



## JESSICA PUBLICATIONS LIMITED

*(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 Jessica 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

	<i>Notes</i>	Three months ended		Six months ended	
		30 June		30 June	
		2003	2002	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	3	<b>10,787</b>	6,381	<b>17,360</b>	11,604
Direct operating expenses		<b>(6,949)</b>	(4,195)	<b>(11,391)</b>	(7,365)
Other operating income		<b>29</b>	16	<b>78</b>	33
Selling and distribution costs		<b>(2,805)</b>	(1,402)	<b>(4,379)</b>	(2,545)
Administrative expenses		<b>(1,051)</b>	(841)	<b>(2,003)</b>	(1,980)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net profit (loss) before taxation</b>	4	<b>11</b>	(41)	<b>(335)</b>	(253)
Taxation	5	<b>—</b>	—	<b>—</b>	—
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net profit (loss) attributable to shareholders</b>		<b>11</b>	(41)	<b>(335)</b>	(253)
Accumulated deficit, beginning of period		<b>(4,638)</b>	(2,577)	<b>(4,292)</b>	(2,365)
<b>Dividend</b>	6	<b>—</b>	—	<b>—</b>	—
		<hr/>	<hr/>	<hr/>	<hr/>
Accumulated deficit, end of period		<b>(4,627)</b>	(2,618)	<b>(4,627)</b>	(2,618)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Earnings (Loss) per share - Basic</b>	7	<b>HK0.002 cents</b>	HK(0.01) cents	<b>HK(0.07) cents</b>	HK(0.05) cents
		<hr/>	<hr/>	<hr/>	<hr/>

## CONSOLIDATED BALANCE SHEET

		<b>As at 30 June 2003 HK\$'000 (Unaudited)</b>	As at 31 December 2002 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		<u>671</u>	<u>586</u>
<b>Current assets</b>			
Trade receivables	8	<b>7,302</b>	5,566
Other receivables		<b>520</b>	703
Bank balances and cash		<u>6,211</u>	<u>7,293</u>
		<b>14,033</b>	<u>13,562</u>
<b>Current liabilities</b>			
Trade payables	9	<b>7,139</b>	6,469
Other payables and accrued charges		<b>2,424</b>	2,057
Receipts in advance		<b>485</b>	737
Amount due to a related company		<u>118</u>	<u>12</u>
		<b>10,166</b>	<u>9,275</u>
<b>Net current assets</b>		<u>3,867</u>	<u>4,287</u>
		<b>4,538</b>	<u>4,873</u>
<b>Capital and reserves</b>			
Share capital	10	<b>506</b>	506
Share premium and reserves	11	<u>4,032</u>	<u>4,367</u>
		<b>4,538</b>	<u>4,873</u>

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

	<b>Share capital</b>	<b>Share premium</b>	<b>Capital reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>2002</b>					
At 1 January 2002	456	54	(510)	(2,365)	(2,365)
Placing of shares	50	12,612	—	—	12,662
Share issue expenses	—	(3,497)	—	—	(3,497)
Net loss for the period	—	—	—	(253)	(253)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2002	<u>506</u>	<u>9,169</u>	<u>(510)</u>	<u>(2,618)</u>	<u>6,547</u>
<b>2003</b>					
At 1 January 2003	506	9,169	(510)	(4,292)	4,873
Net loss for the period	—	—	—	(335)	(335)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 30 June 2003</b>	<b><u>506</u></b>	<b><u>9,169</u></b>	<b><u>(510)</u></b>	<b><u>(4,627)</u></b>	<b><u>4,538</u></b>

## CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Operating activities</b>		
Net loss before taxation	(335)	(253)
Adjustments for:		
Depreciation of property, plant and equipment	72	10
Operating cash flows before movements in working capital	(263)	(243)
Increase in trade and other receivables	(1,553)	(1,444)
Increase (Decrease) in trade payables	670	(692)
Increase (Decrease) in other payables and accrued charges	367	(2,114)
Decrease in receipts in advance	(252)	(324)
Increase (Decrease) in amount due to a related company	106	(459)
<b>Net cash used in operating activities</b>	<b>(925)</b>	<b>(5,276)</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(157)	—
<b>Financing activities</b>		
Proceeds from the issue of shares	—	12,662
Expenses incurred in connection with the issue of shares	—	(347)
<b>Net cash from financing activities</b>	<b>—</b>	<b>12,315</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,082)</b>	<b>7,039</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>7,293</b>	<b>597</b>
<b>Cash and cash equivalents, end of the period</b>	<b>6,211</b>	<b>7,636</b>
<b>Analysis of the balance of cash and cash equivalents</b>		
Bank balances and cash	6,211	7,636

Notes:

## 1 BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 29 June 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The Company's shares were listed on GEM of the Stock Exchange on 8 January 2002.

