



CAPITAL PUBLICATIONS LIMITED

資本出版有限公司

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2003

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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 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.

QUARTERLY RESULTS

The board of directors (the “Board”) 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 ended 31 March 2003, together with the comparative unaudited figures for the corresponding period in 2002, are as follows:

CONSOLIDATED INCOME STATEMENT - UNAUDITED

	<i>Notes</i>	Three months ended	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	1,801	1,614
Other operating income	3	21	—
Direct operating expenses		(1,524)	(1,357)
Selling and distribution costs		(389)	(346)
Administrative expenses		(769)	(743)
Net loss before taxation	4	(860)	(832)
Taxation	5	—	—
Net loss attributable to shareholders		(860)	(832)
Accumulated deficit, beginning of period		(13,022)	(5,469)
Dividend	6	—	—
Accumulated deficit, end of period		(13,882)	(6,301)
Loss per share - Basic	7	HK(0.17) cents	HK(0.18) cents

Notes:

1 GROUP REORGANISATION AND BASIS OF PRESENTATION

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

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

Details of the Reorganisation are set out in the prospectus of the Company dated 10 July 2002 (the “Prospectus”). The Reorganisation principally involved the exchange of fully paid shares of the Company for the entire share capital of Media Bonus Limited.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the unaudited consolidated results of the Group for the three months ended 31 March 2002 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.

The unaudited consolidated income statement for the three months ended 31 March 2003 has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.

The accounting policies adopted by the Group are consistent with those followed in the annual financial statements for the year ended 31 December 2002. The unaudited consolidated income statement has been prepared in accordance with SSAP 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

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

	Three months ended	
	31 March	
	2003	2002
	HK\$'000	HK\$'000
Sales of magazines	303	288
Advertising income	1,498	1,296
Promotion and marketing income	—	30
	1,801	1,614

During the three months ended 31 March 2003, the Group's revenue from advertising barter transactions was approximately HK\$26,000 (three months ended 31 March 2002: Nil).

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

3 OTHER OPERATING INCOME

	Three months ended	
	31 March	
	2003	2002
	HK\$'000	HK\$'000
Interest Income	21	—

4 NET LOSS BEFORE TAXATION

Net loss before taxation is stated after charging the following:

	Three months ended	
	31 March	
	2003	2002
	HK\$'000	HK\$'000
Staff cost including directors' emoluments	1,408	1,372
Retirement benefits scheme contribution	53	19
	1,461	1,391
Depreciation	33	8
Auditors' remuneration	75	50

5 TAXATION

No Hong Kong profits tax was provided because the Group had no assessable profit arising in or derived from Hong Kong during the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

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

	Three months ended	
	31 March	
	2003	2002
	HK\$'000	HK\$'000
Tax losses	138	133

6 DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the three months ended 31 March 2003 (three months ended 31 March 2002: Nil).

7 LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2003 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$860,000 (three months ended 31 March 2002: loss of approximately HK\$832,000) and on the weighted average number of 506,498,344 shares in issue (2002: 455,850,344 shares deemed to be in issue throughout the period).

No diluted loss per share is presented as there were no dilutive potential ordinary shares in existence during the period. 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 during the three months ended 31 March 2003.

8 MOVEMENT OF RESERVES

Movements of reserves were:

	Three months ended 31 March				2002
	2003			Total	
Share premium	Capital reserve	Accumulated deficit	Total		Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
THE GROUP					
At 1 January	11,483	6,044	(13,022)	4,505	(5,469)
Issue of shares by a subsidiary at a premium					6,500
Issue of shares on Reorganisation (<i>note 1</i>)					(456)
Net loss attributable to shareholders	—	—	(860)	(860)	(832)
At 31 March	<u>11,483</u>	<u>6,044</u>	<u>(13,882)</u>	<u>3,645</u>	<u>(257)</u>
	Three months ended 31 March				2002
	2003			Total	
Share premium	Capital reserve	Accumulated profit	Total		Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
THE COMPANY					
At 1 January	11,483	652	1,453	13,588	—
Reserve arising on Reorganisation (<i>note 1</i>)					652
Net profit attributable to shareholders	—	—	21	21	—
At 31 March	<u>11,483</u>	<u>652</u>	<u>1,474</u>	<u>13,609</u>	<u>652</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's turnover for the three months ended 31 March 2003 was approximately HK\$1,801,000, an increase of approximately 11.6% as compared to the same period last year. This was encouraging in view of the difficult business environment.

