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CAPITAL

CAPITAL PUBLICATIONS LIMITED
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(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2002



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on **GEM** with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on **GEM** and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of **GEM** mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on **GEM**, there is a risk that securities traded on **GEM** may be more susceptible to high market volatility than securities traded on the **Main Board of the Stock Exchange** and no assurance is given that there will be a liquid market in the securities traded on **GEM**.

The principal means of information dissemination on **GEM** is publication on the internet website operated by the **Stock Exchange**. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the **GEM** website in order to obtain up-to-date information on **GEM**-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

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 the Growth Enterprise Market 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.

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BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang, Robert (*Co-Chairman*)
Mr. Fung Ka Pun (alias K.B. Fung) (*Co-Chairman*)
Mr. Au Tze Sheung (*Chief Executive Officer*)
Mr. Hui Ping
Mr. Wong Po Ki

Independent Non-executive Directors

Mr. Law Cho Wa, Richard
Dr. Lo Wing Yan, William, JP

COMPLIANCE OFFICER

Mr. Au Tze Sheung

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Toe Wai Hung *FHKSA, FCCA, CGA, ACIS, ACS*

AUTHORISED REPRESENTATIVES

Mr. Au Tze Sheung
Mr. Toe Wai Hung

AUDIT COMMITTEE

Mr. Law Cho Wa, Richard (*Committee Chairman*)
Dr. Lo Wing Yan, William, JP

LEGAL ADVISERS

As to Hong Kong Law
Preston Gates Ellis

As to Cayman Islands Law
Maples and Calder

AUDITORS

Deloitte Touche Tohmatsu

SPONSOR

MasterLink Securities (Hong Kong) Corporation Limited

PRINCIPAL BANKER

Standard Chartered Bank
Shop 16, Ground Floor & Lower Floor
New World Tower
Central
Hong Kong

REGISTERED OFFICE

The Offices of M & C Corporate Services Limited
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit A, 3rd Floor
Wah Shing Centre
5 Fung Yip Street
Chai Wan
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

8155

WEBSITE FOR THE GROUP'S MAGAZINE

www.capital-hk.com

I am pleased to report the activities of the Company and its subsidiaries (together "the Group") for the year ended 31st December, 2002.

BUSINESS REVIEW AND STRATEGY

This year marked a major milestone in our corporate history. The Group was listed on the GEM of the Stock Exchange on 18th July, 2002 and approximately HK\$15,200,000 (net proceeds: approximately HK\$11,989,000) was raised through the placement exercise. The listing has provided the Group with financial independence and a prominent corporate identity for future development.

During the year ended 31st December, 2002, the Group recorded a loss attributable to shareholders of approximately HK\$3,450,000 (2001: loss of approximately HK\$4,118,000). Turnover for the year was approximately HK\$6,977,000 (2001: approximately HK\$9,172,000). The liquidity of the Group at year-end was healthy with a no gearing capital structure. As at 31st December, 2002, cash balance was approximately HK\$9,677,000 and current ratio at 4.8 times.

Despite the decrease in turnover, the Group continues to invest in human resources, which is a key factor for future success. On 30th August, 2002, Mr. Fung Ka Pun (alias K.B. Fung) was appointed as Director and Executive Co-Chairman of the Company. Mr. Fung has extensive experience in finance, broking, securities trading and corporate finance areas. He is now actively involved in strengthening the editorial and business network of our magazine, in setting directions as well as arranging exclusive interviews with renowned persons to build up "資本雜誌 Capital" magazine's leading position in investigative reporting. The Group also invested in recruitment of new personnel, to strengthen both the editorial and sales and marketing teams, and bring in new ideas for business development.

PROSPECTS

The past year was a difficult year for the Group operating under a consolidating advertising market. We predict that the overall market will remain challenging in 2003 and there will be a flat to slight increase in advertising spending, as retailers have to continue advertising in order to move their products. We are confident that the strengthened management team will achieve new business development for the Group, and that the benefits of the improved editorial content and the various cost control measures implemented, will be reflected in the near future. Going forward, our focus will remain on cost control, exploring for new areas of revenue, and reinforcing the position of "資本雜誌 Capital" as the magazine for Greater China business.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated service.

Ng Hung Sang, Robert

Co-Chairman

Hong Kong Special Administrative Region of the People's Republic of China
13th March 2003

OPERATION REVIEW

For the year ended 31st December, 2002, the Group's turnover decreased by 23.9% to approximately HK\$6,977,000 as a result of a drop in advertising and circulation income. Loss attributable to shareholders decreased by 16.2% to approximately HK\$3,450,000. The reduced loss was largely from savings in operating and selling and distribution expenses. Loss per share was HK0.72 cents (2001: HK0.90 cents).

Advertising income continued to be the Group's major source of revenue accounting for 81.9% of total turnover (2001: 79.7%). The advertising market remained difficult during the year under review as most advertisers cut their advertising budgets in view of the sluggish local economy. Advertising income fell to approximately HK\$5,712,000 from approximately HK\$7,307,000 the previous year.

Direct operating expenses represented 80.1% of the turnover, an improvement from 93.2% the previous year due to lower printing cost. Administrative expenses increased by 55.2% to approximately HK\$3,809,000 due to the annual listing fees, sponsor fee and recurrent share registration expenses following the floatation of the Company in GEM of the Stock Exchange in July 2002.

As on-line publishing is becoming more popular, the Group launched its “資本雜誌 Capital” e-magazine in the www.now.com.hk website of PCCW IMS Limited in March 2002.

The magazine formed its advisory board inviting renowned businessmen and politicians, including 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, Dr. The Hon. David K.P. Li, JP, Dr. Robin Chan Yau Hing, GBS, LLD, JP, EOE, Mr. John T.K. Hung, JP, SBS and Mr. K.B. Fung. We have further strengthened our editorial by introducing new sections relevant to business persons in the region and invited influential persons as contributing writers/columnists.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group had net current assets of approximately HK\$9,003,000 (31st December, 2001: net current liabilities of approximately HK\$5,582,000).

Prior to the placement of shares on 16th July, 2002 (the “Placing”), the Group's operation was mainly financed by the raising of additional equity funding of HK\$6,500,000 in February 2002 and from its shareholders.

