest on loans payable by the Company calculated at Hong Kong prime rate plus 3%	SCC	–	(34,445)
(b) Transactions with Next International and the Company's fellow subsidiaries on or after 20 October 1999:			
Accumulated interest waived by Next International (see Note 1 (e))	Next International	21,357,862	–
Interest on convertible notes payable by the Company calculated at HIBOR+2% per annum	Next International	(6,474,965)	–
Printing income at market rate	Various subsidiaries of Next International	22,617,385	–
Rental income for storage of paper reels at market rate	Various subsidiaries of Next International	207,430	–
Purchase of fixed assets at net book value	Various subsidiaries of Next International	(502,737)	–
Management fee and administrative overhead paid on a cost reimbursement basis	Various subsidiaries of Next International	(470,977)	–
Colour separation charge paid at market rate	Various subsidiaries of Next International	(1,547,099)	–

Nature and terms of transactions	Related Party	Revenue/ (Expenses or payments)	
		2000	1999
		HK\$	HK\$
(c) Transactions with Apple Daily Limited and its subsidiaries on or after 20 October 1999:			
Printing income at market rate	Apple Daily Limited and its subsidiaries	1,718,631	–
Recharge of rental and administrative overhead on a cost reimbursement basis	Apple Daily Limited and its subsidiaries	119,839	–
Management fee and administrative overhead paid on a cost reimbursement basis	Apple Daily Limited and its subsidiaries	(288,124)	–
Advertising expense paid at market rate	Apple Daily Limited	(141,465)	–
(d) Transactions with AD Marketing Limited on or after 20 October 1999:			
Printing income at market rate	AD Marketing Limited	245,588	–
Recharge of administrative overhead on a cost reimbursement basis	AD Marketing Limited	147,347	–
Purchase of fixed assets at market price	AD Marketing Limited	(463,470)	–

In addition to the above, SRI converted part of the convertible notes amounting to HK\$35,000,000 into ordinary shares of the Company during the year. See Note 19(c) for details.

A fellow subsidiary owned by Next International has given corporate guarantee for the Group's banking facilities, see Note 23(a).

Next International, Apple Daily Limited and AD Marketing Limited are all companies beneficially owned by Mr. Lai who is a director and the Chairman of the Company.

The parties set out above are also connected parties in accordance with Chapter 14 of the Listing Rules of The Stock Exchange.

30. Particulars of principal subsidiaries

Particulars of principal subsidiaries of the Group at 31 March 2000 are as follows:

Name	Issued and paid up share capital	Interest held by the Group %	Place of incorporation/operation	Principal activities
Book Art Inc.	C\$100	70	Canada	Printing agency
* Cameron Printing Company Limited	HK\$5,000,000	100	Hong Kong	Hire of plant and machinery
Easy Finder Limited	HK\$10,000	100	Hong Kong	Publication of magazines
Easy Finder Marketing Limited	HK\$28,550,000	99.67	Hong Kong	Selling of magazine advertising space
Easy Media Limited	US\$11,000	100	BVI/ Hong Kong	Holding of masthead and publishing rights of magazines
Job Finder Limited	HK\$10,000	100	Hong Kong	Selling of magazine advertising space
* Next Media Interactive Limited	US\$10,001	100	BVI/ Hong Kong	Provision of internet contents and selling of advertising space
Next Ventures Limited	US\$1	100	BVI/Hong Kong	Investment holding
* Paramount Properties Limited	HK\$2	100	Hong Kong	Hire of furniture and fixtures
* Paramount Printing Company Limited	HK\$1,500,000	100	Hong Kong	Provision of printing services
* Paramount Printing (USA) Inc.	US\$1	100	USA	Printing agency
Rainbow Digicolor Inc.	C\$10	70	Canada	Provision of reprographic services
Rainbow Graphic & Printing Company Limited	HK\$600,000	100	Hong Kong	Provision of printing and reprographic services

* *Subsidiaries directly held by the Company*

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

31. Ultimate holding company

As at 31 March 2000, the directors regard Next International, a company incorporated in the British Virgin Islands as being the ultimate holding company. Subsequent to the year end date, Next International distributed a majority of its holding of the Company's shares to its shareholders and thereby ceased to be the ultimate holding company, See Note 32 (b) for details.

32. Subsequent events

- (a) On 8 May 2000, Next International exercised its rights to convert its holding of convertible notes amounting to HK\$105,000,000 into 233,333,333 ordinary shares in the Company at HK\$0.45 per share and the number of the Company's ordinary shares held by Next International increased from 1,675,500,000 to 1,908,833,333 representing approximately 67% of the Company's enlarged issued share capital.
- (b) On 18 May 2000, Next International distributed part of its holding amounting to 1,888,401,333 ordinary shares of the Company to its shareholders by way of a distribution in specie. Following the distribution, Mr. Lai holds an aggregate of 1,588,509,703 shares, of which 1,568,077,703 shares are directly held by him and 20,432,000 shares are deemed held by him through his controlling interest in Next International, representing 55.4% of the Company's issued share capital.
- (c) On 22 March 2000, the Company and Mr. Lai entered into a shareholders' loan agreement whereby Mr. Lai agreed to grant to the Company a loan of HK\$200 million for the development and expansion of the Group's internet related businesses. The loan is unsecured, repayable on demand and interest bearing at 100 basis points below the best lending rate quoted by The Hongkong & Shanghai Banking Corporation Limited. The full principal amount has been subsequently drawn down on 17 April 2000. Mr. Lai has confirmed not to demand for repayment of this loan within 12 months from 17 April 2000.
- (d) On 2 June 2000, the Company entered into a conditional agreement with Apple Daily Limited, a related company, to acquire the entire issued share capital of Apple Daily Online Limited for a consideration of HK\$500 million. Apple Daily Online Limited is principally engaged in the development and operation of internet and related businesses under the Apple Websites. The consideration will be satisfied by the issue, of approximately 362 million new ordinary shares of the Company at HK\$1.38 per share.

