



CAPITAL PUBLICATIONS LIMITED

資本出版有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

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

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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.

INTERIM RESULTS

The board of directors (the “Board”) of the Company is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2003, together with the comparative unaudited figures for the corresponding periods in 2002, are as follows:

CONSOLIDATED INCOME STATEMENT - UNAUDITED

		Three months ended		Six months ended	
		30 June		30 June	
		2003	2002	2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	1,833	1,349	3,634	2,963
Direct operating expenses		(1,374)	(1,257)	(2,898)	(2,614)
Other operating income		19	—	40	—
Selling and distribution costs		(679)	(256)	(1,068)	(602)
Administrative expenses		(871)	(726)	(1,640)	(1,469)
Net loss before taxation	4	(1,072)	(890)	(1,932)	(1,722)
Taxation	5	—	—	—	—
Net loss attributable to shareholders		(1,072)	(890)	(1,932)	(1,722)
Loss per share - Basic	7	HK(0.21) cent	HK(0.20) cent	HK(0.38) cent	HK(0.38) cent

CONSOLIDATED BALANCE SHEET

		As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		746	567
Current assets			
Trade receivables	8	1,359	1,580
Other receivables		387	144
Bank balances and cash		7,883	9,677
		<u>9,629</u>	<u>11,401</u>
Current liabilities			
Trade payables	9	1,243	970
Other payables and accrued charges		1,275	1,254
Receipts in advance		130	163
Amount due to a related company		89	11
		<u>2,737</u>	<u>2,398</u>
Net current assets		<u>6,892</u>	<u>9,003</u>
		<u>7,638</u>	<u>9,570</u>
Capital and reserves			
Share capital	10	5,065	5,065
Share premium and reserves	11	2,573	4,505
		<u>7,638</u>	<u>9,570</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED*For the six months ended 30 June 2003*

	Share capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
2002					
At 1 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)	—
Net loss for the period	—	—	—	(1,722)	(1,722)
At 30 June 2002	<u>4,559</u>	<u>—</u>	<u>6,044</u>	<u>(11,294)</u>	<u>(691)</u>
2003					
At 1 January 2003	5,065	11,483	6,044	(13,022)	9,570
Net loss for the period	—	—	—	(1,932)	(1,932)
At 30 June 2003	<u>5,065</u>	<u>11,483</u>	<u>6,044</u>	<u>(14,954)</u>	<u>7,638</u>

CONSOLIDATED CASH FLOW STATEMENT - UNAUDITED

	Six months ended	
	30 June	
	2003	2002
	HK\$'000	HK\$'000
Operating activities		
Loss before taxation	(1,932)	(1,722)
Adjustments for:		
Depreciation of property, plant and equipment	71	21
(Increase) decrease in trade and other receivables	(22)	96
Increase (decrease) in trade payables	273	(1,082)
Increase in other payables and accrued charges	21	41
Decrease in receipts in advance	(33)	(6)
Increase (decrease) in amount due to a related company	78	(4,185)
Net cash used in operating activities	<u>(1,544)</u>	<u>(6,837)</u>
Investing activities		
Purchases of property, plant and equipment	(250)	(156)
Financing activities		
Proceeds from issue of shares in a subsidiary	—	6,500
Loan from a director	—	1,000
Net cash from financing activities	<u>—</u>	<u>7,500</u>
Net (decrease) increase in cash and cash equivalents	(1,794)	507
Cash and cash equivalents, beginning of the period	9,677	—
Cash and cash equivalents, end of the period	<u>7,883</u>	<u>507</u>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	<u>7,883</u>	<u>507</u>

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 and six months ended 30 June 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 Group Reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”).

The unaudited consolidated financial statements for the three months and six months ended 30 June 2003 have not been audited by the Company’s auditors but have 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, except for the new adoption of SSAP No. 12 (Revised) “Accounting for Income Taxes” issued by HKSA, which has no significant impact on the unaudited consolidated financial statements for the six months ended 30 June 2003. The unaudited consolidated financial statements have been prepared in accordance with SSAP issued by the HKSA, the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

2. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2003 and 30 June 2002, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings Limited (“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	Six months ended 30 June	
	2003 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)
Administrative service fees	271	401
Color separation and photo processing fees	172	145
Marketing service fees	—	42
Rental expenses in respect of office premises	84	26
Staff costs and personnel expenses	—	472

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

3. TURNOVER

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

	Three months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of magazines	309	206	612	494
Advertising income	1,276	1,143	2,774	2,439
Promotion and marketing income	248	—	248	30
	<u>1,833</u>	<u>1,349</u>	<u>3,634</u>	<u>2,963</u>

During the three months and six months ended 30 June 2003, the Group's revenue from advertising barter transactions was approximately \$51,000 and \$77,000 respectively (three months and six months ended 30 June 2002: Nil).