Following the Placing, the Board expects to finance the Group's future operations from the net proceeds (approximately HK\$11,989,000) of the Placing and the Group's internally generated resources.

The Board is of the opinion that, taking into account the internal financial resources of the Group and the net proceeds of the Placing, 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.

As at 31st December, 2002 (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; (iv) the Group did not made any material acquisitions, disposals and investment other than those set out in the prospectus of the Company dated 10th July, 2002 (the “Prospectus”) (Appendix IV under “Reorganisation”); and (v) the Group did not have any contingent liabilities.

As the Group had no bank borrowings, no gearing ratio (measured by bank borrowings net of cash and bank balance to shareholders' equity) is presented at 31st December, 2002.

SIGNIFICANT INVESTMENT

As at 31st December, 2002, the Group did not have any significant investment plans.

EMPLOYEES

As at 31st December, 2002, the total number of employees of the Group was 20 (31st December, 2001: 21). Employees' cost (including directors' emoluments) amounted to approximately HK\$5,762,000 for the year (2001: approximately HK\$6,977,000).

The Group considers its employees are its most valuable asset. In addition to salary, other fringe benefits such as medical subsidies, life insurance and provident fund are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. An employee share option scheme was adopted by the Company on 24th June, 2002 and became effective on 18th July, 2002.

PROSPECTS

We understand that competition nowadays is not just on pricing and services but also on branding. “資本雜誌 Capital” magazine with its well-establishing title and 15 years' history of publications will continue to build on its strengths. The Group will continue to enhance the content of its magazine to increase circulation and advertising income, to develop customized marketing programs, promotions and sponsorships based on the “資本雜誌 Capital” title and platform, to extend into other Chinese speaking markets and to identify new business opportunities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress of the Group in comparison with the business objectives set out in the Prospectus:

Business objectives for the period from 5th July, 2002 to 31st December, 2002 as stated in the Prospectus

Actual Business Progress

Strengthen contents of the Group's magazines and enhance circulation income

Continue to enhance existing content through strengthening of the Group's editorial team by internal training of its staff to enhance their knowledge in business trends and the economy

Launched a regular English section in the magazine with slogan "The Magazine for Greater China Business"

Regular weekly meetings held by senior management for its staff members to brief them on current market trends and development and discussions on hot topics

Strengthen the editorial advisory board by inviting more successful persons in the finance/business society in Hong Kong to join to keep abreast of readers' interests and needs as well as market trend

Dr. Robin, Chan Yau Hing, GBS, LLD, JP, EOE, Mr. John T. K. Hung, JP, SBS, and Mr. K.B. Fung joined the advisory board in August 2002

Introduce columns on the month's IPOs, and various chamber of commerce activities to support leading business and business sector communication with the public

Broaden subscription base through telemarketing and subscription campaigns

A direct marketing agent was appointed in October 2002 to promote the subscription of "資本雜誌 Capital" magazine via various marketing campaigns including counter sales, road show, assemble combo-packages, tele-sales, credit card joint ventures, promotions, etc.

Increase advertising & event-marketing income

Continue to expand advertising customer base and widen the range of advertising product categories by holding joint events with advertisers

An award presentation was held on 4th November, 2002 for the winners of the "3rd Outstanding Information Technology and Financial Enterprise Awards"

Develop other sources of revenue based on the existing "資本雜誌 Capital" title and platform

Publish and market stand-alone booklets on financial and business-related issues

Due to the depressed market conditions, the Group has postponed the publishing of stand-alone booklets to 2003/2004

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Increase sales and promotional efforts

Hold promotion campaigns by advertising in printed, television and other media to enhance the image of the Group

The Group has bartered advertising air-time with Metro Broadcasting Radio Station

Hold events/seminars to fortify positioning of “資本雜誌 Capital” magazine

The Group has planned events and seminars in 2003

Extend into other Chinese-speaking markets

Study the feasibility of developing the Group's business in the Greater China region, in particular the PRC and start to seek for potential partners

The Group will continue the feasibility study and seek potential partners in PRC. No specific target has been identified up to now

Develop its marketing and support services team

There was no business objective planned for this period

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are approximately HK\$11,989,000.

Comparison of the use of proceeds as stated in the Prospectus with actual application

	Total budgeted amount	From date of listing to 31st December, 2002 Budgeted amount	As at 31st December, 2002 Actual amount used
	HK\$'000	HK\$'000	HK\$'000
1 Recruiting, employment and training of staff	4,500	250	—
2 Promotion of magazine of the Group in Beijing, Shanghai and Guangzhou	2,000	—	—
3 Promotion of “資本雜誌 Capital” magazine to readers and advertisers	1,000	—	—
4 Publication of financial special issues and stand-alone periodicals or books	2,000	290	—
5 Repayment of loan from a major shareholder of the Company, Mr. Ng Hung Sang, Robert	1,000	1,000	1,000
6 General working capital	1,200	600	600

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, Robert, aged 53, is the Co-Chairman of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also the Chairman of South China Holdings Limited ("South China Holdings"), South China Brokerage Company Limited, South China Industries Limited, Wah Shing International Holdings Limited and Jessica Publications Limited ("Jessica"). He holds a Master's degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He has extensive experience in the media industry. Mr. Ng was appointed as a Director of the Company on 28th January, 2002.

Mr. Fung Ka Pun (alias K.B. Fung), aged 57, is the Executive Co-Chairman of E2-Capital (Holdings) Limited, a company listed on the Stock Exchange. Mr. Fung is the Founder and Chairman of Goodwill International (Holdings) Limited, a substantial shareholder of E2-Capital (Holdings) Limited. He has over 27 years of experience in finance, broking, securities trading and corporate finance. Mr. Fung is a member of the Association of International Accountants and The Institute of Chartered Secretaries and Administrators. He was appointed as Director and Executive Co-Chairman of the Company on 30th August, 2002.