The following is the text of a report, prepared for the purpose of incorporation in this circular, from the auditors and reporting accountants of Apple Daily Online, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

The Directors
Next Media Limited
Apple Daily Limited
Vickers Ballas Capital Limited

15 July 2000

Dear Sirs,

We set out below our report on the financial information regarding the business of the internet websites (“the Apple Websites”) operated by Apple Daily Online Limited (“ADOL”) for inclusion in the circular of Next Media Limited (“Next”) dated 15 July 2000 in connection with its proposed acquisition of ADOL (“the Proposed Acquisition”).

ADOL is a private wholly owned subsidiary of Apple Daily Limited (“ADL”) incorporated in Hong Kong on 7 April 1999. On 5 October 1999, ADOL acquired the business of the Apple Websites and related assets and liabilities from ADL. Prior to 5 October 1999, the business of the Apple Websites were operated by a department (“the Internet Department”) of ADL. The Internet Department had been established since January 1997. Apart from the business of the Apple Websites, neither ADOL nor the Internet Department has, or has ever had any other activity. We have acted as auditors of ADOL for the period from its date of incorporation to 31 March 2000, and of ADL for each of the periods referred to in this report.

For the purpose of compiling this report, the results of the Apple Websites for the period from 1 April 1997 up to 4 October 1999 (“the Pre-operation Period”) representing the results of the Internet Department for the same period are extracted from the departmental management accounts of ADL which form the basis of the audited accounts of ADL. The results of the remaining period to 31 March 2000 are the audited results of ADOL. We have carried out an independent review of such results and have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants. We considered that no adjustments were necessary to be made to the departmental management accounts of ADL or the audited accounts of ADOL for the purpose of this report.

The summaries of the results for each of the three years ended 31 March 2000 and the net liabilities of the Apple Websites as at 31 March 2000 (“the Summaries”), as set out in Sections 3 and 4 of this report, have been prepared based on the departmental management accounts of ADL and the audited accounts of ADOL on the basis set out in Section 1 below.

The directors of ADOL are responsible for the financial information in Sections 1 to 7 below, including the Summaries. In preparing the Summaries, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility, based on our examination, to form an independent opinion on the Summaries.

In our opinion, the Summaries set out below together with the notes thereto, for the purpose of this report and prepared on the basis as set out in Section 1 below, give a true and fair view of the results of the business of the Apple Websites for each of the three years ended 31 March 2000 and of the net liabilities of the business of the Apple Websites as at 31 March 2000.

1. BASIS OF PRESENTATION

The summary of the results of the business of the Apple Websites as set out under Section 3 includes the results of ADOL since its date of incorporation and the results of the Internet Department of ADL during the Pre-operation Period. The results of ADOL since its date of incorporation are extracted from the audited accounts of ADOL for the period ended 31 March 2000. The results of the Internet Department of ADL during the Pre-operation Period are extracted from the departmental management accounts of ADL, which form the basis of the audited accounts of ADL.

The summary of the net liabilities as set out under Section 4 is extracted from the audited balance sheet of ADOL as at 31 March 2000.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted in arriving at the financial information included in this report are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants. The Summaries are prepared under the historical cost convention.

The Summaries are prepared on a going concern basis which assumes the continuing financial support to be given by Next following the completion of the Proposed Acquisition.

a. Revenue recognition

Website advertising income is recognised on a straight line pro-rata basis over the period in which the advertisement is displayed.

b. Retirement benefit costs

Contributions are made to a defined contribution retirement scheme for all employees after probation. Both the employer and the employees are required to contribute each month an amount equal to 5% of the monthly wages including basic salary, commission and certain bonuses. The assets of the scheme are maintained separately in an independently administered fund. The contributions to this scheme are expensed as incurred and can be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the scheme.

c. Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

d. Fixed assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost on a straight line basis over their expected useful lives. The principal annual rates used for this purpose are:

Leasehold improvements	33 $\frac{1}{3}$ %
Computer equipment and software	33 $\frac{1}{3}$ %
Furniture and fixtures and equipment	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

e. Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

f. Translation of foreign currencies

Foreign currency transactions are translated into Hong Kong dollars at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange prevailing at the balance sheet date. Exchange differences arising therefrom are included in the operating results.

3. RESULTS

The following is a summary of the results of the business of the Apple Websites for the periods stated, prepared on the basis set out in Section 1 above:

	<i>Note</i>	Year ended 31 March		
		1998	1999	2000
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Turnover	(a)	436	1,939	3,788
Production costs		(94)	(643)	(2,404)
Gross profit		342	1,296	1,384
Personnel costs		(1,836)	(3,568)	(10,911)
Depreciation		(17)	(49)	(699)
Other operating expenses		(195)	(734)	(2,544)
Operating loss	(b)	<u>(1,706)</u>	<u>(3,055)</u>	<u>(12,770)</u>
Pro forma loss per share	(d)	<u>(0.47 cents)</u>	<u>(0.84 cents)</u>	<u>(3.52 cents)</u>

Notes:

(a) Turnover and revenue

Turnover and revenue recognised during the period represent advertising income received and receivable net of discounts.

