CAPITAL PUBLICATIONS LIMITED
資本出版有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2002

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This report, for which the directors of Capital Publications Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INTERIM RESULTS

The board of directors (the "Directors") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and six months ended 30 June 2002, together with the unaudited comparative figures for the corresponding periods in 2001, as set out below:

CONSOLIDATED INCOME STATEMENT - UNAUDITED

		For the three months ended 30 June		For the six months ended 30 June	
		2002	2001	**2002**	2001
	Notes	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2	**1,349**	2,040	**2,963**	4,293
Printing and other production costs (other than staff costs)	3	**(350)**	(380)	**(709)**	(806)
Staff costs	3	**(1,319)**	(1,574)	**(2,710)**	(3,067)
Selling and distribution expenses	3	**(97)**	(112)	**(249)**	(259)
Other operating expenses	3	**(473)**	(469)	**(1,017)**	(1,134)
Loss before taxation	4	**(890)**	(495)	**(1,722)**	(973)
Taxation	5	**—**	—	**—**	—
Loss attributable to shareholders		**(890)**	(495)	**(1,722)**	(973)
Accumulated deficit, beginning of period		**(6,301)**	(1,829)	**(5,469)**	(1,351)
Dividend	6	**—**	—	**—**	—
Accumulated deficit, end of period		**(7,191)**	(2,324)	**(7,191)**	(2,324)
Basic loss per share	7	**HK(0.20) cent**	HK(0.11) cent	**HK(0.38) cent**	HK(0.21) cent

CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2002** ***HK$'000*** ***(Unaudited)***	As at 31 December 2001 *HK$'000* *(Audited)*
NON-CURRENT ASSETS			
Fixed assets		**248**	113
CURRENT ASSETS			
Prepayments and other receivables		**812**	14
Accounts receivable	8	**770**	1,664
Cash and bank deposits		**507**	—
Total current assets		**2,089**	1,678
CURRENT LIABILITIES			
Accounts payable	10	**(1,116)**	(2,198)
Receipts in advance		**(139)**	(145)
Other payables and accruals		**(720)**	(679)
Due to related companies	3	**(53)**	(4,238)
Loan from director	9	**(1,000)**	—
Total current liabilities		**(3,028)**	(7,260)
Net current liabilities		**(939)**	(5,582)
Net liabilities		**(691)**	(5,469)
Representing:			
SHARE CAPITAL	11	**4,559**	—
RESERVES	12	**(5,250)**	(5,469)
Shareholders' equity (deficit)		**(691)**	(5,469)

CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

	Notes	For the six months ended 30 June **2002** *HK$'000*	2001 *HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	13	**(6,837)**	—
INVESTING ACTIVITIES:			
Purchase of fixed assets		**(156)**	—
FINANCING:			
Issue of ordinary shares		**6,500**	—
Loan from director	9	**1,000**	—
Increase in cash and bank deposits		**507**	—
Cash and bank deposits, beginning of period		**—**	—
Cash and bank deposits, end of period		**507**	—

Notes:

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 July 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands. The Company's shares were listed on GEM of the Stock Exchange on 18 July 2002.

On 22 February 2002, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation scheme (the "Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation have been regarded as a continuing group. Details of the Reorganisation are set out in the prospectus of the Company dated 10 July 2002.

The unaudited consolidated results of the Group for the three months and six months ended 30 June 2001 and 2002 have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their exchange of shares pursuant to the Reorganisation. Accordingly, the unaudited results of the Group for the three months and six months ended 30 June 2001 and 2002 included that of the Group as if the current Group structure has in existence throughout the periods.

The unaudited consolidated financial statement for the three months and six months ended 30 June 2002 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The accounting policy adopted by the Group in preparing the unaudited consolidated results are consistent with those followed in the Accountants' Report as set out in the prospectus of the Company dated 10 July 2002.