Mr. Au Tze Sheung, aged 53, was appointed as a Director of the Company on 28th January, 2002 and as the Chief Executive Officer of the Group on 10th April, 2002. He is also the Compliance Officer and one of the Authorised Representatives of the Company. Mr. Au is responsible for the strategic planning and overall operation of the Group. Mr. Au is a fellow member of the Hong Kong Society of Accountants. Mr. Au joined the South China Media Group in May 2001 and was involved in the management and operations of its magazine publication business which included, amongst other things, the "資本雜誌 Capital" magazine at that time. Prior to joining the South China Media Group, Mr. Au worked for Hong Kong Securities Clearing Company Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited, and his last position was Senior Vice President of Finance, Treasury and Administrative Functional Unit.

Mr. Hui Ping, aged 52, was appointed as a Director of the Company on 28th January, 2002 and as Editorial Director of the Group on 20th March, 2002. Mr. Hui holds a Master's degree in International Studies from the Griffith University in Australia. He has extensive experience in the media industry. Since November 1999, Mr. Hui worked for the South China Media Group as Deputy Chief Editor and Quality Controller of its magazine publication business, which included, amongst other things, the "資本雜誌 Capital" magazine where his responsibilities included giving editorial direction and management of the editorial teams.

Mr. Wong Po Ki, aged 42, was appointed as a Director of the Company on 28th January, 2002. Mr. Wong is responsible for the planning, direction and management of IT and on-line services of the Group. Mr. Wong holds a Master's degree in Engineering from the University of Hong Kong, Master's degree in Computer Science from the University of New South Wales in Australia and Graduate Diploma in e-Commerce from the University of Hong Kong. Mr. Wong is a member of Institution of Electrical Engineers and member of Australian Computer Society. Mr. Wong joined the South China Media Group in February 2001 and was involved in the management of IT and on-line services of the South China Media Group which comprised, amongst other things, the "資本雜誌 Capital" magazine at that time.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Law Cho Wa, Richard, aged 37, is the Company Secretary and Group Accounting Manager of Hong Kong Ferry (Holdings) Company Limited, a company listed on the Stock Exchange and in which he has served over 10 years. Mr. Law has extensive experience in accounting, auditing, financial reporting, company secretarial practice, corporate advisory services and general management. He holds a Master's degree in Business Administration from the University of Hong Kong and a Post-graduate Diploma in Corporate Administration from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Society of Accountants, The Hong Kong Institute of Company Secretaries, The Association of Chartered Certified Accountants, and The Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Directors. Mr. Law was appointed as an independent non-executive Director of the Company on 5th June, 2002.

Dr. Lo Wing Yan, William, JP, aged 42, is the Executive Director and Vice-president of China Unicom Ltd. He is also the Non-executive Chairman of WPP Greater China. Dr. Lo is a member of the GEM Listing Committee. He is also a Board Member of the Hong Kong Applied Science and Technology Research Institute as well as the Hong Kong Jockey Club Institute of Chinese Medicine Ltd. Dr. Lo is a Council Member of the Open University of Hong Kong. He is a non-executive director of a number of listed companies in Hong Kong including Softbank Investment International (Strategic) Limited and Panorama International Holdings Limited. Dr. Lo was the Chief Executive Officer of Citibank's Global Consumer Banking Business for Hong Kong, Macau from 1998 to 1999. Prior to his appointment at Citibank, Dr. Lo was the founding Managing Director of Hongkong Telecom IMS Ltd. Dr. Lo holds a M.Phil. in Molecular Pharmacology and a Ph.D. in Genetic Engineering, both from Cambridge University. He was a Commonwealth Scholar, a Croucher Foundation Fellow (H.K.), and a Bye-Fellow of Downing College, Cambridge. In 1996, Dr. Lo was selected as a "Global Leader for Tomorrow" by World Economic Forum. In 1998, Dr. Lo was appointed as a Justice of the Peace (JP) of Hong Kong. Dr. Lo was appointed as an independent non-executive Director of the Company on 25th February, 2002.

SENIOR MANAGEMENT

Mr. Toe Wai Hung, aged 45, is the Chief Financial Officer and Company Secretary of the Group. He is also the Qualified Accountant and one of the Authorised Representatives of the Company. Mr. Toe has extensive experience in Hong Kong and Canada covering a wide spectrum of industries in areas including general management, corporate controllership and mergers and acquisitions. Mr. Toe joined the Group in February 2002. Mr. Toe is a fellow member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants. He is also a member of the Certified General Accountants Association of Canada, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

Mr. Lam Chun Wai, aged 39, is the Associate Managing Editor of the "資本雜誌 Capital" magazine. Mr. Lam joined the Group on 24th April, 2002 and is responsible for editing and reporting of the "資本雜誌 Capital" magazine. He graduated with a Bachelor's degree of Arts from Tamkang University in Taiwan and has about 7 years of experience in the media industry.

DIRECTORS' REPORT

The Directors present their first annual report together with the audited financial statements of the Company for the period from 9th July, 2001 (date of incorporation) to 31st December, 2002 and of the Group for the year ended 31st December, 2002.

CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Laws (2001 Second Revision) of the Cayman Islands on 9th July, 2001.

Pursuant to a group reorganisation scheme (the "Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 22nd February, 2002.

Details of the Reorganisation were set out in the Prospectus.

The shares of the Company were listed on GEM with effect from 18th July, 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 21 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2002 (2001: nil).

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for the last four financial years/period is set out below:

Results

	For the year ended 31st December,			For the period from
	2002	2001	2000	19th May, 1999
	HK\$'000	HK\$'000	HK\$'000	to 31st December, 1999
				HK\$'000
Turnover	6,977	9,172	10,858	5,746
Direct operating expenses	(5,591)	(8,545)	(7,025)	(3,119)
Other operating income	179	—	—	—
Selling and distribution costs	(1,206)	(2,290)	(1,927)	(1,077)
Administrative expenses	(3,809)	(2,455)	(3,136)	(1,671)
Loss for the year/period	(3,450)	(4,118)	(1,230)	(121)
Loss attributable to shareholders	(3,450)	(4,118)	(1,230)	(121)

A summary of the assets and liabilities of the Group for the last four financial years/period is set out below:

Assets and liabilities

	As at 31st December,			
	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	567	113	—	—
Current assets	11,401	1,678	7,044	5,351
Current liabilities	(2,398)	(7,260)	(8,395)	(5,472)
Net current assets (liabilities)	9,003	(5,582)	(1,351)	(121)
Net assets (liabilities)	9,570	(5,469)	(1,351)	(121)

Note: The Company became the holding company of the companies comprising the Group on 22nd February, 2002 and its shares were listed on the GEM on 18th July, 2002. Further details of the Reorganisation are set out in Note 1 to the accompanying consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 14 to the financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the share premium and reserves of the Group and the Company during the year are set out in note 15 to the financial statements.

