# NEXT MEDIA LIMITED

*(incorporated in Hong Kong with limited liability)*
**(Stock Code: 282)**

# ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

## HIGHLIGHTS

- The Group achieved a total turnover of HK$1,688.1 million, representing an increase of 17.2% compared with the same period in 2004.
- The Group recorded an unaudited consolidated profit of HK$224.2 million, up 146.4%.
- Basic earnings per share were HK$15.1 cents, compared with HK$6.1 cents for the same period last year.

The board of directors (the "Board" or the "Directors") of Next Media Limited (the "Company") is pleased to present the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 September 2005 together with the comparative figures for the last corresponding period. The unaudited interim results have been reviewed by the Company's Audit Committee and the Company's auditors.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2005

| | Notes | Six months ended 30 September<br>**2005**<br>***HK$'000***<br>**(unaudited)** | <br>2004<br>*HK$'000*<br>(unaudited) |
|---|---|---|---|
| Turnover | *4* | **1,688,074** | 1,440,224 |
| Production costs | | **(1,041,274)** | (903,464) |
| Gross profit | | **646,800** | 536,760 |
| Other income | *4* | **20,860** | 13,445 |
| Administrative expenses | | **(389,890)** | (414,777) |
| Finance costs | *6* | **(6,465)** | (2,850) |
| Profit before taxation | *7* | **271,305** | 132,578 |
| Taxation | *8* | **(47,078)** | (41,546) |
| Profit for the period | | **224,227** | 91,032 |
| Attributable to: | | | |
| Equity holders of the parent | | **224,227** | 91,032 |
| Minority interests | | **–** | – |
| | | **224,227** | 91,032 |
| Dividends | *9* | **461,871** | – |
| Earnings per share | *10* | | |
| Basic | | **15.1 cents** | 6.1 cents |
| Diluted | | **9.3 cents** | 3.8 cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**
At 30 September 2005 and 31 March 2005

| | Notes | **30 September 2005** *HK$'000* **(unaudited)** | 31 March 2005 *HK$'000* (audited and restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | | **1,345,881** | 1,345,881 |
| Property, plant and equipment | | **1,579,726** | 1,689,872 |
| Prepaid lease payments | | **73,237** | 83,691 |
| Deferred tax assets | | **3,722** | 1,058 |
| | | **3,002,566** | 3,120,502 |
| **CURRENT ASSETS** | | | |
| Inventories | | **161,884** | 183,710 |
| Prepaid lease payments | | **1,797** | 2,041 |
| Accounts receivable, deposits and prepayments | *11* | **631,103** | 523,354 |
| Derivative financial instruments | | **453** | – |
| Bank balances and cash | | **1,157,542** | 598,772 |
| | | **1,952,779** | 1,307,877 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued charges | *12* | **497,165** | 372,713 |
| Current portion of long-term liabilities | | **132,193** | 53,793 |
| Taxation payable | | **34,071** | 15,578 |
| | | **663,429** | 442,084 |
| **NET CURRENT ASSETS** | | **1,289,350** | 865,793 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,291,916** | 3,986,295 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term liabilities | | **305,808** | 163,441 |
| Pensions obligations | | **20,899** | 19,061 |
| Deferred tax liabilities | | **319,674** | 316,961 |
| | | **646,381** | 499,463 |
| **NET ASSETS** | | **3,645,535** | 3,486,832 |

**CAPITAL AND RESERVES**

| | | |
|---|---|---|
| Share capital | **3,095,904** | 3,092,774 |
| Reserves | **547,571** | 391,998 |
| Equity attributable to equity holders of the parent | **3,643,475** | 3,484,772 |
| Minority interests | **2,060** | 2,060 |
| **TOTAL EQUITY** | **3,645,535** | 3,486,832 |

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of HKAS 1 has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

**(a) Business Combinations**

In the current period, the Group has applied the transitional provisions of HKFRS 3 "Business Combinations" to goodwill acquired in business combinations for which the agreement date was before 1 January 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

*Goodwill*

Goodwill arising on acquisition prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1 April 2005. Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, the Group has derecognised all goodwill which was previously recorded in reserves with a corresponding decrease in accumulated profits. Except for the derecognition of goodwill reserve, this change in accounting policy had no effect on the Group's accumulated profits as at 1 April 2004 and 2005.