The unaudited consolidated financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

2. TURNOVER AND REVENUE

An analysis of turnover and revenue in the unaudited consolidated income statement is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of magazines	**206**	302	**494**	639
Advertising income	**1,143**	1,738	**2,439**	3,565
Promotion and marketing income	**—**	—	**30**	89
Total turnover revenue	**1,349**	2,040	**2,963**	4,293

During the three months and six months ended 30 June 2002, the Group did not record any advertising revenue from barter transactions (2001: HK$38,800 and HK$71,200 respectively).

The Group is principally engaged in the publication and marketing of a monthly Chinese financial and economic magazine, namely "資本雜誌Capital" magazine, which caters for businessmen and professional readers in Hong Kong. Accordingly, the Directors considered there is only one business and geographical segment and no analysis of turnover and segmental assets and liabilities by geographical location is presented.

3. RELATED PARTY TRANSACTIONS

a. Up to 25 February 2002, the Company was owned by Tek Lee Finance And Investment Corporation Limited (a wholly-owned subsidiary of South China Holdings Limited). During the six months ended 30 June 2002 and 2001, the Group had transactions and shared common operating expenses with subsidiaries of South China Holdings Limited. Significant transactions with related parties are summarised below:

	For the six months ended 30 June	
	2002	2001
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Color separation and photo processing fees to Success Production Limited	**145**	137
Marketing service fees to South China Media Management Limited ("SCMML")	**42**	80
Administrative service fees to SCMML	**401**	278
Staff costs and personnel expenses to SCMML	**472**	3,067
Phototaking service fees to SCMML	**—**	60
Rental expenses in respect of office premises to Copthorne Holdings Corp. ("Copthorne")	**26**	—
Rental expenses in respect of office equipment to The Express News Limited	**—**	119
Agency arrangement fees to SCMML	**—**	6

All the above companies are subsidiaries or associates of South China Holdings Limited, the ultimate holding company of the Group up to 25 February 2002.

In the opinion of the Directors, the above related party transactions were conducted in accordance with the terms of the respective agreements.

b. Auditors' remuneration for the six months ended 30 June 2001 of approximately HK$7,500, was borne by SCMML and included in the administrative service fees.

c. Pursuant to an agency agreement dated 2 January 2000 signed between SCMML and the Group, all sales invoices to customers and purchase invoices from suppliers during the period from 1 January 2001 to 30 June 2002 were issued by or to SCMML, which acts as an agent of the Group. The Directors have indicated that the agency arrangement will be terminated upon listing of the Company's shares on GEM of the Stock Exchange.

d. During the period from 1 January 2001 to 7 February 2002, all of the employees of the Group were employed by SCMML and the related employment costs of approximately HK$3,067,000 and HK$472,000 for the period ended 30 June 2001 and 30 June 2002, respectively, were borne by the Group. All employees of the Group were employed by the Group effective 8 February 2002.

e. During the three months and six months ended 30 June 2001 and 30 June 2002, SCMML provided office premises to the Group and the allocated rental expense was included in the administrative service fees disclosed in Note 3.a above.

f. During the three months and six months ended 30 June 2001 and 30 June 2002, South China Media Limited and certain of its subsidiaries (the "South China Media Group") placed advertisements in the magazines published by the Group at no cost and vice versa.

g. Tek Lee Finance And Investment Corporation Limited, an intermediate holding company of the Group up to 25 February 2002, had undertaken to provide continuing financial support to the Group to enable the Group to meet its liabilities as they fall due. This undertaking was terminated on 25 February 2002 when the Group ceased to be owned by Tek Lee Finance And Investment Corporation Limited. Thereafter, Mr. Ng Hung Sang, Robert, a major shareholder of the Company, had undertaken to provide continuing financial support to the Group to enable the Group to meet its liabilities as they fall due during the period from 25 February 2002 to the date of the listing of the Company's shares on GEM of the Stock Exchange.

h. Pursuant to a tenancy agreement dated 29 May 2002 entered into between Capital Publishing Management Limited and Copthorne, a wholly owned subsidiary of Wah Shing International Holdings Limited which itself is a subsidiary of South China Holdings Limited, the Group leases the property at Unit A1, 6th Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong from Copthorne for the purpose of its business as the Group's principal place of business in Hong Kong. The tenancy agreement is for a term of 2 years commencing from 18 March 2002 at a monthly rental of HK$8,000 (exclusive of rates, management fees and utility charges) with 1 month rent free period for the first month of the tenancy.

4. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	For the three months ended 30 June		**For the six months ended 30 June**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
After charging -				
Staff cost (including directors' emoluments) *(see notes 3.a and 3.d)*	**1,319**	1,574	**2,710**	3,067
Operating lease rentals				
— Office premises	**23**	—	**26**	—
— Office equipment *(see note 3.a)*	**—**	61	**—**	119
Advertising expenses	**5**	5	**35**	13
Depreciation of fixed assets	**13**	—	**21**	—
Auditors' remuneration *(see note 3.b)*	**50**	—	**100**	—

5. TAXATION

No Hong Kong profits tax was provided for the six months ended 30 June 2002 as the Group had no assessable profit arising in or derived from Hong Kong (2001: Nil).

The tax effect of deferred tax assets not provided for is analysed as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
Tax losses	142	79	276	156

6. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2002 is based on the consolidated loss attributable to shareholders of approximately HK$890,000 and HK$1,722,000 respectively (2001: loss of HK$495,000 and HK$973,000 respectively) and on the weighted average number of approximately 455,850,344 shares (2001: 455,850,344 shares) deemed to be in issue throughout the periods. The weighted average number of 455,850,344 shares for the three months and six months ended 30 June 2002 and 2001 are determined on the assumption that the Reorganisation as described in Note 1 had been completed on 1 January 2001.

No diluted loss per share is presented as there were no dilutive potential ordinary shares in existence during the periods.

8. ACCOUNTS RECEIVABLE

The credit terms granted by the Group range from 30 to 90 days. The aging analysis of accounts receivable is as follows:

	As at 30 June 2002	As at 31 December 2001
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
0-30 days	**638**	905
31-60 days	**188**	257
61-90 days	**—**	207
91-180 days	**32**	333
181- 365 days	**35**	92
Over 365 days	**23**	16
	916	1,810
Less: Provision for bad and doubtful debts	**(146)**	(146)
	770	1,664

9. LOAN FROM DIRECTOR

	As at 30 June 2002	As at 31 December 2001
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Mr. Ng Hung Sang, Robert	**1,000**	—

10. ACCOUNTS PAYABLE

An aging analysis of accounts payable is set out below:

	As at 30 June 2002	As at 31 December 2001
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
0-30 days	**501**	1,474
31-60 days	**86**	410
61-90 days	**213**	29
91-180 days	**280**	91
181- 365 days	**36**	194
	1,116	2,198

11. MOVEMENT OF EQUITY

	Share capital	**Capital reserve**	**Accumulated deficit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Consolidated				
At 1 January 2001	—	—	(1,351)	(1,351)
Net loss attributable to shareholders	—	—	(973)	(973)
At 30 June 2001	—	—	(2,324)	(2,324)

	Share capital	**Capital reserve**	**Accumulated deficit**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Consolidated				
At 1 January 2002	—	—	(5,469)	(5,469)
Issue of shares	456	6,044	—	6,500
Issue of bonus shares	4,103	(4,103)	—	—
Net loss attributable to shareholders	—	—	(1,722)	(1,722)
At 30 June 2002	4,559	1,941	(7,191)	(691)

a. On 9 July 2001, the date of incorporation of the Company, its authorised share capital was HK$350,000, divided into 35,000,000 shares of HK$0.01 each, and one share was allotted and issued at par as nil paid.