(b) Operating loss

The operating loss is stated after charging the following:

	Year ended 31 March		
	1998 \$'000	1999 \$'000	2000 \$'000
Auditors' remuneration	–	–	32
Depreciation of owned fixed assets	17	49	699
Operating lease expenses of office premises	63	98	222
Pension contributions	42	93	202

(c) Taxation

- (i) No provision for Hong Kong profits tax has been made for any of the periods referred to in this report as there are no estimated assessable profits for any of such periods.
- (ii) As at 31 March 2000, the potential deferred tax assets/(liabilities) not expected to crystallise in the foreseeable future and thus not recognised comprise the following:

	HK\$
Accelerated depreciation allowances	(1,616,683)
Tax losses	3,453,969
	<hr/>
Net unrecognised deferred tax asset	<u>1,837,286</u>

(d) Pro forma loss per share

The calculation of pro forma loss per share for each of the three years ended 31 March 2000 is based on the operating loss of approximately HK\$1,706,000, HK\$3,055,000 and HK\$12,770,000 respectively and on the total number of 362,318,840 shares to be issued by Next as consideration for its acquisition of ADOL.

(e) Retirement benefit costs

The retirement benefit costs charged to the results for the relevant periods have been set out in Note (b) above. As at 31 March 2000, ADOL had no contribution payable in the summary of net liabilities under Section 4.

(f) Related party transactions

During the relevant periods, the following material transactions were entered into with ADL and its subsidiaries, certain subsidiaries of Next Media International Holdings Limited ("Next International") and AD Marketing Limited ("ADML"):

	<i>Note</i>	Year ended 31 March		
		1998	1999	2000
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
ADL and its subsidiaries (note (i))				
Production charges paid	<i>(ii)</i>	–	–	112
Management fee and human resources overhead paid	<i>(iii)</i>	88	186	1,570
Companies in the Next International Group (note (i))				
Management fee, human resources, rental and other administrative overhead paid	<i>(iii)</i>	82	241	880
ADML (note (i))				
Purchase of fixed assets	<i>(ii)</i>	–	–	128

Notes:

- (i) ADL, the current ultimate holding company of ADOL, Next International and ADML are all companies in which Mr. Jimmy Lai Chee Ying is a director and a beneficial shareholder.
- (ii) These transactions were conducted in the normal course of business at prices and terms no less than those charged to or contracted with other third parties.
- (iii) These represent recharges of administrative and other overheads and are based on actual cost incurred, allocated between various group and related companies in accordance with either floor area occupied, number of headcount or time apportionment. The above includes inter-divisional recharges made by ADL to the Internet Department during the Pre-operation Period on a similar basis.
- (iv) The directors of Next are of the opinion that, only production charges paid to ADL and its subsidiaries will continue after the proposed transaction.

(g) Directors' and senior management's emoluments

No directors' emoluments were paid by ADOL for the period from its incorporation to 31 March 2000. For the Pre-operation Period, the directors of ADL are of the opinion that none of the directors' emoluments of ADL are specifically attributable to the Apple Websites.

Details of the emoluments paid to the five highest paid individuals are as follows:

	Year ended 31 March		
	1998	1999	2000
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Basic salaries and allowances	1,210	2,130	2,035
Bonuses	315	390	505
Pension contribution	47	94	92
	<u>1,572</u>	<u>2,614</u>	<u>2,632</u>

No incentive payment or compensation for loss of office was paid or payable to any director or the five highest paid individuals for each of the three years ended 31 March 2000.

The emoluments of the above five highest paid individuals fall within the following bands:-

Emoluments \$'000	Number of individuals		
	1998	1999	2000
Up to 1,000	<u>5</u>	<u>5</u>	<u>5</u>

4. NET LIABILITIES

The following is a summary of the net liabilities of ADOL as at 31 March 2000:

	Notes	\$'000	\$'000
Fixed assets	(a)		10,193
Current assets			
Amount due from a related company	(b)	2	
Trade receivables and other receivables		1,832	
Bank balances and cash		397	
		2,231	
Current liabilities			
Amount due to a fellow subsidiary	(b)	40	
Amounts due to related companies	(b)	6,317	
Accounts payable and accrued charges		2,696	
		9,053	
Net current liabilities			(6,822)
Long term loan from holding company	(c)		(14,852)
Net liabilities			(11,481)

Notes:

(a) Fixed assets

	Cost \$'000	Accumulated depreciation \$'000	Net book value \$'000
Leasehold improvements	26	3	23
Computer equipment and software	10,723	738	9,985
Furniture, fixtures and equipment	209	24	185
	<u>10,958</u>	<u>765</u>	<u>10,193</u>

(b) Amounts due from/to a fellow subsidiary and related companies

These balances are unsecured and, interest free and have no fixed terms of repayment.

(c) Long term loan from holding company

This represents a loan from ADL which is unsecured and, interest free and will be subsequently waived by ADL according to the conditional sales and purchase agreement entered into between Next and ADL in respect of the Proposed Acquisition.

(d) Capital commitments

As at 31 March 2000, ADOL has capital commitments for fixed assets contracted but not provided for amounting to HK\$5,408,726.

5. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for ADOL in respect of any period subsequent to 31 March 2000.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

1. PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is a statement of the pro forma adjusted consolidated net tangible assets of the Enlarged Group immediately following Completion. It is based on the audited net assets of the Group as at 31 March 2000 adjusted to reflect the effect of the Acquisition and certain events which have taken place since 31 March 2000.