DIRECTORS

The Directors of the Company since incorporation and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang, Robert (<i>Co-Chairman</i>)	(appointed on 28th January, 2002)
Mr. Fung Ka Pun (<i>Co-Chairman</i>)	(appointed on 30th August, 2002)
Mr. Au Tze Sheung (<i>Chief Executive Officer</i>)	(appointed on 28th January, 2002)
Mr. Hui Ping	(appointed on 28th January, 2002)
Mr. Wong Po Ki	(appointed on 28th January, 2002)
Mr. To Fai	(appointed on 28th January, 2002 and resigned on 10th April, 2002)
Mr. Yuen Kam Tim, Francis	(appointed on 9th July, 2001 and resigned on 28th January, 2002)

Independent Non-executive Directors:

Dr. Lo Wing Yan, William, JP	(appointed on 25th February, 2002)
Mr. Law Cho Wa, Richard	(appointed on 5th June, 2002)
Mr. Cheng Sai Kei, Johnnie	(appointed on 25th February, 2002 and resigned on 5th June, 2002)

In accordance with Article 99 of the Articles of Association of the Company, all remaining Directors of the Company will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of one year commencing from 28th January, 2002 (for Mr. Ng Hung Sang, Robert, Mr. Au Tze Sheung, Mr. Hui Ping and Mr. Wong Po Ki) and from 30th August, 2002 (for Mr. Fung Ka Pun), which continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. In addition, Mr. Au Tze Sheung and Mr. Hui Ping are required to work full time for the Company.

Each non-executive Director is appointed for an initial term of two years commencing from his date of appointment which will thereafter be subject to retirement by rotation at the annual general meeting according to the Articles of Association of the Company.

None of the Directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31st December, 2002, the interests of the Directors and the Chief Executive of the Company and their respective associates in equity securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were as follows:

Name of Directors	Number of Ordinary Shares Held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Ng Hung Sang, Robert	17,886,800	—	318,132,403 (Note)	—	336,019,203
Mr. Fung Ka Pun	6,000,000	—	—	—	6,000,000

Note: The 318,132,403 shares referred to above included 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 Earnttrade Investments Limited ("Earnttrade"). Earnttrade 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, respectively. The 121,987,440 shares referred to above included the 59,325,840 shares held by Bannock Investment Limited ("Bannock") which is a wholly owned subsidiary of Earnttrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

Save as disclosed above and the interests of the Directors in the share options of the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, none of the Directors or Chief Executive of the Company nor their respective associates had, as at 31st December, 2002, any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 24th June, 2002 and became effective on 18th July, 2002. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) Summary of the Scheme

1. Purpose of the Scheme

The purpose of the Scheme is to recognise and motivate the contribution of the Employees (as defined in sub-section headed "Participants of the Scheme" below) 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.

2. Participants of the Scheme

The board of directors of the Company or a duly authorised committee thereof (the "Board"), may, at its discretion, makes offers to any full time or part time employee (including any executive and non-executive director or proposed 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 of HK\$0.01 each in the share capital of the Company ("Shares") in accordance with the provisions of the Scheme.

3. Total number of Shares available for issue under the Scheme

Pursuant to the letter issued by the Stock Exchange on 8th July, 2002, the total number of Shares available for issue under options which may be granted under the Scheme is 50,649,834 Shares, being 10% of the issued share capital at the date of completion of the Placing.

As at 31st December, 2002, 5,064,983 Shares were issuable pursuant to share options granted under the Scheme. In addition, up to 31st December, 2002, no options were exercised by the grantee pursuant to the Scheme.

As at 31st December, 2002, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 45,584,851, representing approximately 9% of the issued share capital of the Company as at 13th March 2003.

4. Maximum entitlement of each participant

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12 months period up to the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the GEM Listing Rules) abstaining from voting.

SHARE OPTION SCHEME *(continued)***(i) Summary of the Scheme** *(continued)*

5. Period within which the Shares must be taken up under an option

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 years 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.

6. Minimum period, if any, for which an option must be held before it can be exercised

At the time of granting an option, the Board may, at its discretion, specify the minimum period(s), if any, for which an option must be held before it can be exercised.

7. Amount payable upon acceptance of the option and the period within which the payment must be made

HK\$1.00 shall be paid within 5 business days from the date of offer of the option.

8. Basis of determining the exercise price of the option

The exercise price for Shares under the Scheme shall be a price determined by the Board, but in any case will not be less than the higher of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a trading day;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer; or
- (c) the nominal value of a Share.

9. Remaining life of the Scheme

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme becomes effective, i.e. 18th July, 2002 and ending on 17th July, 2012.

Details of the principal terms of the Scheme are summarised under the sub-section heading "SHARE OPTION SCHEME" in Appendix IV to the Prospectus.

SHARE OPTION SCHEME (continued)

(ii) Details of options granted

Particulars and movements during the period from 18th July, 2002 to 31st December, 2002 of the outstanding share options granted under the Scheme were as follows:

Name or category of participant	Number of share options					As at 31/12/2002	Price of the Company's shares				
	As at 18/7/2002	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period		Date of grant of share options (Note a)	Exercise period of share options	Price of the Company's shares		
									Initial exercise price per share (Note b)	Immediately preceding the grant date of share options (Note c)	Immediately preceding the date of exercise of share options
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$			
Director Mr. Fung Ka Pun	—	5,064,983	—	—	—	5,064,983	27/8/2002	27/8/2003 - 17/7/2012	0.27	0.25	N/A
Total	—	5,064,983	—	—	—	5,064,983					

Notes:

- (a) The vesting period of the share options is the period from the date of grant until the commencement of the exercise period. All share options referred to above are subject to one year's vesting period. The share options may be exercised, in whole or in part, in the following manner:

From the date of grant of share options

Exercisable Percentage

Within 12 months	Nil
13th - 24th months	33 1/3%
25th - 36th months	33 1/3%
37th - 48th months	33 1/3%

- (b) The exercise price is subject to adjustment. Provided always that any part of the share options not exercised in full in accordance with the periods specified above shall remain exercisable during the exercise period of share options but the exercise price shall be adjusted by increasing 5% per annum (on a cumulative basis) until such time as the relevant portion of the share options shall have been fully exercised or lapsed in accordance with the Scheme.
- (c) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (d) Total consideration received during the year from the grantee for taking up the options granted is HK\$1 (2001: Nil).