b. On 17 January 2002, the authorised share capital of the Company was increased from HK$350,000 to HK$1,000,000,000 by the creation of 99,965,000,000 additional shares of HK$0.01 each.

c. On 30 January 2002, each of the issued and unissued shares of HK$0.01 each in the capital of the Company was subdivided into 10 shares of HK$0.001 each.

d. On 22 February 2002, 455,850,334 ordinary shares were issued at approximately HK$0.00243 per share and credited as fully paid in connection with the Reorganisation referred to in Note 1.

e. On 20 June 2002, pursuant to the resolutions of the Directors of the Company passed on 18 June 2002, 4,102,653,096 shares of HK$0.001 each of the Company were allotted and issued to the shareholders of the Company credited as fully paid at par, on the basis of 9 shares of HK$0.001 each of the Company for every share of HK$0.001 each of the Company held on 18 June 2002.

f. On 24 June 2002, pursuant to the resolutions passed by the shareholders of the Company on 24 June 2002, every 10 issued and unissued shares of HK$0.001 each in the capital of the Company were consolidated into 1 issued or unissued shares of HK$0.01 each.

As at 30 June 2001, share capital of the Group amounting to HK$2 represented the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

Share Capital

As at 30 June 2002	**Number of Shares**	**Nominal value**
	'000	*HK$'000*
Authorised — Ordinary shares of HK$0.01 each	100,000,000	1,000,000
Issued and fully paid	455,850	4,559

12. MOVEMENT OF RESERVES

Movements of reserves were:

	For the three months ended 30 June				
	2002				2001
	Share premium	**Capital reserve**	**Accumulated deficit**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
	(Unaudited)	***(Unaudited)***	***(Unaudited)***	***(Unaudited)***	*(Unaudited)*
Consolidated					
At 1 April	**—**	**6,044**	**(6,301)**	**(257)**	(1,829)
Transfer to bonus shares	**—**	**(4,103)**	**—**	**(4,103)**	—
Net loss attributable to shareholders	**—**	**—**	**(890)**	**(890)**	(495)
At 30 June	**—**	**1,941**	**(7,191)**	**(5,250)**	(2,324)

	Capital reserve	**Accumulated deficit**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
	(Unaudited)	***(Unaudited)***	***(Unaudited)***
Company			
At 1 April 2002	**652**	**—**	**652**
Transfer to bonus shares	**—**	**(4,103)**	**(4,103)**
Net profit attributable to shareholders	**—**	**5,500**	**5,500**
At 30 June 2002	**652**	**1,397**	**2,049**

	For the six months ended 30 June				
	2002				2001
	Share premium	**Capital reserve**	**Accumulated deficit**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
	(Unaudited)	***(Unaudited)***	***(Unaudited)***	***(Unaudited)***	*(Unaudited)*
Consolidated					
At 1 January	**—**	**—**	**(5,469)**	**(5,469)**	(1,351)
Issue of shares	**—**	**6,044**	**—**	**6,044**	—
Transfer to bonus shares	**—**	**(4,103)**	**—**	**(4,103)**	—
Net loss attributable to shareholders	**—**	**—**	**(1,722)**	**(1,722)**	(973)
At 30 June	**—**	**1,941**	**(7,191)**	**(5,250)**	(2,324)

	Capital reserve HK$'000 (Unaudited)	Accumulated deficit HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Company			
At 1 January 2002	—	—	—
Issue of shares	652	—	652
Transfer to bonus shares	—	(4,103)	(4,103)
Net profit attributable to shareholders	—	5,500	5,500
At 30 June 2002	652	1,397	2,049

13. NOTE TO CONSOLIDATED CASH FLOW STATEMENT - UNAUDITED

	For the six months ended 30 June 2002 HK$'000	2001 HK$'000
Loss attributable to shareholders	(1,722)	(973)
Depreciation of fixed assets	21	—
Decrease in accounts receivable	894	564
Decrease in due from related companies	—	3,622
Increase in prepayments & other receivables	(798)	—
Decrease in accounts payable	(1,082)	(103)
Increase in accruals and other payables	41	270
Decrease in receipts in advance	(6)	—
Decrease in due to related companies	(4,185)	(3,380)
Net cash outflow from operating activities	(6,837)	—

14. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2002, the following major transaction took place:

On 16 July 2002, 50,648,000 ordinary shares of HK$0.01 each were issued to the public at HK$0.30 per share through a placement, resulting in net proceeds of approximately HK$11,700,000 as a result of which the Group's shareholders' equity would increase by the same amount. In addition, the Company's shares were listed on GEM on 18 July 2002.

REVIEW

The first half of the year was an important period for the Group in terms of the positioning of "資本雜誌 Capital" magazine as an influential Chinese finance periodical in Hong Kong. In February 2002, the Group formed an advisory board consisting of successful persons in the finance/business society in Hong Kong, in the aim to further enhance the quality and content of "資本雜誌Capital" magazine, in order to serve the finance and business society in Hong Kong. The advisory board at the time consisted of six members, namely The Hon. Henry K.C. Wu, BBS, Mr. Tsui Sze Man, GBM, Mr. Allen Lee Peng Fei, JP, Mr. Chuang Shih Ping, GBM, Mr. Christopher Cheng, OBE, JP and Dr. The Hon. David K.P. Li, JP.

The Group also focused on the brand building aspects of the title, by increasing the exposure of the magazine at newsstands and to specific readers and recipients.

The weak economy lead to a decrease in advertising expenditure from the magazine's main branded-product advertisers, and for the six months ended 30 June 2002, turnover was down 31% as compared with same period last year to approximately HK$2,963,000 from approximately HK$4,293,000. During the same period, operating costs were also reduced by 11% to approximately HK$4,685,000 mainly due to salaries cut of approximately 5% in late 2001 and another 10% in early 2002. Loss attributable to shareholders was approximately HK$1,722,000, as compared to a loss of approximately HK$973,000 in the same period last year. Loss per share for the six-month period under review was approximately 0.38 HK cent. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

Compared on a quarter-to-quarter basis, turnover and operating costs for the three months ended 30 June 2002 were down 33.9% and 11.7% respectively from the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the Group had net current liabilities of approximately HK$939,000. (31 December 2001: net current liabilities of approximately HK$5,582,000).

During the year 2001, the Group's operation was mainly financed by its shareholders.

During the six months ended 30 June 2002, the Group's operation was mainly financed by the raising of additional equity funding of HK$6,500,000 in February 2002 and its shareholders.

Following the placement of shares on 16 July 2002 (the "New Issue"), the Directors expect to finance the Group's future operations from the net proceeds (approximately HK$11,700,000) of the New Issue and the Group's internally generated resources.

The Directors are of the opinion that, taking into account the internal financial resources of the Group and the net proceeds of the New Issue, the Group has sufficient working capital for its present requirements. To the extent that the Group's cash resources are not immediately required for its ongoing operating and development requirements, such amounts are placed on time deposit with banks in Hong Kong.

During the six months ended 30 June 2002, the Group had no material acquisitions, disposals and investment other than those set out in the Company's prospectus dated 10 July 2002 (the "Prospectus") (Appendix IV under "Reorganisation").

As at 30 June 2002, (i) the Group had no significant exposure to fluctuations in exchange rates, (ii) the Group did not have any loan arrangements with or obtained any credit facilities from any financial institutions, (iii) the Group did not have any charges on the Group's assets; and (iv) the Group did not have any contingent liabilities.

No gearing ratio (measured by bank borrowings net of cash and bank balance to shareholders' equity) is presented as the shareholders' equity of the Group is negative as at 30 June 2002.

SIGNIFICANT INVESTMENT

As at 30 June 2002 , the Group did not have any significant investment plans.