	<i>HK\$'000</i>
Consolidated net assets of the Group as at 31 March 2000	235,249
Less: Intangible assets (<i>Note 1</i>)	(210,000)
Unaudited consolidated net loss of the Group for the two months ended 31 May 2000 (<i>Note 2</i>)	(15,932)
Exercise of the rights to convert the convertible notes into new Shares (<i>Note 3</i>)	<u>105,000</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group before Completion	114,317
Net liabilities of Apple Daily Online as at 31 March 2000	(11,481)
Unaudited net loss of Apple Daily Online for the two months ended 31 May 2000 (<i>Note 4</i>)	(5,343)
Long term borrowings to be waived by ADL upon Completion (<i>Note 5</i>)	30,503
Pro forma unaudited adjusted net tangible assets of Apple Daily Online	13,679
Estimated expenses relating to the Acquisition	<u>(4,000)</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Enlarged Group immediately following Completion	<u>123,996</u>
Pro forma unaudited adjusted consolidated net tangible asset value per Share before Completion (<i>Note 6</i>)	<u>HK\$0.039</u>
Pro forma unaudited adjusted consolidated net tangible asset value per Share upon Completion (<i>Note 7</i>)	<u>HK\$0.038</u>

Notes:

1. The intangible assets represent the mastheads of the Easy Finder Magazine.
2. The unaudited consolidated net loss of the Group for the two months ended 31 May 2000 is based on the unaudited management accounts of the Group for the same period.
3. On 8 May 2000, Next International exercised its rights to convert all the convertible notes amounting to HK\$105,000,000 into 233,333,333 Shares at HK\$0.45 per Share.
4. The unaudited net loss of Apple Daily Online for the two months ended 31 May 2000 is based on the unaudited management accounts of Apple Daily Online for the same period.
5. This represents the amount due from Apple Daily Online to ADL as at 31 May 2000. ADL has agreed to waive the long term loans granted to Apple Daily Online upon Completion.
6. Pro forma unaudited adjusted consolidated net tangible asset value per Share before Completion was calculated on the basis of 2,866 947,838 Shares in issue as at the Latest Practicable Date.
7. Pro forma unaudited adjusted consolidated net tangible asset value per Share upon Completion was calculated on the basis of 2,866,947,838 Shares, being the number of Shares in issue as at the Latest Practicable Date, plus the 362,318,840 Consideration Shares to be issued pursuant to the Acquisition Agreement.

2. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the pro forma statement of assets and liabilities of the Enlarged Group based on the audited consolidated net assets of the Group as at 31 March 2000 extracted from its 2000 annual report and the audited net liabilities of Apple Daily Online as at 31 March 2000 as set out in Appendix II to this circular, assuming that the completion of the proposed transactions had taken place on 31 March 2000.

	The Group <i>HK\$'000</i>	Apple Daily Online <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	The Enlarged Group <i>HK\$'000</i>
Tangible fixed assets	329,123	10,193	–	339,316
Intangible assets	210,000	–	–	210,000
Interests in associated companies	5,125	–	–	5,125
Current assets	92,198	2,231	–	94,429
Total assets	636,446	12,424	–	648,870
Current liabilities	179,938	9,053	–	188,991
Long term borrowings	113,713	14,852	(14,852)(i)	113,713
Convertible notes	105,000	–	–	105,000
Deferred taxation	449	–	–	449
Minority interests	2,097	–	–	2,097
Total liabilities	401,197	23,905	(14,852)	410,250
Pro forma net assets/ (liabilities)	235,249	(11,481)	14,852	238,620

Note (i): The long term borrowings of Apple Daily Online as at 31 March 2000 represent a loan from ADL, which, according to the Acquisition Agreement, will be waived by ADL upon Completion.

STATEMENT OF INDEBTEDNESS

At the close of business on 31 May 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding bank borrowings of approximately HK\$137,927,741, which were secured by land and buildings and plant and machinery with an aggregate net book value of approximately HK\$195,622,458 and HK\$50,104,537 respectively, and obligations under finance leases of approximately HK\$3,334,548.

In addition, as at 31 May 2000, the Enlarged Group had loans of HK\$200 million from Mr. Lai and HK\$30.5 million from ADL. ADL has undertaken to the Company and Apple Daily Online on 2 June 2000 to waive any claim which it may have against the Company and/or Apple Daily Online arising from or in connection with any amount due from Apple Daily Online to ADL as at the date of the Completion. Regarding the loan provided by Mr. Lai, Mr. Lai has confirmed that he will not demand for repayment of this loan within 12 months from 17 April 2000, the date on which the loan was drawn down.

At 31 May 2000, the Enlarged Group was involved in certain litigation proceedings in Hong Kong arising in the normal course of its publishing business. Although the final outcome of these proceedings is uncertain, the directors of the Company, having taken into consideration the advice from the Company's legal counsel, are of the opinion that the ultimate liability, if any, under these proceedings would not have a material impact on the financial position of the Enlarged Group.

Save as disclosed herein and apart from intra-group liabilities, the Enlarged Group had no outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

Taking into account the available banking facilities, internal resources of the Enlarged Group and the shareholder loan provided by Mr. Lai, the Directors are of the opinion that barring any unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements.

LIQUIDITY AND FINANCIAL RESOURCES

The Enlarged Group will finance its operations principally from banking facilities, internal resources and the shareholder loan from Mr. Lai. The Enlarged Group had unutilised credit facilities granted by various banks of approximately HK\$73 million from its total

available banking facilities of HK\$211 million and bank and cash balances of approximately HK\$153 million as at 31 May 2000. In respect of Apple Daily Online, it has no banking facilities and its bank and cash balances amounted to approximately HK\$1.38 million as at 31 May 2000. The financial requirement of Apple Daily Online will be supported by the Group following the Completion.

The Directors are of the opinion that, taking into account the financial resources available to the Enlarged Group, including its internal resources, the Enlarged Group will have sufficient resources to finance its operations.

MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware any material adverse change in the financial or trading position of the Enlarged Group since 31 March 2000, the date to which the latest audited financial statement of the Company and ADOL were made up.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the equity and debt securities of the Company and any associated corporation (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein were as follows:

(a) Interests in the Shares

Name	Personal interests	Number of shares	
		Corporate interests	Other interests
Mr. Lai	1,568,077,703	20,432,000 (<i>Note 1</i>)	–
Mr. Yeung Wai Hong	15,000,000	61,400,528 (<i>Note 2</i>)	–
Mr. Ho Kwok Fai, Morris	8,750,000	36,840,336 (<i>Note 3</i>)	–
Mr. Chow On Kiu, Andrew	15,000,000	–	–
Mr. Ting Ka Yu, Stephen	9,000,000	–	–
Mr. Yeh V-nee	–	–	130,000 (<i>Note 4</i>)

Notes:

- These Shares are beneficially owned by Next International. Mr. Lai is deemed to have interest in these Shares by virtue of his controlling interest in Next International.
- These Shares are owned by Flagstone Assets Limited. Mr. Yeung Wai Hong is deemed to be interested in these Shares by virtue of the 100% interest in Flagstone Assets Limited owned by himself and his family.
- These Shares are owned by Adcon Management Limited. Mr. Ho Kwok Fai, Morris, is deemed to be interested in these Shares by virtue of the 100% interest in Adcon Management Limited owned by himself and his spouse.
- These Shares are held by VP Special Situations I Limited (“VPSS”) to which VP Private Equity Ltd. is the fund manager, Mr. Yeh is deemed to be interested in these Shares by virtue of the fact that he has more than 1/3 voting right in VP Private Equity Ltd. and a 0.486% attributable interest in VPSS.

(b) Interests in share options of the Company

A share option scheme was adopted by the Company on 20 September 1993 (the “Scheme”) under which eligible employees (including executive directors) of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company. As at the Latest Practicable Date, none of the Directors had been granted any options under the Scheme.

Save as disclosed herein, none of the Directors or chief executive of the Company had any interest in the equity or debt securities of the Company or any associated corporation (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to Section 29 of SDI Ordinance, to be entered in the register referred to therein as at the Latest Practicable Date.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company’s issued share capital.

Name	No. of Shares
Mr. Lai	1,588,509,703 ⁽¹⁾

Note:

- (1) This interest represents 1,568,077,703 Shares held by Mr. Lai and 20,432,000 Shares held by Next International in which Mr. Lai is deemed to be interested under sections 8(2) and (3) of the SDI Ordinance.

LITIGATION

The following are claims or litigation of material importance which were pending, commenced by or against the Company or any of its subsidiaries as at the Latest Practicable Date:

A subsidiary of the Company has been named as one of the defendants in a Hong Kong High Court action commenced on 3 October 1994 in relation to a claim for unstated damages for alleged infringement of copyright as printer and also in another Hong Kong High Court action commenced on 4 May 2000 in relation to a claim for unstated damages for alleged defamation. The said subsidiary also received a summons dated 22 March 2000 issued by a magistrate's court in relation to a claim for breach of regulations 4(1) and 13(1) Factories and Industrial Undertakings (Guarding and Operation of Machinery) Regulations made under Factories and Industrial Undertakings Ordinance, Cap. 59.

A subsidiary of the Company has been named as one of the defendants in three Hong Kong High Court actions commenced on 12 January 1996, 9 December 1999 and 13 May 2000 respectively in relation to claims for unstated damages for alleged defamation. The claims are related to alleged defamatory statements in two magazines printed by the said subsidiary.

A subsidiary of the Company has been named as one of the defendants in a Hong Kong High Court action commenced on 19 March 1999 in relation to a claim for unstated damages for alleged defamation. The claim is related to alleged defamatory statements made in a magazine published by the said subsidiary.

A subsidiary of the Company has been named as a defendant in five Hong Kong High Court actions commenced on 13 April 1995, 22 April 1995, 28 April 1995, 15 July 1995 and 22 October 1996 respectively in relation to claims for unstated damages for alleged defamation.

A subsidiary of the Company has been named as a defendant in a Hong Kong District Court action commenced on 13 August 1999 in relation to a claim for breach of an advertising contract. The subsidiary filed an amended defence and counter-claim with the Hong Kong District Court on 27 November, 1999.

The above actions were still outstanding as at the Latest Practicable Date. Although the final outcome of these proceedings is uncertain, the Board of the Company is of the opinion that the ultimate liability, if any, of the Group under these actions would not have a material impact on the financial position of the Group.

As at the Latest Practicable Date, save as disclosed above, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

EXPERTS AND CONSENTS

As at the Latest Practicable Date, neither DBS (an investment adviser registered under the Securities Ordinance) nor PricewaterhouseCoopers (Certified Public Accountants) has any shareholding or interest, directly or indirectly, in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of DBS and PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report or references to its name, as the case may be, in the form and context in which it appears.

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group within the two years immediately prior to the date of this circular and are or may be material in the context of the Group as a whole.