SHARE OPTION SCHEME (continued)

The Directors have obtained the following theoretical valuations of the share options granted during the year, calculated using the Black-Scholes option pricing model (the "Model") as at the date of the grant of the share options:

Grantee	Number of share options granted on 27/8/2002	Theoretical value of share options granted on 27/8/2002 (Note a) HK\$
Mr. Fung Ka Pun	<u>5,064,983</u>	<u>816,086</u>
Total	<u><u>5,064,983</u></u>	<u><u>816,086</u></u>

Notes:

- (a) The total theoretical value of the options was estimated at HK\$816,086 as at 27th August, 2002 with the following variables and assumption:

Variables

Risk Free Rate	:	5%;
Expected Volatility	:	49%;
Expected Dividend	:	nil because no historical dividends have been recorded;
Expected Life of the options	:	9.9 years.

Assumption

There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the Shares over the period from 18th July, 2002 to 27th August, 2002.

- (b) All the options forfeited before expiry of the options will be treated as lapsed options which will be added back to the number of shares available to be issued under the Scheme.
- (c) No accounting change has been recognised in the financial statements in respect of the value of options granted during the period.
- (d) The Model is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. In the Directors' opinion, the Model does not necessarily provide a reliable single measure of the fair value of the share options.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the "SHARE OPTION SCHEME" above, during the year ended 31st December, 2002, neither the Company nor any of its subsidiaries issued or granted any convertible securities, options, warrants or similar rights and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in "SHARE OPTION SCHEME" above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or the Chief Executive, or any of their spouses or children under the age of 18, was granted any rights to subscribe for equity or debt securities of the Company, nor had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section heading "CONNECTED TRANSACTIONS" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisted during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholders	Number of ordinary shares held	Approximate percentage of issued share capital	Note
Mr. Ng Hung Sang, Robert	336,019,203	66.3%	(a)
Parkfield	92,966,000	18.4%	(a)
Fung Shing	99,012,563	19.5%	(a)
Eartrade	121,987,440	24.1%	(b)
Bannock	59,325,840	11.7%	(b)

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 Eartrade, 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, respectively. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.
- (b) Eartrade 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 31st December, 2002.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, other than those disclosed under the sections heading "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES" and "SUBSTANTIAL SHAREHOLDERS" above, there is no other person who is directly or indirectly interested in 5% or more of the share capital of the Company issued and who is able, as a practical matter, to direct or influence the management of the Company.

CONNECTED TRANSACTIONS

Details of the transactions with companies controlled by, or affiliated, with, South China Holdings are set out in note 16 to the financial statements. A Director, Mr. Ng Hung Sang, Robert is a Director and substantial shareholder of South China Holdings. Save as disclosed therein, there were no other transactions to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, Robert, Co-Chairman and management shareholder of the Company, is also Chairman of South China Holdings and Jessica. Mr. Ng Hung Sang, Robert, personally and through Parkfield, Fung Shing and Ronastar, has interest in South China Holdings and Jessica. Mr. Ng Hung Sang, Robert together with Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, management shareholders of the Company, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in South China Holdings and Jessica. Ms. Cheung Choi Ngor, Christina, who was an ex-director of Capital Publishing Limited, a wholly owned subsidiary of the Company and Mr. Richard Howard Gorges, are also directors of various members of South China Group. As Jessica and certain members of South China Media Limited, a subsidiary of South China Holdings, are principally engaged in magazine publication, Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges are regarded to be interested in such competing businesses of the Group. Likewise, Mr. Au Tze Sheung and Mr. Wong Po Ki, Directors of the Company are interested in options in Jessica. Mr. Au Tze Sheung and Mr. Hui Ping, Directors of the Company, were ex-employees of the South China Group. Mr. Wong Po Ki was an ex-employee and is currently a part time staff of South China Group.

Save as disclosed above, none of the Directors or the management shareholders of the Company or their respective associates have any interest in any business, which competes or may compete with the business of the Group.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Other than the contracts as disclosed in the section heading "DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE", there was no contract of significance between the Company or its subsidiaries and a controlling shareholder or any of its subsidiaries subsisting during or at the end of the year. Furthermore, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

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 18th July, 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in Note 19 to the financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31st December, 2002, the five largest customers of the Group accounted for less than 30% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 99.7% of the Group's total purchases. In addition, the largest supplier accounted for approximately 81.3% of the Group's total purchases. Success Production Limited, a member of South China Holdings, is one of the top five suppliers.

The management shareholders of the Company, including Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronastar, Ms. Cheung Choi Ngor, Christina, Mr. Richard Howard Gorges, Earntrade and Bannock, hold interests in South China Holdings.

Save as disclosed above, none of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers as at 31st December, 2002.

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. 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.

During the year, the audit committee held two meetings to review and comment on the Company's half-yearly report and third quarterly report as well as the Company's internal control procedures.

The Group's audited results for the year ended 31st December, 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.

SPONSOR'S INTERESTS

As at 31st December, 2002, MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have 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 agreement dated 10th July, 2002 entered into between the Company and MasterLink, MasterLink has received and will receive fees for acting as the Company's sponsor for the period from 18th July, 2002 to 31st December, 2004 or until the termination of the agreement upon the terms and conditions as set out therein.