The Group is principally engaged in magazine publishing and advertising activities carried out in Hong Kong during the period. Accordingly, the directors of the Company consider there is only one business and geographical segment and no analysis of segmental assets and liabilities by geographical location is presented.

4. NET LOSS BEFORE TAXATION

Net loss before taxation has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Staff cost (including directors' emoluments)	1,477	1,246	2,885	2,618
Retirement benefits scheme contributions	51	73	104	92
	<u>1,528</u>	<u>1,319</u>	<u>2,989</u>	<u>2,710</u>
Allowance for bad and doubtful debts	3	—	3	—
Depreciation	38	13	71	21
Auditors' remuneration	75	50	150	100

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 and six months ended 30 June 2003 (three months and six months ended 30 June 2002: Nil).

As at 30 June 2003, no deferred tax asset has been recognised in respect of the unused tax losses of approximately HK\$10,700,000 (as at 31 December 2002: approximately HK\$9,000,000), which are subject to the agreement of the Inland Revenue Department of the HKSAR, due to the unpredictability of future profit streams.

6. INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2003 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,072,000 and HK\$1,932,000 respectively (three months and six months ended 30 June 2002: loss of approximately HK\$890,000 and HK\$1,722,000 respectively) and on the weighted average number of 506,498,344 shares in issue (455,850,344 shares are deemed to be in issue throughout the three months and six months ended 30 June 2002).

No diluted loss per share is presented because the exercise prices of the Company's options were higher than the average market price per share during the three months and six months ended 30 June 2003. There were no dilutive potential ordinary shares in existence during the three months and six months ended 30 June 2002.

8. 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:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
0 - 30 days	545	547
31 - 60 days	417	470
61 - 90 days	199	435
91 to 180 days	193	127
Over 180 days	39	32
	<hr/>	<hr/>
	1,393	1,611
Less: allowance for bad and doubtful debts	(34)	(31)
	<hr/>	<hr/>
	1,359	1,580
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE PAYABLES

The following is an aged analysis of trade payables:

	As at 30 June 2003 HK\$'000 (Unaudited)	As at 31 December 2002 HK\$'000 (Audited)
0 - 30 days	468	153
31 - 60 days	173	258
61 - 90 days	144	153
91 to 180 days	304	402
Over 180 days	154	4
	<hr/>	<hr/>
	1,243	970
	<hr/> <hr/>	<hr/> <hr/>

10. SHARE CAPITAL

	Number of ordinary shares	Share price HK\$	Share capital HK\$'000
<i>Authorised:</i>			
At 1 January 2003 and 30 June 2003	100,000,000,000	0.01	1,000,000
<i>Issued and fully paid:</i>			
At 1 January 2003 and 30 June 2003	506,498,344	0.01	5,065

11. MOVEMENT OF RESERVES

Movements of reserves were:

	Three months ended 30 June 2003				2002
	Share premium HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Accumulated deficit HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
THE GROUP					
At 1 April	11,483	6,044	(13,882)	3,645	(257)
Issue of bonus shares	—	—	—	—	(4,103)
Net loss attributable to shareholders	—	—	(1,072)	(1,072)	(890)
At 30 June	<u>11,483</u>	<u>6,044</u>	<u>(14,954)</u>	<u>2,573</u>	<u>(5,250)</u>
	Three months ended 30 June 2003				2002
	Share premium HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Accumulated profit HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
THE COMPANY					
At 1 April	11,483	652	1,474	13,609	652
Issue of bonus shares	—	—	—	—	(4,103)
Net profit attributable to shareholders	—	—	16	16	5,500
At 30 June	<u>11,483</u>	<u>652</u>	<u>1,490</u>	<u>13,625</u>	<u>2,049</u>