1. Agreement in Chinese dated 13 August 1998 entered into among Guangzhou Modern Publication & Printing Company Limited (廣州現代出版印刷有限公司), Modern Company Limited, Global Bridge Worldwide Ltd., Mr. Shao Zhong, Seapower International Holdings Limited (“SIH”) and the Company relating to the extension of the date for the satisfaction of the respective conditions precedent set out in a sale and purchase agreement and a placing agreement both dated 20 June 1998. (Neither the sale and purchase agreement nor the placing agreement completed.)
2. Agreement in Chinese dated 15 October 1998 entered into among Guangzhou Modern Publication & Printing Company Limited (廣州現代出版印刷有限公司), Modern Company Limited, Global Bridge Worldwide Ltd., Mr. Shao Zhong, SIH and the Company relating to, inter alia, the extension of the date of completion of the sale and purchase agreement and the placing agreement referred to in sub-paragraph (1) above.
3. State-owned land use right transfer contract in Chinese dated 28 December 1998 entered into between the Company as seller and Shenzhen Ever Pure Industrial Co. Ltd. (深圳愛惠浦實業有限公司) as purchaser in relation to the sale and transfer of the land use rights and all related interest in respect of a piece of land with a site area of 53,600 square metres in Dongguan Municipality, Guangdong Province, the PRC at a consideration of HK\$20,000,000.
4. Shareholders agreement dated 24 March 1999 entered into among Paramount (China) Limited, the Company, Cheong Ming (BVI) Enterprises Limited and Cheong Ming Holdings Limited relating to the establishment of a joint venture company known as CM

Paramount Printing Company Limited for conducting book printing business and other printing related businesses, excluding the printing of magazines and periodicals. CM Paramount Printing Company has ceased operations and the parties to the shareholders agreement have agreed to wind up CM Paramount Printing Company Limited.

5. Two purchase orders dated 14 May 1999 and 28 May 1999 respectively issued by TPE Corporation Limited confirming its purchase of a total of 5 units of press machine at a total consideration of HK\$5,350,000 from Paramount Printing Company Limited.
6. Three deeds of assignment dated 30 April 1999 entered into between Easy Finder Marketing Limited (formerly known as Capital Communications Corporation Limited) (“Easy Finder Marketing”) as assignor and Yongder Hall Limited as assignee in respect of the assignment of all of the rights, title and interests in and to the magazines known as “Capital Magazine” and “Car-Plus” and in certain plant, equipment and materials used in the production of the said magazines for a total consideration of HK\$1,000,000.
7. Sale and purchase agreement dated 23 July 1999 entered into among Next Media Interactive Limited (“Next Interactive”) as buyer, Next Magazine Advertising Limited as seller and Next International relating to the sale and purchase of the business and activities for the creation, development and electronic publication of certain Nextmedia Websites at a total consideration of HK\$97,500,000.
8. Agreement for the assignment of rights in and to the business of “Easy Finder” magazine at a total consideration of HK\$80,000,000 between Next Media I.P. Limited (formerly known as Next Media limited) (“Next Media I.P.”) as the assignor, Easy Media Limited (“Easy Media”) as the assignee, Easy Finder Limited (“Easy Finder”) and Job Finder Limited (“Job Finder”) dated 23 July 1999.
9. Deed of assignment relating to rights in and to certain trademarks of “Easy Finder” magazine between Next Media I.P. as the assignor and Easy Media as the assignee dated 23 July 1999.
10. Deed of termination for the termination of certain licence agreements relating to “Easy Finder” magazine between Next Media I.P., Easy Finder, Job Finder, Easy Finder Advertising Limited (“Easy Finder Advertising”) and Next Media Group Management Limited (“Next Management”) dated 23 July 1999.
11. Agreement relating to the licence of certain rights in and to the business of publishing and distributing “Easy Finder” magazine, “Trading Express/AutoExpress” booklet and “Easy Express” section of the booklets accompanying “Easy Finder” magazine (the “Booklets”) for a licence fee of an amount equal to one per cent. of the net profit after tax of Easy Finder between Easy Media as the licensor and Easy Finder as the licensee dated 23 July 1999.

12. Advertising agreement relating to the assignment of the advertising rights of “Easy Finder” magazine for a consideration of an amount equal to ten per cent. of the net advertising revenue of Easy Finder Advertising between Easy Media as the licensor, Easy Finder Advertising as the licensee and Easy Finder dated 23 July 1999.
13. Agreement relating to the licence of certain rights in and to the business of publishing and distributing “Job Finder” section of the Booklets for a licence fee of an amount equal to ten per cent. of the net advertising revenue of Job Finder between Easy Media as the licensor and Job Finder as the licensee dated 23 July 1999.
14. Agreement relating to the licence of certain rights in and to trademarks and names of “Easy Finder” magazine for zero consideration between Easy Media as the licensor and Next Management as the licensee dated 23 July 1999.
15. Deed dated 23 July 1999 between, amongst others, Next International, the Company and SIH for the sale and purchase of shares in Next Interactive at a consideration of HK\$97,500,000 which was satisfied by the issue of 487,500,000 Shares at par value of HK\$0.20 each.
16. Deed dated 23 July 1999 between Next Media (Holdings) Limited, Easy Finder Advertising, Firsthill Limited, Easy Finder Marketing, Next International, Next Media I.P., the Company and SIH relating to the sale and purchase of shares in Easy Finder, Job Finder and Easy Media and the business and assets of Easy Finder Advertising at a consideration of HK\$237,600,000 which was satisfied by the issue of 1,188,000,000 Shares at par value of HK\$0.20 each.
17. Licence agreement dated 29 September 1999 entered into between Sudden Weekly Limited (“Sudden Weekly”) and Next Interactive relating to the granting by Sudden Weekly to Next Interactive of a licence to use all copyright in the content of the entertainment section of “Sudden Weekly” magazine on the internet for a consideration of HK\$1.00.
18. Licence agreement dated 29 September 1999 entered into between Sudden Weekly and Next Interactive relating to the granting by Sudden Weekly to Next Interactive of a licence to use trademarks relating to “Sudden Weekly” magazine on the internet for a consideration of HK\$1.00.
19. Licence agreement dated 29 September 1999 entered into between Next Media I.P. and Next Interactive relating the granting by Next Media I.P. to Next Interactive of a licence to use all copyright in the content of “Next” magazine on the internet for a consideration of HK\$1.00.