**(b) Share-based Payments**

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet been vested on 1 April 2005. This change in accounting policy has resulted in a decrease in the net profit for the six months ended 30 September 2005 of HK$64,000 but had no effect on the Group's accumulated profits as at 1 April 2004 and 2005.

**(c) Financial Instruments**

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

***Financial assets and financial liabilities other than debt and equity securities***

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change in accounting policy had no effect on the Group's accumulated profits as at 1 April 2004 and 2005.

***Derivative***

From 1 April 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are classified as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. The gain arising from change in fair value of financial assets measured at fair value through profit and loss amounted to HK$453,000 for the six months ended 30 September 2005 but had no effect on the Group's accumulated profits as at 1 April 2004 and 2005 as there is no outstanding derivative before 1 April 2005.

**(d) Owner-occupied Leasehold Interest in Land**

In previous periods, owner-occupied leasehold land and buildings were included in fixed assets and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively but had no effect on the Group's accumulated profits as at 1 April 2004 and 2005.

**(e) Change of Accounting Estimates – Intangible Assets with Indefinite Useful Lives**

In previous periods, intangible assets were amortised over 20 years which was the maximum period allowable for amortisation under Statement of Standard Accounting Practice No. 29 ("SSAP29"). HKAS 38 "Intangible Assets" requires intangible assets to be assessed at the individual asset level as having either finite or indefinite life. A finite-life intangible asset is amortised over its estimated useful life whereas an intangible asset with an indefinite useful life is carried at cost less accumulated impairment losses (if any). Intangible assets with indefinite lives are not subject to amortisation but are tested for impairment annually or more frequently when there are indications of impairment. In accordance with the transitional provisions in HKAS 38, the Group reassessed the useful lives of its intangible assets on 1 April 2005 and concluded that intangible assets with a total carrying amount of HK$1,345,881,000 recognised under the predecessor accounting standard have indefinite useful lives. The Group has applied the revised useful lives prospectively and discontinued amortising intangible assets with indefinite useful lives from 1 April 2005. No amortisation has been charged in relation to intangible assets with indefinite useful lives for the six months ended 30 September 2005. Comparative figures for the six months ended 30 September 2004 have not been restated. Should the intangible assets were amortised under SSAP29, amortisation expense of HK$41,065,000 would have been recognised in the six months ended 30 September 2005.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

| | As at 31 March 2005 (Originally stated) | Retrospective adjustments | | As at 31 March 2005 (Restated) | Adjustment on 1 April 2005 | As at 1 April 2005 (Restated) |
|---|---|---|---|---|---|---|
| | | HKAS 1 | HKAS 17 | | HKFRS 3 | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note 2)* | *(Note 2d)* | | *(Note 2a)* | |
| **Balance sheet items** | | | | | | |
| Intangible assets | 1,345,881 | – | – | 1,345,881 | – | 1,345,881 |
| Property, plant and equipment | 1,775,604 | – | (85,732) | 1,689,872 | – | 1,689,872 |
| Prepaid lease payments | – | – | 85,732 | 85,732 | – | 85,732 |
| Deferred tax assets | 1,058 | – | – | 1,058 | – | 1,058 |
| Pensions obligations | (19,061) | – | – | (19,061) | – | (19,061) |
| Deferred tax liabilities | (316,961) | – | – | (316,961) | – | (316,961) |
| Other assets and liabilities | 700,311 | – | – | 700,311 | – | 700,311 |
| Total effects on assets and liabilities | 3,486,832 | – | – | 3,486,832 | – | 3,486,832 |
| Minority interests | (2,060) | 2,060 | – | – | – | – |
| | 3,484,772 | 2,060 | – | 3,486,832 | – | 3,486,832 |
| Share capital | 3,092,774 | – | – | 3,092,774 | – | 3,092,774 |
| Accumulated profits | 99,440 | – | – | 99,440 | (15,559) | 83,881 |
| Share premium | 222,197 | – | – | 222,197 | – | 222,197 |
| Property revaluation reserve | 1,161 | – | – | 1,161 | – | 1,161 |
| Translation reserve | 84,759 | – | – | 84,759 | – | 84,759 |
| Goodwill reserve | (15,559) | – | – | (15,559) | 15,559 | – |
| Equity holders of the parent | 3,484,772 | – | – | 3,484,772 | – | 3,484,772 |
| Minority interests | – | 2,060 | – | 2,060 | – | 2,060 |
| Total effects on total equity | 3,484,772 | 2,060 | – | 3,486,832 | – | 3,486,832 |