	Six months ended 30 June				2002
	Share premium	Capital reserve	Accumulated deficit	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
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	—	—	—	—	(456)
Issue of bonus shares	—	—	—	—	(4,103)
Net loss attributable to shareholders	—	—	(1,932)	(1,932)	(1,722)
At 30 June	<u>11,483</u>	<u>6,044</u>	<u>(14,954)</u>	<u>2,573</u>	<u>(5,250)</u>
Six months ended 30 June					
	2003				2002
	Share premium	Capital reserve	Accumulated profit	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
THE COMPANY					
At 1 January	11,483	652	1,453	13,588	—
Reserve arising on Reorganisation	—	—	—	—	652
Issue of bonus shares	—	—	—	—	(4,103)
Net profit attributable to shareholders	—	—	37	37	5,500
At 30 June	<u>11,483</u>	<u>652</u>	<u>1,490</u>	<u>13,625</u>	<u>2,049</u>

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

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

Business objectives for the six months ended 30 June 2003 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

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

Conduct readers' focus groups to learn the preferences of the readers and stimulate reader interaction

Postponed due to the severe acute respiratory syndrome ("SARS") outbreak

Continue to broaden subscription base through telemarketing and subscription campaigns

The direct marketing agent appointed in October 2002 continued to promote the subscription of "資本雜誌 Capital" magazine via various marketing campaigns

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 31 May 2003 for the awardees of the "Best of the Best for Executives 2003"

Co-organise anniversary events for "資本雜誌 Capital" magazine with advertisers

Postponed due to the SARS outbreak

Develop regional sales forces to expand advertising customer base in the Greater China regions in particular PRC, by recruiting 5 to 6 marketing and sales staff

The Group has recruited additionally 2 sales staff to expand its customer base

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

No stand-alone booklet was published as planned but a new magazine, "資本壹週 Capital Weekly" was published commencing from 11 July 2003

Annual special "資本雜誌 Capital" issue 2003

Postponed due to the SARS outbreak

Increase sales and promotional efforts

Continue its 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

Extend into other Chinese-speaking markets

Identify suitable candidates for feasible publishing related partnerships in the PRC

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

Develop its marketing team and support services team

Form a marketing team by recruiting 2 to 3 new staff to carry out marketing services of the Group

Recruited an assistant marketing manager to independently carry out marketing activities of the Group

USE OF PROCEEDS

The net proceeds from the placing of shares in July 2002 (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

	Budgeted amount		Actual amount used		
	Six months ended 30 June 2003	From date of listing to 31 December 2002	Six months ended 30 June 2003	From date of listing to 30 June 2003	
Total	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1. Recruiting and employment of new staff:					
Employ marketing and sales staff to expand into the PRC market	2,000	500	—	49	49
Developing marketing team and support services team	1,500	250	—	58	58
2. Staff training and recruitment expenses	1,000	250	—	12	12
3. Promotion and advertising costs:					
In Beijing, Shanghai and Guangzhou	2,000	500	—	—	—
In Hong Kong	1,000	500	—	187	187
4. Publication of financial special issues and stand-alone periodicals or books	2,000	540	—	—	—
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	300	600	300	900
	<u>11,700</u>	<u>2,840</u>	<u>1,600</u>	<u>606</u>	<u>2,206</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2003, the Group's turnover increased by approximately 22.6% to approximately HK\$3,634,000 (six months ended 30 June 2002: approximately HK\$2,963,000). Loss attributable to shareholders increased by approximately 12.2% to approximately HK\$1,932,000 (six months ended 30 June 2002: approximately HK\$1,722,000) mainly due to increase in selling and distribution costs.

Compared on a quarter-to-quarter basis, turnover, operating costs and loss attributable to shareholders for the three months ended 30 June 2003 increased by approximately 35.9%, 30.6% and 20.4% respectively from the same period last year.

In May 2003, the Group organized the "Best of the Best for Executives 2003" campaign to reinforce the brand image of "資本雜誌 Capital". In each exclusive category, a brand was selected by a panel of renowned judges together with our editorial team and awarded as "Best of the Best for Executives". The campaign received tremendous response in the market. The awardees included "Philips", "1010", "Haagen-Dazs", "Mercedes-Benz", "Cathay Pacific", "Lampe Berger", "Royal Selangor", "Nokia", "Sony" and "Fujitsu".

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2003, the Group's operation was mainly financed by the net proceeds of the Placing and the internal financial resources of the Group.

As at 30 June 2003, the Group had net current assets of approximately HK\$6,892,000 (31 December 2002: net current assets of approximately HK\$9,003,000).

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 six months ended 30 June 2003, the Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies and investment.

As at 30 June 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 30 June 2003.