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 Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Accounting for Income Taxes" issued by the Hong Kong Society of Accountants, 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 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 RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2003 and 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	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Expenses:		
Administrative service fees	494	425
Color separation and photo processing fees	511	474
Corporate finance service fee	—	300
Marketing service fees	—	66
Phototaking service fees	262	218
Rental expenses in respect of office premises	119	—
Underwriting commission	—	317
	<u>          </u>	<u>          </u>

Mr. Ng Hung Sang, Robert, a director and a substantial shareholder of the Company, had undertaken to provide continuing financial support to the Group to enable the Group to meet its liabilities as they fell due within the period from 11 September 2001 to 8 January 2002, when the Company's shares were listed on the GEM. Mr. Ng Hung Sang, Robert, Parkfield Holdings Limited ("Parkfield"), Fung Shing Group Limited ("Fung Shing"), Ronastar Investments Limited ("Ronastar"), Eartrade Investments Limited ("Eartrade") and Bannock Investment Limited ("Bannock"), shareholders of the Company, have provided indemnities in favour of the Group in the event that the Group incurs any liability as a result of the waiver of amounts due to related companies (see note 12a).

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 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of magazines	3,292	2,697	5,489	4,954
Advertising income	6,516	3,506	10,709	6,472
Promotion and marketing income	979	178	1,162	178
	<u>10,787</u>	<u>6,381</u>	<u>17,360</u>	<u>11,604</u>

During the three months and six months ended 30 June 2003, the Group's did not record any advertising revenue from barter transaction (three months and six months ended 30 June 2002: approximately HK\$24,000 and HK\$37,000, respectively).

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 considered there is only one business and geographical segment and no analysis of segmental assets and liabilities by geographical location is presented.

### 4 NET PROFIT (LOSS) BEFORE TAXATION

Net profit (loss) before taxation has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Staff cost (including directors' emoluments)	2,762	1,439	4,738	2,600
Retirement benefits scheme contributions	110	54	197	115
	<u>2,872</u>	<u>1,493</u>	<u>4,935</u>	<u>2,715</u>
Allowance (Written back) for bad and doubtful debts	45	(128)	65	(128)
Depreciation	38	5	72	10
Auditors' remuneration	75	60	150	120
	<u>2,990</u>	<u>1,430</u>	<u>5,172</u>	<u>2,717</u>

### 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\$11.5 million (as at 31 December 2002: approximately HK\$11.3 million), which are subject to the agreement of the Inland Revenue Department of the HKSAR, due to the unpredictability of future profit streams.

### 6 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 EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the three months and six months ended 30 June 2003 is based on the unaudited consolidated profit attributable to shareholders of the Company of approximately HK\$11,000 and unaudited consolidated loss attributable to shareholders of the Company of approximately HK\$335,000 respectively (three months and six months ended 30 June 2002: loss of approximately HK\$41,000 and HK\$253,000, respectively) and on the weighted average number of 506,479,876 shares in issue (506,479,876 and 505,640,407 shares are deemed to be in issue throughout the three months and six months ended 30 June 2002, respectively).

No diluted earnings (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:

	<b>As at 30 June 2003 HK\$'000 (Unaudited)</b>	As at 31 December 2002 HK\$'000 (Audited)
0 - 30 days	3,198	2,475
31 - 60 days	1,934	1,270
61 - 90 days	1,376	193
91 to 180 days	719	1,597
Over 180 days	497	388
	<hr/>	<hr/>
	7,724	5,923
Less: allowance for bad and doubtful debts	(422)	(357)
	<hr/>	<hr/>
	<b>7,302</b>	<b>5,566</b>
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## 9 TRADE PAYABLES

The following is an aged analysis of trade payables:

	<b>As at 30 June 2003 HK\$'000 (Unaudited)</b>	As at 31 December 2002 HK\$'000 (Audited)
0 - 30 days	1,140	624
31 - 60 days	2,260	1,567
61 - 90 days	1,550	1,553
91 to 180 days	1,758	2,371
Over 180 days	431	354
	<hr/>	<hr/>
	7,139	6,469
	<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	1,000,000,000,000	0.001	1,000,000
<i>Issued and fully paid:</i>			
At 1 January 2003 and 30 June 2003	506,479,876	0.001	506

## 11 MOVEMENT OF RESERVES

Movements of reserves were:

	Three months ended 30 June				2002
	Share premium HK\$'000 (Unaudited)	Capital reserve HK\$'000 (Unaudited)	Accumulated deficit HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>THE GROUP</b>					
At 1 April	9,169	(510)	(4,638)	4,021	6,082
Net profit (loss) attributable to shareholders	—	—	11	11	(41)
At 30 June	9,169	(510)	(4,627)	4,032	6,041
	Three months ended 30 June				2002
	Share premium HK\$'000 (Unaudited)	Accumulated deficit HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>THE COMPANY</b>					
At 1 April	9,169	(440)	8,729	8,983	8,983
Net loss attributable to shareholders	—	(62)	(62)	(62)	(70)
At 30 June	9,169	(502)	8,667	8,913	8,913

	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)
<b>THE GROUP</b>					
At 1 January	9,169	(510)	(4,292)	4,367	(2,821)
Placing of shares	—	—	—	—	12,612
Share issue expenses	—	—	—	—	(3,497)
Net loss attributable to shareholders	—	—	(335)	(335)	(253)
At 30 June	<u>9,169</u>	<u>(510)</u>	<u>(4,627)</u>	<u>4,032</u>	<u>6,041</u>

	Six months ended 30 June				2002
	Share premium	Share premium	Accumulated deficit	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>THE COMPANY</b>					
At 1 January		9,169	(379)	8,790	(83)
Placing of shares		—	—	—	12,612
Share issue expenses		—	—	—	(3,497)
Net loss attributable to shareholders		—	(123)	(123)	(119)
At 30 June		<u>9,169</u>	<u>(502)</u>	<u>8,667</u>	<u>8,913</u>

## 12 CONTINGENT LIABILITIES

- On 30 June 2001, three related companies waived certain balances due to them by the Group amounting to approximately HK\$7,611,000 at no consideration (the "Waiver"). As advised by the Group's legal counsel, in the event of winding up of any one of these related companies by reason of insolvency or the Waiver is ordered by courts or other competent authorities to be restored to the related companies, the Group may be required to compensate these related companies. In the opinion of directors, the risk of winding up of these related companies by reason of insolvency or restoring the balances to these related companies is remote, and, accordingly, it is not probable that the Group will compensate those related companies. No provision has been made in the financial statements with respect to such compensation. In addition, in the event that the Group incurs any liability as a result of the Waiver, such liability would fall within the indemnity given by Mr. Ng Hung Sang, Robert, Parkfield, Fung Shing, Ronastar, Earnttrade and Bannock, shareholders of the Company, in favour of the Group.
- As at 30 June 2003, the Company had provided a corporate guarantee to a bank to secure a bank facility of HK\$1 million (as at 30 June 2002: HK\$1 million) granted to a subsidiary, which remained unused as at 30 June 2003.

## 13 CAPITAL COMMITMENT

As at 30 June 2003, the Group had no significant capital commitment held (as at 30 June 2002: approximately HK\$800,000).

## 14 Subsequent Event

Please refer to the section headed "SIGNIFICANT INVESTMENT PLANS" below for details of a joint venture formed in the People's Republic of China (the "PRC").

## 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 as set out in the prospectus of the Company dated 31 December 2001 (the “Prospectus”):

### **Business objectives for the six months ended 30 June 2003 as stated in the Prospectus**

### **Actual business progress**

#### **Enrich contents of the Group’s magazines**

Continue to revamp content and flow of each magazine of the Group biannually

“味道LISA” magazine was relaunched as a bi-weekly in April 2003, thereby further meeting the needs of readers, for a faster paced magazine for the household.

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

Staff were sent regularly on international press trips abroad to enhance their understanding of the media industry.

The Group has also aggressively recruited university graduates to further support and nurture the talent of human resources.

#### **Increase advertising income**

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

“JESSICACODE” magazine ran a travel campaign to Tokyo, and launched the “Whole New Me Campaign”, extending the forms and categories of advertising revenue for the Group.