STAFF

Prior to 8 February 2002, all of the employees of the Group were employed by SCMML (note 3.d). As at 30 June 2002, the Group had 20 full-time employees with a total staff cost for the six months ended 30 June 2002 of approximately HK$2,238,000. The Group recognises the importance of training to its staff. The Group provides internal on-the-job training and external training by arranging its staff to attend relevant international conferences to enhance their knowledge.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

The Group provides its staff with a provident fund scheme in compliance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485, Laws of Hong Kong) and provides medical reimbursement to its full-time employees in Hong Kong.

Staff may be entitled to discretionary performance bonuses which are correlated to meeting individual business targets.

OUTLOOK

The second half of the year 2002 is marked by a significant milestone in the corporate history of the Group, when the Company was successfully listed on GEM of the Stock Exchange on 18 July 2002. Investor's response to the placement of shares was enthusiastic with approximately HK$15.2 million (net proceeds: approximately HK$11.7 million) was raised through the placement exercise.

The Group is positive about the second half of 2002 despite the generally weak economic environment. As of the present date, "資本雜誌Capital" magazine now has 9 members on its advisory board, with 3 new members joining in the second half of the year, including, Mr. K.B. Fung, Dr. Robin, Chan Yau Hing, GBS, LLD, JP, EOE, and Mr. John T.K. Hung, JP, SBS, further strengthening our editorial quality, and commitment to serve the finance and business society in Hong Kong. We remain committed to improving the quality of the magazine, in order to provide a communication platform for the banking, finance and trade industries in Hong Kong and the Greater China region.

We shall also focus on recruiting and strengthening our business teams, in order to develop other sources of revenue, and move towards profitability.

With the strong status and brand recognition of the magazine, as well as building up the brand of "資本雜誌Capital" magazine among members of the public, and expanding our readership, combined with the right focus on the revenue side and continue to work on the cost side, we are confident that the second half of 2002 shall have improvements at the operational level for "資本雜誌Capital" magazine.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As the shares of the Company were listed on GEM of the Stock Exchange on 18 July 2002, the information on directors' and chief executive's interests in shares were shown as if the shares were listed on 30 June 2002:

	Number of Ordinary Shares of the Company				
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Mr. Ng Hung Sang, Robert	17,886,800	—	318,132,403 *(Note)*	—	336,019,203

Note: The 318,132,403 shares referred to above include 92,966,000 shares held by Parkfield Holdings Limited ("Parkfield"), 99,012,563 shares held by Fung Shing Group Limited ("Fung Shing"), 4,166,400 shares held by Ronastar Investments Limited ("Ronastar") and 121,987,440 shares held by Earntrade Investments Limited ("Earntrade"), which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings Limited, respectively. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock Investment Limited ("Bannock") which is a wholly owned subsidiary of Earntrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

Save as disclosed above, as at 30 June 2002 none of the directors or their respective associates had any personal, family, corporate or other interests in the shares of the Company or its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

On 24 June 2002, the Company adopted a share option scheme (the "Scheme"), pursuant to which the board of directors of the Company or a duly authorised committee thereof (the "Board"), may, at their discretion, make offers to any full time or part time employee (including any executive and non-executive director) of the Group (the "Employees"), adviser, consultant, contractor, client or supplier who have contributed to the Group (collectively the "Participants"), to take up options to subscribe for shares in the Company in accordance with the provisions of the Scheme. The purpose of the Scheme is to recognise and motivate the contribution of the Employees and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The maximum number of shares which may be issued upon exercise of all options which may be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 50,649,834 shares, being 10% of the total issued shares of the Company (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme or any other share option schemes of the Company under which such options are granted, as the case may be, shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded. The maximum entitlement of each Participant under the Scheme in any 12-month period up to the date of grant to such participant is 1% of the shares of the Company for the time being in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten year from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The consideration payable for the option is HK$1.00. The full amount of the subscription price must be paid on exercise of the option. The subscription price of the option is determined by the Board which may be the higher of (i) the closing price of the shares on the Stock Exchange on the date of offer, which must be a trading day, (ii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the share.