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS1 | Capital Disclosures |
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 & HKFRS 4 (Amendments) | Financial Guarantee Contracts |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) – Int 4 | Determining whether an Arrangement Contains a Lease |
| HK(IFRIC) – Int 5 | Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC) – Int 6 | Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment |

## 4. TURNOVER AND REVENUES

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

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of newspapers | **355,304** | 325,909 |
| Sales of books and magazines | **155,448** | 155,958 |
| Newspapers advertising income | **730,959** | 569,797 |
| Books and magazines advertising income | **322,267** | 287,859 |
| Printing and reprographic service income | **109,538** | 89,115 |
| Internet content provision and advertising income | **14,558** | 11,586 |
| | **1,688,074** | 1,440,224 |
| Other income | | |
| Sales of waste materials | **9,400** | 9,575 |
| Gains arising from changes in fair value of derivative financial instruments | **453** | – |
| Interest income on bank deposits | **8,166** | 1,619 |
| Rental income | **810** | 923 |
| Others | **2,031** | 1,328 |
| | **20,860** | 13,445 |
| Total income | **1,708,934** | 1,453,669 |

## 5. SEGMENTAL INFORMATION

The Group's primary format for reporting segment information is business segments. The Group's major business segments and their corresponding regions of operations are summarised below:

| **Business segments** | **Regions of operations** |
|---|---|
| Newspapers publication and printing | Hong Kong and Taiwan |
| Books and magazines publication | Hong Kong and Taiwan |
| Books and magazines printing | Hong Kong, Taiwan, North America, Europe and Australasia |
| Internet content provision and advertising | Hong Kong |

All transactions between the different business segments are charged at market rates.

**Six months ended 30 September 2005**

| | Newspapers publication and printing *HK$'000* | Books and magazines publication *HK$'000* | Books and magazines printing *HK$'000* | Internet content provision and advertising *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| TURNOVER | | | | | | |
| External sales | **1,128,315** | **477,715** | **67,486** | **14,558** | **–** | **1,688,074** |
| Inter-segment sales | **–** | **–** | **99,418** | **–** | **(99,418)** | **–** |
| | **1,128,315** | **477,715** | **166,904** | **14,558** | **(99,418)** | **1,688,074** |
| RESULTS | | | | | | |
| Segment results | **126,314** | **100,127** | **24,595** | **5,874** | **–** | **256,910** |
| Other income | | | | | | **20,860** |
| Finance costs | | | | | | **(6,465)** |
| Profit before taxation | | | | | | **271,305** |
| Taxation | | | | | | **(47,078)** |
| Profit for the period | | | | | | **224,227** |

Six months ended 30 September 2004

| | Newspapers publication and printing *HK$'000* | Books and magazines publication *HK$'000* | Books and magazines printing *HK$'000* | Internet content provision and advertising *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| TURNOVER | | | | | | |
| External sales | 925,885 | 443,817 | 58,936 | 11,586 | – | 1,440,224 |
| Inter-segment sales | – | 54 | 87,539 | – | (87,593) | – |
| | 925,885 | 443,871 | 146,475 | 11,586 | (87,593) | 1,440,224 |
| RESULTS | | | | | | |
| Segment results | 17,451 | 77,036 | 22,010 | 5,486 | – | 121,983 |
| Other income | | | | | | 13,445 |
| Finance costs | | | | | | (2,850) |
| Profit before taxation | | | | | | 132,578 |
| Taxation | | | | | | (41,546) |
| Profit for the period | | | | | | 91,032 |

**Secondary reporting format – geographical segments**

| | Six months ended 30 September 2005 | | Six months ended 30 September 2004 | |
|---|---|---|---|---|
| | **Turnover** | **Segment results** | Turnover | Segment results |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Hong Kong | **1,022,614** | **238,841** | 978,087 | 217,958 |
| Taiwan | **608,678** | **(5,110)** | 414,010 | (115,869) |
| North America | **37,452** | **14,009** | 33,117 | 12,395 |
| Europe | **13,845** | **6,494** | 11,451 | 5,626 |
| Australasia | **4,961** | **2,420** | 3,559 | 1,873 |
| Others | **524** | **256** | – | – |
| | **1,688,074** | **256,910** | 1,440,224 | 121,983 |
| Other income | | **20,860** | | 13,445 |
| Finance costs | | **(6,465)** | | (2,850) |
| Profit before taxation | | **271,305** | | 132,578 |