20. Licence agreement dated 29 September 1999 entered into between Next Media I.P. and Next Interactive relating to the granting by Next Media I.P. to Next Interactive of a licence to use trademarks relating to “Next” magazine on the internet for a consideration of HK\$1.00.
21. Licence agreement dated 29 September 1999 entered into between Easy Media and Next Interactive relating to the granting by Easy Media to Next Interactive of a licence to use all copyright in the content of “Easy Finder” magazine on the internet for a consideration of HK\$1.00.
22. Licence agreement dated 29 September 1999 entered into between Easy Media and Next Interactive relating to the granting by Easy Media to Next Interactive of a licence to use trademarks relating to “Easy Finder” magazine on the internet for a consideration of HK\$1.00.
23. Agreement dated 29 September 1999 entered into between Next Management and Next Interactive, pursuant to which Next Interactive agrees to publish and operate the website www.nextphoto.com and to use the domain name in the same way as Next International did prior to the date of the agreement.
24. Agreement dated 29 September 1999 entered into between ADL and Next Interactive relating to the creation of links between the website www.appledaily.com.hk and Next Interactive’s websites www.nextmedia.com and www.nextmedia.com.hk.
25. Licence agreement dated 29 September 1999 entered into between Apple Daily Printing Limited (“Apple Daily Printing”) and Next Interactive relating to the granting by Apple Daily Printing to Next Interactive to use certain space of Apple Daily Printing’s office in Tseung Kwan O from the date of the agreement to 20 October 1999 at a fee of HK\$5,000 per month.
26. Agreement dated 29 September 1999 entered into between Next Magazine Advertising Limited (“Next Magazine Advertising”) and Next Interactive relating to the assignment of the format rights of “Easy Finder” magazine, “Job Finder” and “AutoExpress” sections of “Easy Finder” magazine, “Next” magazine, “Sudden Weekly” magazine by Next Magazine Advertising to Next Interactive for a consideration of HK\$1.00.
27. Agreement dated 29 September 1999 entered into among Next Management, Next Magazine Advertising, Sudden Weekly and Next Interactive relating to the assignment of certain domain names by Next Management, Next Magazine Advertising and Sudden Weekly to Next Interactive for a consideration of HK\$1.00.

28. Agreement dated 29 September 1999 entered into between Next Magazine Publishing Limited and Next Interactive relating to the assignment of the contracts for the subscription of the online version of “Next” magazine to Next Interactive for a consideration of HK\$1.00.
29. Agreement dated 29 September 1999 entered into between Next Magazine Advertising and Next Interactive relating to the assignment of the goodwill of the business of creating developing and operating certain websites and online publication on those websites (the “Web Business”) to Next Interactive for a consideration of HK\$1.00.
30. Agreement dated 29 September 1999 entered into between Next Magazine Advertising and Next Interactive relating to the assignment of the contracts for the Web Business to Next Interactive for a consideration of HK\$1.00.
31. Agreement dated 29 September 1999 entered into between Next Magazine Advertising and Next Interactive relating to the assignment of the third party rights of the Web Business to Next Interactive for a consideration of HK\$1.00.
32. Deed dated 29 September 1999 entered into between Easy Media and Next Interactive relating to the granting by Easy Media to Next Interactive the right to conduct the business of receiving orders through the internet for placing advertisements on the online version of a section entitled “AutoExpress” in the “Trading Express/AutoExpress” booklet of “Easy Finder” magazine.
33. Placing and underwriting agreement dated 29 September 1999 between the Company, the executive directors of the Company, SIH, Next International, Yu Ming Investment Management Limited and Yu Ming Nominees Limited in relation to the placing of 480,000,000 Shares and the underwriting of 150,000,000 Shares.
34. Agreement for the Tendering and Provision of Printing Services between Next International and Paramount Printing Services Limited dated 20 October 1999 relating to the printing of “Next” magazine, “Sudden Weekly” magazine and “Eat and Travel Weekly” magazine.
35. Licence agreement dated 20 October 1999 entered into between Eat and Travel Weekly Company Limited and Next Interactive relating to the granting by Eat and Travel Weekly Company Limited to Next Interactive to use all copyright in the content of the “Eat and Travel Weekly” magazine on the Internet and the trademarks relating to “Eat and Travel Weekly” magazine on the Internet for a consideration of HK\$1.00.
36. Licence agreement dated 20 October 1999 entered into between Next Management and Easy Finder relating to the granting by Next Management to Easy Finder a non-exclusive licence to have access and to use the library of Next Management for the sole purpose of facilitating publication of “Easy Finder” , “TRADING EXPRESS” , “AUTO EXPRESS” and other supplementary magazines.