Loss attributable to shareholders was approximately HK\$860,000, a slight increase of approximately 3.4% when compared with the loss of approximately HK\$832,000 recorded in the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003, the Group had net current assets of approximately HK\$8,153,000 (31 March 2002: net current liabilities of approximately HK47,000).

During the three months ended 31 March 2003, the Group's operation was mainly financed by the net proceeds of the placing of shares in July 2002 (the "Placing") and the internal financial resources of the Group.

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.

During the three months ended 31 March 2003, the Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies and investment.

As at 31 March 2003, (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 significant investment held; (iv) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; 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 31 March 2003.

SIGNIFICANT INVESTMENT PLANS

As at 31 March 2003, the Group did not have any significant investment plans, except the plans set out in the section headed "Statement of Business Objectives" in the Prospectus.

PROSPECTS

The severe acute respiratory syndrome ("SARS") outbreak has deeply affected business confidence in Hong Kong with most companies expected to loss sales and revenues and we are no exception. We have seen our customers like airlines, real estates, cars and consumer products withholding their advertising budgets owing to the uncertain economic conditions.

The government's HK\$11.8 billion relief package unveiled in April 2003 that included loans to small companies, tax rebates, rent concessions, waiver of water charges and license fees etc. will offer some short-term relief to the severely affected businesses.

The SARS disease will certainly have a negative impact on Hong Kong's economy but it is hard to estimate the magnitude on our Group at this stage. We will continue to trim our expenses to cope with the current economic downturn. We have recently streamlined our workflow resulting to a 10% reduction in headcount. We will explore other business sectors that are less affected by the SARS, for instance healthcare and corporate customers. The Group, with its strengthened management team and effective cost base, is confident that it will position for eventual recovery.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31 March 2003, the interests of the directors and the chief executive of the Company and their respective associates in the shares and options of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) (repealed with the coming into effect of the Securities and Futures Ordinance with effect from 1 April 2003) 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:

1 Shares of the Company

Name of directors	Personal interests	Number of ordinary shares held			Total
		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 Eartrade Investments Limited ("Eartrade"). Eartrade 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 ("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 Eartrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

2 Directors' right to acquire shares

Pursuant to the employee share option scheme adopted by the Company on 24 June 2002 (the principal terms are summarised under the sub-section headed "Share Option Scheme" in Appendix IV to the Prospectus), the following director was granted share options for nominal consideration to subscribe for shares in the Company, details of which are as follows:

Name of director	Number of share options outstanding as at 31/3/2003	Date of grant of share options (Note a)	Exercise period of share options	Initial exercise price per share option (Note b) HK\$
Mr. Fung Ka Pun	5,064,983	27/8/2002	27/8/2003- 17/7/2012	0.27

Notes:

(a) The vesting period of the share options is from the date of grant till the commencement of the exercise period.

(b) The exercise price is subject to adjustment.

Save as disclosed above, during the three months ended 31 March 2003, none of the directors or chief executive of the Company nor their respective associates were granted options to subscribe for shares of the Company, nor had exercised such rights.

Save as disclosed above, none of the directors or chief executive of the Company nor their respective associates had, as at 31 March 2003, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, 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	<i>Note</i>
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 31 March 2003.

SPONSOR'S INTEREST

Pursuant to the agreement dated 10 July 2002 entered into between the Company and MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), MasterLink has received and will receive fees for acting as the Company's sponsor for the period from 18 July 2002 to 31 December 2004 or until the termination of the agreement upon the terms and conditions as set out therein.

As updated and notified by MasterLink, MasterLink, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules), as at 31 March 2003, 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.

COMPETING INTERESTS

Mr. Ng Hung Sang, Robert, Co-Chairman and management shareholder of the Company, is also Chairman of South China Holdings and Jessica Publications Limited (“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 Eartrade, 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. Wong Po Ki, a director of the Company is interested in options in Jessica and was an ex-employee and is currently a part time staff of South China Group. Mr. Hui Ping, a director of the Company, was an ex-employee of the South China Group.

Save as disclosed above and in the Prospectus, 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.

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 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 ended 31 March 2003 have been reviewed by the 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 THE COMPANY’S LISTED SECURITIES

The Company’s shares were listed on GEM on 18 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.

On behalf of the Board
Ng Hung Sang, Robert
Co-Chairman

Hong Kong Special Administrative Region of the People’s Republic of China
7 May 2003