## 6. FINANCE COSTS

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on bank borrowings wholly repayable within five years | **6,465** | 2,850 |

## 7. PROFIT BEFORE TAXATION

| | Six months ended 30 September | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | | (restated) |
| Profit before taxation has been arrived at after charging: | | |
| Cost of raw materials consumed in production | **653,421** | 534,897 |
| Allowance for bad and doubtful debts | **6,066** | 9,092 |
| Operating lease expenses on: | | |
| Properties | **2,975** | 3,050 |
| Other assets | **5,622** | 5,508 |
| Depreciation of property, plant and equipment | **72,956** | 71,151 |
| Amortisation of intangible assets (included in administrative expenses) | **–** | 45,770 |
| Amortisation of prepaid lease payments (included in administrative expenses) | **1,020** | 1,020 |
| Impairment loss recognised on prepaid lease payments | **9,678** | – |
| Loss on disposal of property, plant and equipment | **153** | – |
| and after crediting: | | |
| Gain on disposal of property, plant and equipment | **–** | 43 |

## 8. TAXATION

| | Six months ended 30 September 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| The charge (credit) comprises: | | |
| Current tax: | | |
| Hong Kong | **47,029** | 48,752 |
| Deferred tax: | | |
| Current period | **49** | (7,206) |
| | **47,078** | 41,546 |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

## 9. DIVIDENDS

Interim, special and preference share dividends declared and proposed after the balance sheet date of the interim period:

| | Six months ended 30 September 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Ordinary shares:** | | |
| Interim dividend for 2005/06 – HK5.0 cents per share (2004/05: Nil) | **74,295** | – |
| Special dividend – HK25.0 cents per share (2004/05: Nil) | **371,476** | – |
| **Preference shares:** | | |
| Preference share dividend – HK1.75 cents per share (2004/05: Nil) | **16,100** | – |
| | **461,871** | – |

The amount of the interim dividend declared for the six months ended 30 September 2005, which will be payable in cash, has been calculated by reference to the 1,485,903,781 issued ordinary shares as at 30 September 2005.

The amount of special dividend declared, which will be payable in cash, has been calculated by reference to the 1,485,903,781 issued ordinary shares as at 30 September 2005.

The amount of the preference share dividend proposed for the six months ended 30 September 2005, which will be payable in cash, has been calculated by reference to the 920,000,000 2% convertible non-voting non-cumulative preference shares as at 30 September 2005.

The dividends declared and proposed after the balance sheet date have not been recognised as a liability at the balance sheet date.

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

| | Six months ended 30 September 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| **Earnings:** | | |
| Earnings for the purposes of basic and diluted earnings per share | **224,227** | 91,032 |
| | ***No. of shares*** | *No. of shares* |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,484,386,500** | 1,480,405,853 |
| Share options | **4,767,324** | 6,293,333 |
| Convertible preference shares | **920,000,000** | 920,000,000 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **2,409,153,824** | 2,406,699,186 |

## 11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

| | 30 September 2005 HK$'000 | 31 March 2005 HK$'000 |
|---|---|---|
| Accounts receivable, net | **533,914** | 447,493 |
| Prepayments | **47,172** | 41,415 |
| Deposits for the acquisition of property, plant and equipment | **9,998** | 3,407 |
| Rental and other deposits | **22,518** | 15,930 |
| Others | **17,501** | 15,109 |
| | **631,103** | 523,354 |

The Group's sales are made on credit terms of 7 to 120 days.