AUDITORS

Arthur Andersen & Co act as auditors of the Company from date of incorporation and upon the merging of practices of Arthur Andersen & Co with PricewaterhouseCoopers, the latter were appointed auditors of the Company until their resignation in November 2002 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill the casual vacancy.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ng Hung Sang, Robert

Co-Chairman

Hong Kong Special Administrative Region of the People's Republic of China
13th March, 2003

德勤 • 關黃陳方會計師行

Certified Public Accountants
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永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF CAPITAL PUBLICATIONS LIMITED **資本出版有限公司**

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 13th March, 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	4	6,977	9,172
Direct operating expenses		(5,591)	(8,545)
Other operating income	5	179	—
Selling and distribution costs		(1,206)	(2,290)
Administrative expenses		(3,809)	(2,455)
Net loss for the year	6	(3,450)	(4,118)
Loss per share	9	HK\$(0.72) cents	HK\$(0.90) cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSET			
Property, plant and equipment	10	<u>567</u>	<u>113</u>
CURRENT ASSETS			
Trade receivables	12	1,580	1,664
Other receivables		144	14
Bank balances and cash		9,677	—
		<u>11,401</u>	<u>1,678</u>
CURRENT LIABILITIES			
Trade payables	13	970	2,198
Other payables and accrued charges		1,254	679
Receipts in advance		163	145
Amount due to a related company		11	4,238
		<u>2,398</u>	<u>7,260</u>
NET CURRENT ASSETS (LIABILITIES)			
		<u>9,003</u>	<u>(5,582)</u>
		<u>9,570</u>	<u>(5,469)</u>
CAPITAL AND RESERVES			
Share capital	14	5,065	—
Share premium and reserves	15	4,505	(5,469)
		<u>9,570</u>	<u>(5,469)</u>

The financial statements on pages 23 to 43 were approved and authorised for issue by the Board of Directors on 13th March, 2003 and are signed on its behalf by:

WONG PO KI

Director

HUI PING

Director

BALANCE SHEET

At 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	11	<u>1,108</u>	—
CURRENT ASSETS			
Other receivables		3	—
Amounts due from subsidiaries		10,071	—
Bank balances and cash		<u>8,552</u>	—
		<u>18,626</u>	—
CURRENT LIABILITIES			
Other payables and accrued charges		40	—
Amounts due to subsidiaries		<u>1,041</u>	—
		<u>1,081</u>	—
NET CURRENT ASSETS			
		<u>17,545</u>	—
		<u>18,653</u>	—
CAPITAL AND RESERVES			
Share capital	14	5,065	—
Share premium and reserves	15	<u>13,588</u>	—
		<u>18,653</u>	—

WONG PO KI

Director

HUI PING

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2002

	Share capital	Share premium	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	—	—	—	(1,351)	(1,351)
Loss for the year	—	—	—	(4,118)	(4,118)
At 1st January, 2002	—	—	—	(5,469)	(5,469)
Issue of share by a subsidiary at a premium	—	—	6,500	—	6,500
Issue of shares on Group Reorganisation	456	—	(456)	—	—
Issue of bonus shares	4,103	—	—	(4,103)	—
Placing of shares	506	14,688	—	—	15,194
Share issue expenses	—	(3,205)	—	—	(3,205)
Loss for the year	—	—	—	(3,450)	(3,450)
At 31st December, 2002	<u>5,065</u>	<u>11,483</u>	<u>6,044</u>	<u>(13,022)</u>	<u>9,570</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2002

	2002	2001
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Loss before taxation	(3,450)	(4,118)
Adjustments for:		
Depreciation of plant and equipment	79	—
(Increase) decrease in trade and other receivables	(46)	1,744
Decrease in amounts due from related companies	—	3,622
(Decrease) increase in trade payables	(1,228)	1,429
Increase in other payables and accrued charges	575	342
Increase (decrease) in receipts in advance	18	(12)
Decrease in amount due to a related company	(4,227)	(2,894)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(8,279)	113
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(533)	(113)
FINANCING ACTIVITIES		
Proceeds from issue of shares	15,194	—
Proceeds from issue of shares in a subsidiary	6,500	—
Expenses incurred in connection with the issue of shares	(3,205)	—
NET CASH FROM FINANCING ACTIVITIES	18,489	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,677	—
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	—	—
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	9,677	—
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	9,677	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

I. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 9th July, 2001 as an exempted limited company under the Companies Law (2001 Second Revision) of Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 21.

Pursuant to a series of group reorganisation steps (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of companies now comprising the Group on 22nd February, 2002.

Details of the Group Reorganisation are set out in the Prospectus. Group Reorganisation principally involved the exchange of fully paid shares of the Company for the entire share capital of Media Bonus Limited.

The shares of the Company were listed on the GEM of the Stock Exchange on 18th July, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for the Group Reconstructions" issued by the Hong Kong Society of Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Turnover

Turnover represents (i) sale of magazines after allowances for returns and discounts; (ii) advertising income from publications; and (iii) promotion and marketing income.

Revenue recognition

Revenue from sale of magazines is recognised when the magazines are delivered and title has passed, with advance subscription fees received from subscribers recorded as receipts in advance.

Advertising income is recognised when the advertisements are published.

Promotion and marketing income is recognised when the service is rendered.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Advertising barter transactions

Revenue and expense from an advertising barter transaction are recognised at fair value only if the fair value of the advertisement surrendered in the transaction is determinable based on the Company's historical practice of receiving cash or other consideration that is readily convertible to a known amount of cash for similar advertisement from buyers unrelated to the counter-party in the barter transaction.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Furniture and office equipment	20%
Leasehold improvements	20%

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are retranslated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits scheme

Payments to the Groups' Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's operation was principally attributable to the magazine publishing and advertising activities in Hong Kong during the year. Accordingly, no analysis on the basis of business and geographical segments is presented.

4. TURNOVER

Turnover represents the net amounts received and receivable for magazines sold by the Group to outside customers less returns and allowances, advertising income and promotion and marketing income for the year, and is analysed as follows:

	2002	2001
	HK\$'000	HK\$'000
Sale of magazines	1,029	1,776
Advertising income	5,712	7,307
Promotion and marketing income	236	89
	6,977	9,172

During the year, the Group's revenue from advertising barter transactions was negligible (2001: HK\$78,000).