The Scheme shall be valid for 10 years and shall expire on 23 June 2012.

The principal terms of the Scheme are summarised under the sub-section headed "Share Option Scheme" in Appendix IV to the Prospectus.

As at the date of this report, no option has been granted or agreed to be granted.

SUBSTANTIAL SHAREHOLDERS

As the shares of the Company were listed on GEM of the Stock Exchange on 18 July 2002, the following information on interests, being 10% or more of the issued share capital of the Company were shown as if the shares were listed on 30 June 2002:

Name	**Number of shares held**	**Approximate percentage of shareholding**
Mr. Ng Hung Sang, Robert	336,019,203 *(Note a)*	66.3%
Parkfield Holdings Limited	92,966,000 *(Note a)*	18.4%
Fung Shing Group Limited	99,012,563 *(Note a)*	19.6%
Earntrade Investments Limited	121,987,440 *(Note b)*	24.1%
Bannock Investment Limited	59,325,840 *(Note b)*	11.7%

Notes:

a. The 336,019,203 shares referred to above include 92,966,000 shares held by Parkfield, 99,012,563 shares held by Fung Shing, 4,166,400 shares held by Ronastar and 121,987,440 shares held by Earntrade, which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings Limited, respectively. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

b. Earntrade is the holding company of Bannock. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock.

Save as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 18 July 2002 (the date on which the shares of the Company were listed on GEM of the Stock Exchange).

SPONSOR'S INTEREST

As at 18 July 2002, neither MasterLink Securities (H.K.) Corp. Ltd. ("MasterLink"), nor its directors, employees or associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the sponsor agreement dated 10 July 2002 entered into between MasterLink and the Company, MasterLink has received and will receive fees for acting as the Company's sponsor for the period up to 31 December 2004 or until the termination of the sponsor agreement upon the terms and conditions as set out therein.

COMPETING INTEREST

The Interests of Initial Management Shareholders and directors of the Group, the South China Group and the Jessica Publications Group

Mr. Ng Hung Sang, Robert ("Mr. Ng"), the Chairman of the Company, is also the chairman of the South China Group and the Jessica Publications Group. As at 30 June 2002, Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interests in (i) 856,167,052 shares of South China Holdings Limited ("South China"), representing approximately 47.0% of the issued share capital of South China; and (ii) 214,031,763 shares of Jessica Publications Limited ("Jessica Publications"), representing approximately 49.6% of the issued share capital of the Jessica Publications. In addition, Mr. Ng together with Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges have beneficial interests in Earntrade, which directly and indirectly through Bannock holds (i) 487,949,760 shares of South China, representing approximately 26.8% of the issued share capital of South China; and (ii) 121,987,440 shares of Jessica Publications, representing approximately 24.1% of the issued share capital of the Jessica Publications. Ms. Cheung Choi Ngor, Christina, who was an ex-director of Capital Publishing Limited and Mr. Richard Howard Gorges are also directors of various members of the South China Group. Mr. Ng, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges are also interested in options in South China and certain members of the South China Group under their respective employee share option schemes.

Mr. Au Tze Sheung and Mr. Wong Po Ki (both are directors) are interested in options in respect of 1,600,000 and 480,000 shares in Jessica Publications respectively. Mr. Au Tze Sheung is interested in options in South China Brokerage Company Limited. Both Mr. Au Tze Sheung and Mr. Hui Ping were ex-employees of the South China Group. Mr. Wong Po Ki was an ex-employee and is currently a part time staff of the South China Group.

The existing businesses of the South China Group and details of competing business

The South China Group is presently and principally engaged in a range of diversified businesses including trading and manufacturing, securities and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services, information and technology related businesses, real estate investment and development, implementation and marketing of software applications, publishing and printing business, marketing and promotional services, sale of air tickets and provision of other related travel services.