An analysis of the accounts receivable of the Group by age was as follows:

| | 30 September 2005 HK$'000 | 31 March 2005 HK$'000 |
|---|---|---|
| 0 – 1 month | **233,806** | 193,642 |
| 1 – 3 months | **264,463** | 174,708 |
| Over 3 months | **79,169** | 120,309 |
| | **577,438** | 488,659 |
| Less: Allowance for bad and doubtful debts | **(43,524)** | (41,166) |
| | **533,914** | 447,493 |

## 12. ACCOUNTS PAYABLE AND ACCRUED CHARGES

| | 30 September 2005 HK$'000 | 31 March 2005 HK$'000 |
|---|---|---|
| Accounts payable | **130,990** | 114,932 |
| Accrued charges | **366,175** | 257,781 |
| | **497,165** | 372,713 |

An analysis of the accounts payable of the Group by age was as follows:

| | 30 September 2005 HK$'000 | 31 March 2005 HK$'000 |
|---|---|---|
| 0 – 1 month | **81,153** | 80,946 |
| 1 – 3 months | **31,409** | 23,036 |
| Over 3 months | **18,428** | 10,950 |
| | **130,990** | 114,932 |

# MANAGEMENT DISCUSSION & ANALYSIS

## FINANCIAL RESULTS

The Group achieved a total turnover of HK$1,688.1 million during the six months ended 30 September 2005. This represents a considerable increase of 17.2% compared with the figure of HK$1,440.2 million for the same period in 2004. Much of this is attributable to the encouraging improvement in circulation and advertising sales of *Taiwan Apple Daily* as well as the growth in the turnover of *Taiwan Next Magazine*. Meanwhile, the turnover of all the Group's Hong Kong publications remained stable.

The Group's earnings before interest, tax, depreciation, impairment and amortisation totalled HK$361.4 million, an increase of 42.6% over the figure of HK$253.4 million for the corresponding period in 2004. Basic earnings per share were HK15.1 cents, compared with HK6.1 cents for the same period last year.

The Group also recorded an unaudited consolidated profit of HK$224.2 million, a sizeable increase of 146.4% from the figure of HK$91.0 million for the same period in 2004. This was mainly the result of a reduction in the loss of *Taiwan Apple Daily*, as well as the greater profitability of *Taiwan Next Magazine*.

## BUSINESS REVIEW

### Newspapers Publication and Printing Division

Hong Kong's economy continued to improve during the period under review. The unemployment rate decreased and market sentiment strengthened. Consumer spending grew considerably, and this led to an increase in the advertising revenue of the Group's publications. Although the newspaper market became more competitive as the result of the launch of two free dailies, *Apple Daily* was able to maintain stable growth momentum.

Taiwan's economic outlook was positive. *Taiwan Apple Daily* benefited from this in terms of increased circulation income and advertising revenue. Despite a background of fierce competition within the newspaper market, *Taiwan Apple Daily* achieved the breakthrough of becoming the island's most widely read newspaper.

Turnover of the Newspapers Publication and Printing Division was mainly attributable to *Apply Daily* and *Taiwan Apple Daily*. During the period under review, the Division achieved an increase of 21.9% in its turnover, from HK$925.9 million to HK$1,128.3 million, and recorded a segment profit of HK$126.3 million, compared with a segment profit of HK$17.5 million for the same period last year. This substantial increase was mainly attributable to the improved results of *Taiwan Apple Daily*.

The average daily circulation of *Apple Daily* in the first six months of 2005 was 343,187 copies[1]. It enjoyed a market share of 26%, and an average daily readership of 1,327,000 people aged 12 and above[2].

The circulation of *Taiwan Apple Daily* continued to rise. Its average daily sales in the first half of 2005 were 531,434 copies[3], representing an increase of 79,938 copies or 17.7% from the figure of 451,496 for the first half of last year. *Taiwan Apple Daily's* readership grew to 2,637,000[4], compared with 1,848,000 for the same period of 2004, representing an increase of 42.7%. This put it neck-and-neck with *Liberty Times* as Taiwan's most widely read daily.

In addition, *Taiwan Apple Daily's* turnover grew remarkably, due to increases in both its advertising and circulation revenue. As a result, its overall operating loss narrowed substantially. The Group expects this positive trend to continue as a result of the newspaper's burgeoning advertising sales, and extra income generated from the raising of its cover price from NT$10 to NT$15 since 1 September 2005.

The Hong Kong newspaper printing business also expanded. Its turnover during the period under review rose by 10.1% to HK$199.9 million, compared with the figure of HK$181.5 million in the same period of 2004. This is resulted from additional orders received from a major external customer and an increase in the average number of content pages of *Apple Daily*. Its profitability also increased by 3.5% to HK$73.2 million over the figure of HK$70.7 million in the corresponding period last year.