37. A lease dated 22 December 1999 entered into between The Hong Kong Industrial Estates Corporation as lessor and the Company as lessee relating to all that piece of land known as Subsection 2 of Section D of Tseung Kwan O Town Lot No. 39 and Extensions thereto.
38. Amended and restated shareholders' agreement dated 8 March 2000 entered into among Igloo Finance Ltd ("Igloo"), Next Ventures Limited ("NextV"), an indirect wholly owned subsidiary of the Company, the Company and other persons who were then shareholders of Igloo relating to the amendment and restatement of the original shareholders' agreement in order to define the respective rights and obligations in connection with the interests of all the shareholders of Igloo consequent to the NextV's subscription for shares in Igloo.
39. Subscription agreement dated 8 March 2000 entered into between Igloo and NextV relating to the subscription by NextV of 2,990 shares in Igloo.
40. Exclusivity agreement dated 22 March 2000 entered into between the Company and ADL relating to the grant of exclusive right to acquire from ADL the entire issued share capital of Apple Daily Online together with the exclusive right to publish Apple Daily on the internet and otherwise electronically, the licence to use all associated intellectual property rights on the internet and otherwise electronically and all associated domain names.
41. Agreement dated 22 March 2000 entered into between Mr. Lai and the Company for the grant of a loan of HK\$200 million by Mr. Lai to the Company.
42. Agreement dated 19 April 2000 entered into between Easy Finder and Next Management relating to the provision of production services by Next Management to Easy Finder in respect of the "Easy Finder" magazine for a period of one year from 20 October 1999.
43. Agreement dated 19 April 2000 entered into between Easy Finder Marketing and Next Management relating to the provision of production services by Next Management to Easy Finder Marketing in respect of the "TRADING EXPRESS" and "AUTO EXPRESS" magazines for a period of one year from 20 October 1999.
44. Agreement dated 19 April 2000 entered into between Next Interactive and Next Management relating to the provision of production services by Next Management to Next Interactive in respect of the online contents published by Next Interactive for a period of one year from 20 October 1999.
45. The Acquisition Agreement.
46. Licence agreement dated 21 June 2000 entered into between AD Marketing Limited and Next relating to the granting of a licence by Next to AD Marketing Limited to use certain space of Next at Tseung Kwan O at a fee of HK\$65,295 per month.

MISCELLANEOUS

Ms. Lee Yuen Mei, Janis, the secretary of the Company, is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

Mr. Lim Tai Thong has entered into a contract of employment with Next Media Interactive Limited, a subsidiary of the Company, which commenced from 1 April 2000. Either party may terminate the contract by giving three months' prior written notice to the other. None of the other Directors has any service contract with the Company or any of its subsidiaries or associated companies in force which does not expire or is not determinable within one year without payment of compensation, or which was entered into or amended within six months before 3 June 2000 (the date of announcement of the Acquisition).

Save as disclosed herein, none of the Director is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group or the Enlarged Group.

Save as disclosed herein, none of the Directors, DBS and PricewaterhouseCoopers has any interest, direct or indirect, in any assets, which have been since 31 March 2000, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

The registered office of the Company is at 8 Chun Ying Street, Tseung Kwan O Industrial Estate West, Tseung Kwan O, New Territories, Hong Kong.

The share registrar of the Company is Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the registered office of the Company at 8 Chun Ying Street, Tseung Kwan O Industrial Estate West, Tseung Kwan O, New Territories, Hong Kong from the date of this circular up to and including 31 July 2000.

- a. the memorandum and articles of association of the Company;
- b. the annual reports of the Company for each of the two years ended 31 March 2000;
- c. the letter from the Independent Board Committee as set on page 17 of this circular;

- d. the letter from DBS as set out on pages 18 to 23 of this circular;
- e. the accountants' report on Apple Daily Online as set out in Appendix II to this circular;
- f. the written consents referred to in the paragraph headed "Experts and Consents" in this appendix;
- g. all material contracts, including the Acquisition Agreement, referred to in the paragraph headed "Material Contracts" in this appendix; and
- h. drafts of the Licence Agreement, the Assignment of Domain Names and the Tax Deed.

NOTICE OF THE EGM

NEXTmedia

NEXT MEDIA LIMITED

壹傳媒有限公司

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Next Media Limited (the “**Company**”) will be held at the Conference Room on the 1st Floor, 3 Chun Kwong Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, New Territories, Hong Kong on Monday, 31 July, 2000 at 11:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “THAT the acquisition of the entire issued share capital of Apple Daily Online Limited (“**Apple Daily Online**”) by the Company pursuant to a sale and purchase agreement dated 2 June 2000 (the “**Agreement**”), a copy of which was tabled at the Meeting, and marked “A” and signed by the chairman of the Meeting for identification purpose, between the Company and Apple Daily Limited (“**ADL**”) be and is hereby approved, and the execution by the Company of the Agreement be and is hereby ratified, confirmed and approved AND THAT the directors of the Company (the “**Directors**”) be and are hereby authorised to do all such things and execute all such documents as they in their absolute discretion deem necessary, desirable or expedient for the purposes of, in connection with, the performance and implementation of the Agreement and the transactions contemplated thereunder.”
2. “THAT subject to the passing of the ordinary resolution (1), the Directors be and are hereby authorised to issue and allot:
 - (i) 181,159,420 new shares of HK\$0.20 each in the capital of the Company (the “**Shares**”) to ADL; and
 - (ii) 181,159,420 new Shares to certain employees of ADL, including four Directors, namely Mr. Ho Kwok Fai, Morris, Mr. Chow On Kiu, Andrew, Mr. Ting Ka Yu, Stephen and Mr. Kok Hon Kay, Peter, in accordance with the direction of ADL,

in each case, at a price of HK\$1.38 per Share as consideration for the entire issued share capital of Apple Daily Online upon completion of the Agreement.”

NOTICE OF THE EGM

3. “THAT the authorised share capital of the Company of HK\$680,000,000 divided into 3,400,000,000 Shares be and is hereby increased to HK\$900,000,000 divided into 4,500,000,000 Shares by the creation of 1,100,000,000 Shares to rank pari passu in all respects with the existing Shares.”

By order of the board of Directors

Janis Lee Yuen Mei

Company Secretary

Hong Kong, 15 July 2000

Registered office:

8 Chun Ying Street

Tseung Kwan O Industrial Estate West

Tseung Kwan O

New Territories

Hong Kong

Notes:

- (1) Every member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any Share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members in respect of such Share shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the Meeting is enclosed with this notice.
- (4) The form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered to the Company's registered office at 8 Chun Ying Street, Tseung Kwan O Industrial Estate West, Tseung Kwan O, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Meeting or at any adjourned meeting (as the case may be) should they so wish. If a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.