5. OTHER OPERATING INCOME

	2002	2001
	HK\$'000	HK\$'000
Bank interest income	63	—
Reversal of allowance for bad and doubtful debts	116	—
	179	—

6. NET LOSS FOR THE YEAR

	2002	2001
	HK\$'000	HK\$'000
Net loss for the year has been arrived at after charging:		
Staff costs including directors' emoluments	5,545	6,768
Retirement benefits scheme contributions	217	209
	5,762	6,977
Auditors' remuneration	300	—
Depreciation	79	—
Allowance for bad and doubtful debts	—	146

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

7. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002	2001
	HK\$'000	HK\$'000
Independent Non-Executive Directors		
Fees	<u>71</u>	<u>—</u>
Executive Directors		
Fees	34	—
Salaries and other benefits	1,512	—
Retirement benefits scheme contributions	39	—
	<u>1,585</u>	<u>—</u>
	<u>1,656</u>	<u>—</u>

For the year ended 31st December, 2002 four executive directors received emoluments of HK\$232,290, HK\$248,901, HK\$474,495 and HK\$556,452 respectively. The other directors did not receive any emoluments (2001: nil).

(b) Employees' emoluments

Of the five highest paid individuals in the Group, two (2001: nil) were directors of the Company whose remunerations were set out in (a) above. The emoluments of the remaining three (2001: five) individuals were as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	816	2,308
Retirement benefits scheme contributions	33	54
	<u>849</u>	<u>2,362</u>

The aggregate emoluments of each of the individuals during the years 2001 and 2002 were below HK\$1,000,000.

During each of the two years ended 31st December, 2002, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon join the Group or as compensation for loss of office.

8. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for both years.

Details of the potential deferred tax charge not provided for are set out in note 20.

9. LOSS PER SHARE

The calculation of the loss per share for the year is based on the net loss of approximately HK\$3,450,000 (2001: approximately HK\$4,118,000) and on the weighted average number of 479,301,062 (2001: 455,850,344) shares in issue. The weighted average number of shares is determined on the assumption that the Group Reorganisation as described in note 1 to the financial statements had been completed on 1st January, 2001.

The computation of diluted loss per share has not assumed the exercise of the Company's options since its exercise price was higher than the average market price per share for the year.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
COST			
At 1st January, 2002	—	113	113
Additions	511	22	533
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	511	135	646
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1st January, 2002	—	—	—
Provided for the year	55	24	79
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	55	24	79
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31st December, 2002	456	111	567
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December, 2001	—	113	113
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

11. INTERESTS IN SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,108	—

None of the subsidiaries had any debt securities issued during the year or outstanding at the end of the year.

Details of the Company's subsidiaries are set out in note 21.

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its customers.

The following is an aged analysis of trade receivables:

	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	547	905
31 - 60 days	470	257
61 - 90 days	435	207
91 to 180 days	127	333
Over 180 days	32	108
	1,611	1,810
Less: Allowance for bad and doubtful debts	(31)	(146)
	1,580	1,664

13. TRADE PAYABLES

The following is an aged analysis of trade payables:

	2002	2001
	HK\$'000	HK\$'000
0 to 30 days	153	1,474
31 to 60 days	258	410
61 to 90 days	153	29
91 to 180 days	402	91
Over 180 days	4	194
	970	2,198

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

14. SHARE CAPITAL

	Number of ordinary shares	Share price HK\$	Share capital HK\$'000
Authorised:			
At time of incorporation and 31st December, 2001	35,000,000	0.01	350
Increase on 17th January, 2002	99,965,000,000	0.01	999,650
Subdivision on 30th January, 2002	900,000,000,000	—	—
	<u>1,000,000,000,000</u>	0.001	1,000,000
Consolidation on 24th June, 2002	(900,000,000,000)	—	—
At 31st December, 2002	<u><u>100,000,000,000</u></u>	0.01	<u><u>1,000,000</u></u>
Issued and fully paid:			
Issue of share on 9th July, 2001	1	0.01	—
Subdivision on 30th January, 2002	9	—	—
	<u>10</u>	0.001	—
Issue of shares	455,850,334	0.001	456
Issue of bonus shares	4,102,653,096	0.001	4,103
Consolidation on 24th June, 2002	(4,102,653,096)	—	—
	<u>455,850,344</u>	0.01	4,559
Placing and public offer of shares	50,648,000	0.01	506
At 31st December, 2002	<u><u>506,498,344</u></u>	0.01	<u><u>5,065</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

14. SHARE CAPITAL (Continued)

During the year ended 31st December, 2002, the following changes to the share capital of the Company took place:

- (a) The Company was incorporated on 9th July, 2001 in the Cayman Islands with an authorised share capital of HK\$350,000 divided into 35,000,000 shares of HK\$0.01 each. On the date of incorporation, one share of HK\$0.01 was issued and allotted to the subscriber.
- (b) At a special general meeting of the Company held on 17th 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 an additional 99,965,000,000 shares of HK\$0.01 each;
- (c) On 30th 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 22nd February, 2002, the Company issued and allotted a total of 455,850,334 shares of HK\$0.001 each in the Company to effect the Group Reorganisation as set out in note 1;
- (e) On 20th June, 2002, pursuant to the resolutions of the Directors of the Company passed on 18th June, 2002, the Company issued and allotted a total of 4,102,653,096 ordinary shares of HK\$0.001 each in the Company to the existing shareholders of the Company credited at fully paid at par. This bonus issue of shares was made on the basis of 9 shares for every ordinary share held on 18th June, 2002;
- (f) On 24th June, 2002, pursuant to the resolutions passed by the shareholders of the Company on the same date, 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;
- (g) Pursuant to the Prospectus and by means of placing, the Company issued a total of 50,648,000 new ordinary shares of HK\$0.01 each at the price of HK\$0.30 per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

15. SHARE PREMIUM AND RESERVES

	Share premium	Capital reserve	Accumulated profit (losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP				
At 1st January, 2001	—	—	(1,351)	(1,351)
Loss for the year	—	—	(4,118)	(4,118)
At 31st December, 2001	—	—	(5,469)	(5,469)
Issue of shares by a subsidiary at a premium	—	6,500	—	6,500
Issue of shares on Group Reorganisation (note i)	—	(456)	—	(456)
Premium arising on issue of shares by means of placing	14,688	—	—	14,688
Expenses incurred in connection with the issue of shares	(3,205)	—	—	(3,205)
Loss for the year	—	—	(3,450)	(3,450)
Issue of bonus shares	—	—	(4,103)	(4,103)
At 31st December, 2002	<u>11,483</u>	<u>6,044</u>	<u>(13,022)</u>	<u>4,505</u>
THE COMPANY				
At 9th July, 2001 and 31st December, 2001	—	—	—	—
Reserve arising on Group Reorganisation (note ii)	—	652	—	652
Premium arising on issues of shares by means of placing	14,688	—	—	14,688
Expenses incurred in connection with the issue of shares	(3,205)	—	—	(3,205)
Profit for the year	—	—	5,556	5,556
Issue of bonus shares	—	—	(4,103)	(4,103)
At 31st December, 2002	<u>11,483</u>	<u>652</u>	<u>1,453</u>	<u>13,588</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