### Books and Magazines Publication Division

The Books and Magazines Publication Division experienced an increase in its turnover, which rose to HK$477.7 million in the six months ended 30 September 2005, 7.6% higher than the figure of HK$443.9 million for the same period last year. This mainly stemmed from the increased turnover of *Sudden Weekly* and *Eat & Travel Weekly* (the "*Sudden Weekly Bundle*"), *Easy Finder* and *Eat & Travel Weekly* (the "*Easy Finder Bundle*") and *Taiwan Next Magazine*.

Both the turnover and profit of *Next Magazine* remained stable, and were comparable to the same period last year. During the period under review, *Next Magazine* generated HK$150.8 million in revenue. While the magazine's circulation declined slightly, to an average of 139,197 copies a week[1] in the six months ended 30 June 2005, it maintained its lead as Hong Kong's second most widely read weekly, enjoying an average weekly readership of 515,000[2] during the twelve months ended 30 June 2005.

The turnover of the *Sudden Weekly Bundle* continued to increase. The magazine generated HK$123.8 million in turnover during the six months ended 30 September 2005, 5.9% more than the HK$116.9 million in the same period of 2004. Although the *Sudden Weekly Bundle's* circulation and profit dipped slightly, it maintained its status as Hong Kong's most popular weekly, with an average circulation of 195,706 copies[1] and a readership of 563,000[2].

Mainly as a result of increased advertising revenue, the turnover of the *Easy Finder Bundle* grew moderately, whereas its profit increased drastically, compared with the corresponding period last year. This most popular infotainment weekly among Hong Kong youngsters generated HK$75.9 million in revenue in the six months ended 30 September 2005, representing an increase of 8.9% over the figure of HK$69.7 million for the same period last year. Its sales averaged 99,489 copies[1] and it had a readership of 294,000[2].

*Taiwan Next Magazine*'s turnover, profitability and readership all continued to grow. Its revenue for the six months up to 30 September 2005 amounted to HK$126.4 million, representing an increase of 16.3% over the figure of HK$108.7 million during the same period last year. It achieved average weekly sales of 142,087 copies[3] during the first half of 2005. It is also by far Taiwan's most widely read weekly magazine with a readership of 1,650,000[4].

**Books and Magazines Printing Division**

The Books and Magazines Printing Division continued to contribute to the Group's results. During the six months ended 30 September 2005, it achieved a turnover of HK$166.9 million before the elimination of inter-segment transactions of HK$99.4 million, which represented an increase of 13.9% over the figure of HK$146.5 million for the same period last year. The Division recorded HK$24.6 million in segment profit, representing a 11.8% increase over the figure of HK$22.0 million for the corresponding period in 2004. The Division enjoys a high reputation in the quality printing industry, and the Directors believe that it will continue to generate stable revenue and profit for the Group in the future.

**Internet Division**

The Internet Division's business remained stable. Its turnover increased during the period under review from HK$11.6 million to HK$14.6 million, and its segment profit increased slightly to HK$5.9 million, representing a 7.3% increase over the corresponding period last year.

## FUTURE PROSPECTS AND OUTLOOK

Although there are concerns about interest rate rises and the possibility of an outbreak of pandemic avian influenza, the outlook of Hong Kong's economy in the coming months is favourable, and the business environment is likely to be good. Unemployment is expected to relieve, while consumer spending is set to increase.

Likewise, Taiwan's overall economic climate is expected to remain positive, and the outlook for the media industry is encouraging. The Group intends to continue building its operations on the island.

The losses of *Taiwan Apple Daily* continue to narrow, and the newspaper recorded a profit in July 2005. As its turnover increases, the Group expects its profitability to improve further during the coming months; and it is on target to become an important profit centre in the future.

The entry of two more free dailies – *Headline Daily* and *am730* – into the Hong Kong free newspaper market during July 2005 is expected to have little impact on *Apple Daily*, since the presentation and target readership of both publications are different from those of *Apple Daily*. On the other hand, it remains to be seen what effect the decision by one daily newspaper to halve its cover price in October will have on developments in the market during the coming months.

Leveraging on the success of *Taiwan Next Magazine* and *Taiwan Apple Daily*, the Group is considering opportunities to expand its presence in Taiwan in the near future. This will pave the way for the Group to derive more of its profits from Taiwan in the coming years.