SIGNIFICANT INVESTMENT PLANS

As at 30 June 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.

EMPLOYEES

As at 30 June 2003, the total number of employees of the Group was 34 (31 December 2002: 20). Employees' cost (including directors' emoluments) amounted to approximately HK\$2,989,000 for the six months ended 30 June 2003 (six months ended 30 June 2002: approximately HK\$2,238,000).

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 24 June 2002 and became effective on 18 July 2002.

PROSPECTS

With the SARS now under control and the recently concluded Closer Economic Partnership Arrangement between Hong Kong and the Mainland China which will give a boost to local economy, in particular, the manufacturing, tourist and retail sectors, the economic outlook for the second half of the year seems more favorable.

The Group will try to capture the improved economic environment in two fronts. Firstly, to continue reinventing our core “資本雜誌 Capital” monthly magazine. Secondly, based on the existing “資本雜誌 Capital” title and platform, the Group decided to publish a weekly magazine “資本壹週 Capital Weekly”. The management believed that this is the best way to complement the existing business, to broaden the Group’s revenue and customer base, and to achieve greater economies of scale in operation, which are critical to the success and profitability of the Group. The more frequent weekly publication, as compared with the existing monthly publication, will further extend the reach of the “資本雜誌 Capital” brand to customers, the agency and the media partners.

“資本壹週 Capital Weekly” would be a weekly magazine featuring business, financial and property news. The editorial team alongside with leading commentators would provide in-depth analysis and expert comment on key business, financial and property issues. The first issue was published on 11 July 2003.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN EQUITY SECURITIES

As at 30 June 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, relating to the minimum standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

Name of director	Name of company	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	17,886,800	3.53%
	The Company	Corporate interest	318,132,403 (Note)	62.81%
Mr. Fung Ka Pun	The Company	Beneficial owner	6,000,000	1.18%

Note: The 318,132,403 shares referred to above include 92,966,000 shares held by Parkfield Holdings Limited (“Parkfield”), 99,012,563 shares held by Fung Shing Group Limited (“Fung Shing”), 4,166,400 shares held by Ronastar Investments Limited (“Ronastar”) and 121,987,440 shares held by Eartrade Investments Limited (“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. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock Investment Limited (“Bannock”) which is a wholly owned subsidiary of Eartrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

Save as disclosed above and the interests of a director of the Company in the share options of the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, as at 30 June 2003, none of the directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, relating to the minimum standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 24 June 2002 and became effective on 18 July 2002. Particulars and movements of the outstanding share options granted under the Scheme during the period for the six months ended 30 June 2003 were as follows:

Name or category of participant	Number of share options					As at 30/6/2003	Date of grant of share options <i>(Note a)</i>	Exercise period of share options	Price of the Company's shares		
	As at 1/1/2003	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				Immediately preceding		
									exercise price per share option <i>(Note b)</i> HK\$	the grant date of share options <i>(Note c)</i> HK\$	the exercise date of share options 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	<u>5,064,983</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,064,983</u>					

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 $\frac{1}{3}$ %
25th - 36th months	33 $\frac{1}{3}$ %
37th - 48th months	33 $\frac{1}{3}$ %

- (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 share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2003, shareholders who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were directly, or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follows:

Name of shareholder	Name of Company	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	17,886,800	3.53%
	The Company	Corporate interest	318,132,403 (Note a)	62.81%
Parkfield	The Company	Beneficial owner	92,966,000 (Note a)	18.35%
Fung Shing	The Company	Beneficial owner	99,012,563 (Note a)	19.55%
Eartrade	The Company	Beneficial owner	62,661,600 (Note b)	12.37%
	The Company	Corporate interest	59,325,840 (Note b)	11.71%
Bannock	The Company	Beneficial owner	59,325,840 (Note b)	11.71%
Ms. Ng Lai King, Pamela	The Company	Spouse's interest	336,019,203 (Note c)	66.34%

Notes:

- (a) The 318,132,403 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. Thus, Eartrade is deemed to be interested in the 59,325,840 shares of the Company held by Bannock.
- (c) Ms. Ng Lai King, Pamela is the wife of Mr. Ng Hung Sang, Robert and is taken to be interested in the 336,019,203 shares in which Mr. Ng Hung Sang, Robert is interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2003, the directors or chief executives of the Company were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

SPONSOR'S INTERESTS

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 30 June 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. 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 and six months ended 30 June 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF 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
12 August 2003