Develop regional sales forces to expand advertising customer base in different regions

Postponed due to the severe acute respiratory syndrome (“SARS”) outbreak.

Continue to develop long term relationships with existing long-term advertisers by providing value-added service and better advertising rate

The combined reach of “旭茉JESSICA” magazine, “JESSICACODE” magazine and “味道LISA” magazine forms a unique combination for advertisers and efforts have been placed in increasing the value-added services by providing all-round solution for advertisers.

**Business objectives for the six months ended  
30 June 2003 as stated in the Prospectus**

**Actual business progress**

**Increase publicity of the Group's titles**

Continue its promotion campaigns by advertising in printed, television and other media

“JESSICACODE” magazine hosted its launch party at the Residence Bel-Air, raising the awareness of the magazine both within the media industry as well as with advertisers and readers.

A heavy promotional campaign through magazines and bus shelters supported the launch of the “JESSICACODE” magazine and for the promotion of “旭茉JESSICA” magazine.

“味道LISA” magazine continues its joint promotion campaign with “Wellcome” supermarket chain.

Launch an annual subscription campaign

The Group sought alternative subscription boosting methods with joint promotion partners, to grow its subscription base.

Commence the Group's PRC marketing in cooperation with the PRC publishing partners

The Group continues to seek publishing partners in the PRC.

**Launch of new titles in local market**

Continue to improve the content of “JESSICA GIRL” magazine

“JESSICACODE” magazine was launched in April 2003 as a monthly magazine, targeting female readers between the ages of 18 - 35+, with positive response from both advertisers and readers. The management considers that the name “JESSICACODE” is more suitable for the market, and much wider in terms of target readers. Plans were made to increase the frequency of the magazine to a half-monthly to meet the demands of the market.

**Expand into other Chinese-speaking markets**

Identify suitable PRC publishing partners to licence the title of the Group in the PRC market

The Group continues to aggressively seek potential publishing partners in the PRC.

Negotiate with the PRC publishing partners

**Develop its marketing team and support services team**

Develop an individual administrative team by recruiting two additional staff to work with the existing administrative staff to carry out support services, including administrative, accountancy, information technology and human resources functions of the Group

Management has postponed the set up of an individual administrative team to the second half of 2003.

## USE OF PROCEEDS

The net proceeds from the placing of shares in January 2002 (the “Placing”), after deducting related expenses, are approximately HK\$9.2 million.

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

		Actual amount used		
	Budgeted	From date	For the	From date
	amount	of listing to	six months	of listing to
	HK\$'000	31 December	ended	30 June
		2002	30 June	30 June
		HK\$'000	2003	2003
			HK\$'000	HK\$'000
1. Promotion and marketing for two existing magazines	1,800	1,628	172	1,800
2. Launch of new titles in local market	4,500	—	2,446	2,446
3. Promotion and marketing activities to introduce the titles of the Group in PRC	400	—	—	—
4. Staff training and trips to attend fashion shows overseas	200	28	2	30
5. Staff enhancement, recruiting new staff and developing its own marketing team and support services team	1,200	830	370	1,200
6. General working capital	1,100	944	135	1,079
	<u>9,200</u>	<u>3,430</u>	<u>3,125</u>	<u>6,555</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The first half of 2003 saw a very eventful period for Hong Kong, with SARS hitting the economy, and other economic problems putting pressure on many businesses.

Turnover for the six months ended 30 June 2003 was approximately HK\$17.4 million, representing an increase of approximately 50% as compared with the same period of the previous year, while operating costs increased by approximately HK\$5.9 million, or approximately 49%.

Compared on a quarter-to-quarter basis, turnover and operating costs for the three months ended 30 June 2003 increased by approximately 69% and approximately 68% respectively for the same period last year.

The Group broke even in the second quarter, although the profit and loss for the first half of the year was a slight loss, mainly due to a bleak first quarter, and the after-effects of SARS on the economy. However, our flagship title “旭茉JESSICA” magazine continued to flourish as the number 1 women’s glossy magazine in Hong Kong. Based on the recently published Hong Kong Audit Bureau of Circulations audited circulation figures, “旭茉JESSICA” magazine achieved an average circulation of 60,133 copies per month (January to December 2002), representing an approximately 44% increase on the previous year. More importantly, “旭茉JESSICA” magazine’s circulation figure was approximately 58% greater than its next closest competitor in the same category of women’s glossy magazines, a marked achievement through this period.