Sources:

1 Hong Kong Audit Bureau of Circulations Ltd.

2 2005 Nielsen Media Index: Hong Kong Report (July 2004 – June 2005)

3 The Audit Bureau of Circulations, ROC

4 ACNielsen (Taiwan) Limited

## LIQUIDITY AND FINANCIAL RESOURCES

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

The banking facilities include a HK$300.0 million syndicated loan facility from a syndicate of seven banks, arranged by Sumitomo Mitsui Banking Corporation and offered to and accepted by Apple Daily Limited. The outstanding loan balance as at 30 September 2005 amounted to HK$130.0 million. In view of the Group's strong cash flow and the trend of rising interest rates in the foreseeable future, the Group repaid the entire amount outstanding under the syndicated loan on 3 November 2005.

As at 30 September 2005, the Group had available banking facilities totalling HK$546.4 million, of which HK$441.0 million had been utilised. All bank borrowings bear interest at floating rates. There is no seasonality for borrowing requirements. The Group's bank borrowings were denominated in Hong Kong Dollars and New Taiwanese Dollars.

As at 30 September 2005, the Group had HK$1,157.5 million in bank balances and cash reserves. The current ratio as at 30 September 2005 was 294.3% compared to 295.8% as at 31 March 2005. As a result of the drawdown of the New Taiwanese Dollar term loan during the period under review, the gearing ratio of the Group as at 30 September 2005, calculated by dividing long-term liabilities including current portions by total asset value, increased to 8.8%, compared with the 4.9% as at 31 March 2005.

## ASSETS PLEDGED

As at 30 September 2005, the Group had pledged its properties and certain printing equipment in Hong Kong and Taiwan with an aggregate net book value of HK$1,225.8 million to various banks as security for bank loans and general banking facilities granted to the Group. Upon repayment of the outstanding syndicated loan facility for HK$130.0 million on 3 November 2005, properties and printing equipment with a net book value as at 30 September 2005 of HK$561.5 million that had previously been pledged to the banks were released from this pledge; thus, the aggregate net book value of assets pledged to various banks was reduced to HK$664.3 million.

## EXCHANGE EXPOSURE AND CAPITAL EXPENDITURE

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

The Group's strategy is to reduce its exchange rate exposure by arranging local currency bank loans. To this end, the Group arranged a 4-year term loan for NTD1.2 billion with local banks in Taiwan, and this loan was drawn down in two tranches: NTD500.0 million and NTD700.0 million in April and June 2005, respectively. The Group's net currency exposure as at 30 September 2005 was NTD4,622.5 million (equivalent to HK$1,080.5 million). The Group will closely monitor its overall currency exposure and, when considered appropriate, will further hedge against such exposure.

During the six months ended 30 September 2005, the Group's capital expenditure amounted to HK$19.2 million, including HK$6.9 million for its Taiwan operations. As at 30 September 2005, the capital expenditure committed for its operations amounted to HK$102.4 million, including HK$49.5 million for its Taiwan operations.

## SHARE CAPITAL STRUCTURE

During the period under review, 3,130,300 ordinary shares with a par value of HK$1.00 each were issued as a result of the exercise of certain share options at an exercise price of HK$1.67 per share.

As at 30 September 2005, the total issued share capital of the Company was HK$3,095,903,781 divided into 1,485,903,781 ordinary shares with a par value of HK$1.00 each and 920,000,000 preference shares with a par value of HK$1.75 each.

## CONTINGENT LIABILITIES

As at 30 September 2005, the Group had contingent liabilities in respect of a number of litigation proceedings in Hong Kong and Taiwan, arising from its publishing business. In addition, the Group had a dispute with UDL Contracting Limited-the contractor assigned for the construction of the printing facility of a subsidiary, Apple Daily Printing Limited, over amounts payable in respect of the construction of the printing facility in Tseung Kwan O, currently under arbitration. The final outcome of these proceedings is uncertain.