The South China Media Group publishes a series of weekly and monthly magazines. The magazines that are published by the South China Media Group cover various topics including public affairs, entertainment, finance and business, parenthood, fashion, automobiles, and other lifestyle topics.

The Directors recognise that certain magazines published by the South China Media Group, whose readers include business and professional readers, may potentially indirectly compete with the publication business of the Group. Such magazines include "Express Weekly", "HIM" and "Esquire".

The existing businesses of the Jessica Publications Group and details of competing business

As mentioned, Mr. Ng, the chairman of the Company, is also the chairman of the South China Group and the Jessica Publications Group. The principal business activity of the Jessica Publications Group is the publication of two monthly Chinese language magazines for female readers, namely "Jessica" magazine and "Lisa" magazine. The magazines of the Jessica Publications Group are principally marketed in Hong Kong. The Directors believe that these magazines may potentially be in indirect competition with the Group's magazine, in terms of readers' reading time. As "Jessica" magazine and "Lisa" magazine are general-interest magazines targeted at female readers which is a different market segment in comparison with those of the " Capital" magazine, the Directors do not believe that these magazines will be in direct competition with the Group's magazine.

The management, sales team and editorial staff of the South China Media Group, the Jessica Publications Group and the Group

Except for those services including photofinishing and processing services, marketing services, support services, advertising services, hyperlink services and rental of property, the management, sales team and editorial staff of the three groups are independent.

Potential conflict of interests of the directors

If and when a common director of the Group and the South China Media Group and/or the Jessica Publications Group are approached by advertisers, the common director will notify the heads of sales for each magazine published by the Group and the South China Media Group and/or the Jessica Publications Group of such advertisers and pass along their contacts. The respective heads of sales of each magazine published by the Group, the South China Media Group and the Jessica Publications Group will then allocate each of those accounts to the appropriate individual sales staff of the relevant magazine, and this staff is responsible for servicing the potential client and will arrange individual meetings with such client to present the magazine he/she handles and magazine advertising proposals. It is then the advertiser's own decision to choose which magazine it will use for advertising for its products.

In case when a common director of the Group and/or the South China Media Group and/or the Jessica Publications Group is approached by publication business or magazine owner(s) who may wish to dispose of its/their interest in such business or magazine, the common director will inform each of the respective boards of directors of the Group and/or the South China Media Group and/or the Jessica Publications Group of such investment opportunity. The respective boards of directors of the Group and/or the South China Media Group and/or the Jessica Publications Group will then consider and decide whether to invest in such investment opportunity or not and, if so, give such owner(s) a general presentation of their respective groups and the terms and conditions each such group is willing to pay for such interest, and it is then the owner(s)' own decision to choose which group it will sell its interest to.

Mr. Ng, being the only common director of the Group, the South China Media Group and the Jessica Publications Group, has given an undertaking in favour of the Company that (for so long he is a director of any member of the Group, the South China Media Group and/or the Jessica Publications Group (as the case may be)) in the event he is approached by advertisers or publication business owner(s) or magazine owner(s) as aforesaid, he shall take appropriate action in accordance with the paragraphs set out above and will abstain from voting as a director of the Group, the South China Media Group and the Jessica Publications Group in relation to these matters.

Save as disclosed herein, none of the directors or chief executive of the Group, the initial management shareholders or the substantial shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may competes with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM of the Stock Exchange on 18 July 2002.

AUDIT COMMITTEE

The Company has established an audit committee on 25 February 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises two members, Mr. Law Cho Wa, Richard and Dr. Lo Wing Yan, William, JP, who are independent non-executive directors of the Company. The Group's unaudited results for the three months and six months ended 30 June 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's shares were listed on GEM on 18 July 2002 by way of placement. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares since that date.

On behalf of the Board
Ng Hung Sang, Robert
Chairman

Hong Kong Special Administrative Region of the People's Republic of China
9 August 2002