“味道LISA” magazine was relaunched as a bi-weekly, and the management expects this magazine to improve in the third quarter, as advertisers gently adapt to the new business model of “味道LISA” magazine.

The first half of the year 2003 was traditionally a low-period in the media industry, and was marked with an aggressive launch of a new title, “JESSICACODE” magazine within the Group, as an extension of the “旭茉JESSICA” brand and family. The magazine has been well received by advertisers and readers alike, and the “Spring Fiesta” launch party hosted at the Residence Bel Air at Cyberport highlighted its launch in May 2003.

## **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\$3.9 million (31 December 2002: net current assets of approximately HK\$4.3 million). The current assets comprised bank balances and cash of approximately HK\$6.2 million, trade and other receivables of approximately HK\$7.8 million. The current liabilities comprised trade payables, accruals and other payables of approximately HK\$9.5 million, receipts in advance of approximately HK\$0.5 million and amount due to a related company of approximately HK\$0.1 million.

As at 30 June 2003, the Group had aggregate banking facilities granted under corporate guarantee by the Company in respect of revolving term loan of HK\$1 million, all of which had not been utilized. Therefore, the gearing ratio of the Group, which is measured by bank borrowings net of cash and bank balance to shareholders’ equity, has remained zero.

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; and (iii) the Group had no significant investment held.

The Board is of the opinion that 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.

## **SIGNIFICANT INVESTMENT PLANS**

On 11 August 2003, Grandpress Limited (“Grandpress”), a wholly-owned subsidiary of the Company entered into a co-operative joint venture agreement (the “Agreement”) with Shanghai Boyang Advertising Limited (上海博洋廣告有限公司) (“Boyang”). Pursuant to the Agreement, Grandpress and Boyang will form a company named Shanghai South China & Boyang Media Consultant Co., Ltd. (上海南華博洋傳媒諮詢有限公司) (the “Joint Venture”) in the PRC, a Sino-foreign co-operative joint venture, which will be engaged in the magazine publication and distribution related businesses.

The registered capital for the Joint Venture is HK\$5,200,000 of which (i) HK\$2,860,000 will be contributed in cash by Grandpress; and (ii) the remaining HK\$2,340,000 will be contributed in cash and in kind by Boyang. Hence, the Joint Venture will be owned as to 55% by Grandpress and as to 45% by Boyang.

As at 30 June 2003, the Group did not have any other significant investment plans, except the above-mentioned Joint Venture and 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 59 (31 December 2002: 34). Employees’ cost (including directors’ emoluments) amounted to approximately HK\$4.9 million for the six months ended 30 June 2003 (six months ended 30 June 2002: approximately HK\$2.7 million).

The Group considers its employees as its most valuable asset. In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidised training programmes 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. Share options have also been granted to certain employees of the Group.

## **PROSPECTS**

During the second half of the year 2003, management will focus on consolidating the positions of the three magazines in its portfolio, growing their circulation through both traditional and non-conventional channels. “旭茉JESSICA” magazine hosted its third “Most Successful Women Awards” in July 2003, complemented by a brand-building television commercial campaign, to further strengthen “旭茉JESSICA” magazine as the market’s leader of women’s glossy magazines.

“味道LISA” magazine continues its tradition by hosting its 5th “HK Secondary School Cooking Competition”, strengthening its name both in the household and with younger generation readers.

“JESSICACODE” magazine is published as a half-monthly beginning in July 2003, to further meet the needs of advertisers for a glossy magazine with a quality editorial environment, quality reach and high frequency. “JESSICACODE” magazine and “味道LISA” magazine are expected to improve both in circulation and advertising revenue in the second half.

We shall continue to strengthen the brand names of our three titles, and enhance readers’ loyalty by running more projects with readers via our loyalty clubs.

It is management's intention to leverage each magazine's reach on the other, in order to have a powerful combination to market to advertisers to grow our advertising revenues. We will also enhance each magazine's editorial content, to give readers greater value and meet their needs and tastes, in order to grow our circulation base and revenues. Meanwhile, we shall also introduce a trainee program to further enhance our human resources.

The Group is actively preparing for the licensing of editorial materials and launching titles in the PRC.