In connection with the acquisition of Database Gateway Limited in October 2001 (the "Acquisition"), Mr. Lai Chee Ying, Jimmy ("Mr. Lai") has undertaken to provide unlimited personal indemnities (the "Indemnity") to the Group against all payments, claims, suits, damages and settlement payments and associated costs and expenses in relation to certain legal proceedings (including the dispute with UDL Contracting Limited) involving the businesses acquired through the Acquisition. In relation to the Indemnity, Mr. Lai has procured a bank guarantee of HK$60.0 million in favour of the Group in respect of his obligations under the Indemnity. Having taken into consideration the advice of the Group's legal counsels and the Indemnity given by Mr. Lai, the Directors are of the opinion that any ultimate liability under these proceedings will not have a material impact on the financial position of the Group.

As at 30 September 2005, the Company had contingent liabilities in relation to corporate guarantees given by the Company to financial institutions for facilities utilised by certain of its subsidiaries amounting to HK$381.8 million. Following the repayment of the syndicated loan facility of HK$130.0 million on 3 November 2005, the Company was released from an equivalent amount of its guarantee. The total amount of guarantees given by the Company to financial institutions for facilities utilised by its subsidiaries was accordingly reduced to HK$251.8 million.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2005, the Group employed a total of 3,337 employees, of whom 1,814 employees were in Hong Kong, 1,516 employees were in Taiwan and 7 employees were in Canada. There are no material changes to the policies relating to employee remuneration, bonuses, share options schemes and staff development as disclosed in the 2004/05 annual report. Total staff costs for the six months ended 30 September 2005 amounted to HK$500.7 million (for the six months ended 30 September 2004: HK$457.2 million).

## DIVIDENDS

The Directors have declared an interim dividend of HK5.0 cents per ordinary share (2004/05: Nil) and a special dividend of HK25.0 cents per ordinary share (2004/05: Nil), amounting to HK$445.8 million. These are payable to shareholders whose names appear on the Register of Members of the Company on Friday, 6 January 2006.

## BOOK CLOSURE

The Register of Members of the Company will be closed from Wednesday, 4 January 2006 to Friday, 6 January 2006, both days inclusive, during which period no transfer of ordinary shares will be effected. All transfers of ordinary shares accompanied by relevant ordinary share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:00 p.m. on Tuesday, 3 January 2006 so as to qualify for the interim dividend and special dividend. Dividend warrants will be despatched on or around Thursday, 12 January 2006.

## AUDIT COMMITTEE

The Audit Committee, chaired by Mr. Yeh V-Nee, has reviewed with the management the Group's accounting principles and practices, internal controls and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30 September 2005. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited condensed consolidated financial statements in accordance with the Statement of Audited Standards No. 700 "Engagements to review interim financial reports" issued by HKICPA.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2005, the Company fully complied with the applicable provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except for the following deviations:

### Code provision A.2.1

Under code provision A.2.1, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.

Mr. Lai assumes the role as an Executive Chairman of the Group. The Company at present does not have any office with the title "Chief Executive Officer". Mr. Lai is responsible for formulating the Group's strategic directions and policies and overseeing its development. Each Executive Director of the Company is delegated with individual responsibilities to monitor the operations of certain business units and to implement strategies and policies. The Board considers the Board's present structure and its delegation of duties to Executive Directors work effectively, and do not impair the balance of power and authority.

### Code provision E.1.2

Under code provision E.1.2, the chairman of the board shall attend the Company's annual general meeting.

Mr. Lai was unable to attend the 2005 Annual General Meeting held on 29 July 2005 as he had another business engagement.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard of the Model Code throughout the period under review.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30 September 2005.

## PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The interim report for the six months ended 30 September 2005 containing all information required by Appendix 16 of the Listing Rules will be despatched to shareholders and published on the website of The Stock Exchange of Hong Kong Limited in due course.

## APPRECIATION

Taking this opportunity, the Board would like to thank all our staff for their dedication and hard working and our shareholders, business partners and customers for their trust and support over the past years.

By order of the Board
**Ting Ka Yu, Stephen**
*Director*

Hong Kong, 5 December 2005

*As at the date of this announcement, the Executive Directors of the Company are Mr. Lai Chee Ying, Jimmy, Mr. Ting Ka Yu, Stephen, Mr. Ip Yut Kin and Mr. Tung Chuen Cheuk and the Independent Non-executive Directors of the Company are Mr. Yeh V-Nee, Mr. Fok Kwong Hang, Terry and Dr. Kao Kuen, Charles.*

**Forward-looking statements**

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

Please also refer to the published version of this announcement in South China Morning Post.