15. SHARE PREMIUM AND RESERVES (Continued)

Notes:

- (i) The amount represents the difference between the nominal value of the Company's shares issued and a subsidiary's share acquired as part of the Group Reorganisation.
- (ii) The amount represents the difference between the nominal value of the Company's shares issued and the net asset value of a subsidiary acquired as part of the Group Reorganisation.

Under the Companies Law (2002 Revision) (Chapter 22) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and a statutory solvency test. It is provided that a dividend cannot be paid if this would result in the Company being unable to pay its debts as they fall due. In accordance with the Company's Articles of Association, the Company's reserves available for distribution to shareholders represent the accumulated profits, capital reserve and share premium which in total amounted to approximately HK\$13,588,000 (2001: nil).

16. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings. These companies are collectively referred to as South China Group. A director of the Company, Mr. Ng Hung Sang, Robert, is a substantial shareholder and a director of South China Holdings. Details of these transactions are as follows:

Nature of transactions	2002	2001
	HK\$'000	HK\$'000
Administrative service fees	748	594
Agency arrangement fees	—	16
Color separation and photo processing fees	308	398
Corporate finance service fee	301	—
Marketing service fees	79	153
Phototaking service fees	—	138
Purchase of property, plant and equipment	—	113
Rental expenses in respect of office premises and equipment	84	261
Staff costs and personnel expenses	471	6,977
Underwriting commission	380	—

In the opinion of Directors, the above transactions were conducted in accordance with the respective arrangements between the Group and the related parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

17. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases during the year in respect of:

	2002	2001
	HK\$'000	HK\$'000
Office premises	84	—

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one year	168	—
In the second to fifth years inclusive	253	—
	421	—

The leases are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At the balance sheet date, the Company had no arrangement under non-cancellable operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

18. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 24th June, 2002 for the primary purpose of providing incentives to directors and eligible employees and will expire on 17th July, 2012. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31st December, 2002, the number of shares in respect of which options were granted under the Scheme was 5,064,983, representing 1% of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

The consideration payable on the grant of an option is HK\$1 per option. Options may be exercised at any time for a period of ten years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer; (ii) the average closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the options; and (iii) the nominal value of a share.

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Date of grant	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2002
27th August, 2002	<u>5,064,983</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,064,983</u>

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise price
27th August, 2002	27th August, 2003 to 17th July, 2012	HK\$0.27

The vesting period of share options is the period from the date of grant until the commencement of the exercise period. All share options referred to above are subject to one year's vesting period.

18. SHARE OPTION SCHEME (Continued)

The share options may be exercised, in whole or in part, in the following manner:

From the date of grant of share options	Exercisable Percentage
Within 12th months	Nil
13th - 24th months	33 $\frac{1}{3}$ %
25th - 36th months	33 $\frac{1}{3}$ %
37th - 48th months	33 $\frac{1}{3}$ %

The exercise price is subject to adjustment. Provided always that any part of the share options not exercised in full in accordance with the periods specified above shall remain exercisable during the exercise period of share options but the exercise price shall be adjusted by increasing 5% per annum (on a cumulative basis) until such time as the relevant portion of the share options shall have been fully exercised or lapsed in accordance with the Scheme.

Total consideration received during the year from grantee for taking up the options granted is HK\$1 (2001: nil).

No charge is recognised in the income statement in respect of the value of options granted during the year.

19. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee and thereabove contributions are voluntary.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. As at 31st December, 2002, there were no material forfeited contributions, which arose upon employees leaving the ORSO Scheme, are available to reduce the contributions payables in future years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

20. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities (assets) unprovided are as follows:

	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	5	—
Tax effect of taxation losses	(1,442)	(875)
	<u>(1,437)</u>	<u>(875)</u>

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

The amount of the unprovided deferred tax for the year is as follows:

	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	5	—
Tax losses arising	(567)	(658)
	<u>(562)</u>	<u>(658)</u>

21. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by Company		Principal activities
			Directly	Indirectly	
Media Bonus Limited	British Virgin Islands	US\$2	100%	—	Investment holding
Capital Publishing Management Limited	Hong Kong	HK\$2	—	100%	Provision of employee and personnel services for the Group and holding a lease agreement
Capital Publishing Limited	Hong Kong	HK\$2	—	100%	Publication of “資本雜誌 Capital” magazine

RESULTS

	For the year ended 31st December,		
	2000 HK\$'000 (Note i)	2001 HK\$'000 (Note i)	2002 HK\$'000
Turnover	10,858	9,172	6,977
Direct operating expenses	(7,025)	(8,545)	(5,591)
Other operating income	—	—	179
Selling and distribution costs	(1,927)	(2,290)	(1,206)
Administrative expenses	(3,136)	(2,455)	(3,809)
	<hr/>	<hr/>	<hr/>
Net loss for the year	(1,230)	(4,118)	(3,450)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ASSETS AND LIABILITIES

	As at 31st December,	
	2001 HK\$'000	2002 HK\$'000 (Note ii)
Total assets	1,791	11,968
Total liabilities	(7,260)	(2,398)
	<hr/>	<hr/>
Net assets (liabilities)	(5,469)	9,570
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) The results for each of the two years ended 31st December, 2001 have been prepared on a combined basis as if the group structure at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the years ended 31st December, 2000 and 2001 have been extracted from the Company's Prospectus.
- (ii) The Company was incorporated in the Cayman Islands under the Companies Law (2001 Second Revision) of the Cayman Islands on 9th July, 2001 and became the holding company of the Group as a result of the group reorganisation which took place on 22nd February, 2002. Accordingly, the only balance sheets for the Group that have been prepared are those set out above.