## **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:

<b>Name of director</b>	<b>Name of company</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	17,886,800	3.53%
	The Company	Corporate interest	318,132,403	62.81%
			<i>(Note)</i>	
Ms. Ng, Jessica Yuk Mui	The Company	Beneficial owner	104,000	0.02%

*Note:* 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. The 121,987,440 shares referred to above include the 59,325,840 shares held by 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 certain directors 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 20 December 2001 and became effective on 8 January 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 (Note a)	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				Initial exercise price per share option (Note b) HK\$	Immediately preceding the grant date of share options (Note c) HK\$	Immediately preceding the exercise date of share options HK\$
<b>Directors</b>											
Ms. Foo Kit Tak	1,600,000	—	—	—	—	1,600,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	1,600,000	—	—	—	—	1,600,000	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	N/A
Ms. Cheung Mei Yu	1,600,000	—	—	—	—	1,600,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	1,600,000	—	—	—	—	1,600,000	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	N/A
Sub-total	<u>6,400,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,400,000</u>					
<b>Employees</b>											
In aggregate	2,240,000	—	—	(160,000)	—	2,080,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	4,320,000	—	—	(640,000)	—	3,680,000	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	N/A
Sub-total	<u>6,560,000</u>	<u>—</u>	<u>—</u>	<u>(800,000)</u>	<u>—</u>	<u>5,760,000</u>					
<b>Others</b>											
In aggregate	7,200,000	—	—	(2,240,000)	—	4,960,000	15/4/2002	15/4/2003 - 7/1/2012	0.69	0.68	N/A
	2,240,000	—	—	(320,000)	—	1,920,000	2/9/2002	2/9/2003 - 7/1/2012	0.31	0.30	N/A
Sub-total	<u>9,440,000</u>	<u>—</u>	<u>—</u>	<u>(2,560,000)</u>	<u>—</u>	<u>6,880,000</u>					
Total	<u>22,400,000</u>	<u>—</u>	<u>—</u>	<u>(3,360,000)</u>	<u>—</u>	<u>19,040,000</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:

<b>From the date of grant of share options</b>	<b>Exercisable percentage</b>
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:

<b>Name of shareholder</b>	<b>Name of company</b>	<b>Capacity</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang, Robert	The Company	Beneficial owner	17,886,800	3.53%
	The Company	Corporate interest	318,132,403 ( <i>Note a</i> )	62.81%
Parkfield	The Company	Beneficial owner	92,966,000 ( <i>Note a</i> )	18.36%
Fung Shing	The Company	Beneficial owner	99,012,563 ( <i>Note a</i> )	19.55%
Eartrade	The Company	Beneficial owner	62,661,600 ( <i>Note b</i> )	12.37%
	The Company	Corporate interest	59,325,840 ( <i>Note b</i> )	11.71%
Bannock	The Company	Beneficial owner	59,325,840 ( <i>Note b</i> )	11.71%
Ms. Ng Lai King, Pamela	The Company	Spouse's interest	336,019,203 ( <i>Note c</i> )	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 Earntrade, which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings, respectively. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.
- (b) Earntrade is the holding company of Bannock. Thus, Earntrade 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 members of the Group.

### **SPONSOR'S INTERESTS**

Pursuant to the agreement dated 27 November 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 continuing sponsor for the period from 26 November 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, Chairman and management shareholder of the Company, is also Chairman of South China Holdings and Co-Chairman of Capital Publications Limited ("Capital"). Mr. Ng Hung Sang, Robert, personally and through Parkfield, Fung Shing and Ronastar, has interest in South China Holdings and Capital. 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 Capital. Ms. Cheung Choi Ngor, Christina, who was an ex-director of Capital Publishing Limited, a wholly owned subsidiary of Capital and Mr. Richard Howard Gorges, are also directors of various members of South China Group. As Capital 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, Ms. Ng, Jessica Yuk Mui, Chief Executive Officer of the Company, is also director of certain members of South China Media Limited.

Save as disclosed above and in the Prospectus, none of the directors or chief executives of the Group, the initial management shareholders or the substantial shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may 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 8 January 2002.

## **AUDIT COMMITTEE**

The Company established an audit committee on 4 September 2001 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. So, George Siu Ming and Ms. Pong Oi Lan, Scarlett, 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 8 January 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**  
*Chairman*

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