

資本雜誌
CAPITAL

CAPITAL PUBLICATIONS LIMITED
資本出版有限公司

(Incorporated in the Cayman Islands with Limited liability)



ANNUAL REPORT 2003



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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (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, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang, Robert

(Co-Chairman and Chief Executive Officer)

Mr. Fung Ka Pun (alias K.B. Fung) *(Co-Chairman)*

Mr. Hui Ping

Mr. Ng Yuk Fung Peter

Mr. Ng Yuk Yeung Paul

Non-executive Director

Ms. Ng, Jessica Yuk Mui

Independent Non-executive Directors

Mr. Law Cho Wa, Richard

Dr. Lo Wing Yan, William, JP

COMPLIANCE OFFICER

Mr. Hui Ping

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Chan Chi Keung ACCA

AUTHORISED REPRESENTATIVES

Mr. Hui Ping

Mr. Chan Chi Keung

AUDIT COMMITTEE

Mr. Law Cho Wa, Richard *(Committee Chairman)*

Dr. Lo Wing Yan, William, JP

LEGAL ADVISERS

As to Hong Kong Law

Preston Gates Ellis

As to Cayman Islands Law

Maples and Calder

AUDITORS

Deloitte Touche Tohmatsu

SPONSOR

MasterLink Securities (Hong Kong) Corporation Limited

PRINCIPAL BANKER

Standard Chartered Bank

Shop 16

Ground Floor & Lower Floor

New World Tower

Central

Hong Kong

REGISTERED OFFICE

The Offices of M & C Corporate Services Limited

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit A, 3rd Floor

Wah Shing Centre

5 Fung Yip Street

Chai Wan

Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

STOCK CODE

8155

WEBSITE FOR THE GROUP'S MAGAZINE

www.capital-hk.com

CHAIRMAN'S STATEMENT

I am pleased to report the activities of the Company and its subsidiaries (together "the Group") for the year ended 31st December, 2003.

BUSINESS REVIEW AND STRATEGY

The Group recorded turnover of approximately HK\$9.7 million, an approximately 38% growth on the previous year, for the year ended 31st December, 2003. Loss for the year ended 31st December, 2003 was approximately HK\$3.44 million, as compared with a loss of approximately HK\$3.45 million last year. The liquidity of the Group at year-end was healthy with a no gearing capital structure. As at 31st December, 2003, cash balance was approximately HK\$5 million and current ratio at approximately 2.8 times.

The losses were mainly attributable to the Severe Acute Respiratory Syndrome ("SARS") and a reduction in luxury advertisement spending during the first half of the year, as well as the launch of "資本壹週 Capital Weekly" during the third quarter.

Despite an overall loss for the year 2003, the Group was profitable for the first time in the final quarter of the year 2003, due to a strengthened business model and other corporate services that generated stronger revenues for the Group.

Without taking into account the financial impact of the suspension of "資本壹週 Capital Weekly", an operating loss of approximately HK\$1.5 million, the operating loss of the Group was reduced by approximately 44% for the year ended 31st December, 2003.

PROSPECTS

The past year provided much experience for the Group in terms of launching new magazines as well as developing new streams of business contributing to the profitability of the Group. The Group shall launch a new monthly magazine, titled "CAPITAL CEO" in the late second quarter, or early third quarter of 2004, in order to widen our business base, as well as further strengthen the brand of "資本雜誌 Capital" in Hong Kong and the People's Republic of China (the "PRC") (not including Hong Kong, Taiwan and Macau). The profitability of the Group in the fourth quarter of 2003 makes us extremely positive for the coming year, and with the strength of Hong Kong economy, the Closer Economic Partnership Arrangement ("CEPA") and other positive effects of the mainland and global economy on the Hong Kong economy, we are confident that the Group shall have positive returns to our shareholders in 2004.

APPRECIATION

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

Ng Hung Sang, Robert

Co-Chairman

Hong Kong Special Administrative Region of the People's Republic of China
18th March, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

For the year ended 31st December, 2003, the Group's turnover increased by approximately 38.4% to approximately HK\$9,653,000 (2002: approximately HK\$6,977,000) as we came out of the SARS period. Loss attributable to shareholders decreased by approximately 0.3% to approximately HK\$3,439,000 (2002: approximately HK\$3,450,000). Loss per share was HK0.68 cents (2002: HK0.72 cents).

Compared on a quarter-to-quarter basis, the Group turned around from a loss of approximately HK\$185,000 for the three months ended 31st December, 2002 to a profit of approximately HK\$870,000 for the three months ended 31st December, 2003. Turnover and operating costs for the three months ended 31st December, 2003 increased and decreased by approximately 31.7% and 16.2% respectively on the same period last year.

Other income from corporate services contributed to the increase in revenue and profit for the fourth quarter of year 2003. The Group opened up new sources of revenues from corporate services, seminars and organization of events, such as The 4th Outstanding Information Technology and Financial Enterprise Awards.

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", "I010", "Haagen-Dazs", "Mercedes-Benz", "Cathay Pacific", "Lampe Berger", "Royal Selangor", "Nokia", "Sony" and "Fujitsu".

In July 2003, the Group launched "資本壹週 Capital Weekly" on a trial basis as an extension to the existing "資本雜誌 Capital", the Group's flagship monthly magazine. The publication of "資本壹週 Capital Weekly" was suspended in mid-August 2003 pending a more suitable market environment. Increase in turnover and operating costs was mainly due to the launch of "資本壹週 Capital Weekly" and improvements in the performance of "資本雜誌 Capital" magazine.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the Group had net current assets of approximately HK\$5,300,000 (31st December, 2002: approximately HK\$9,003,000).

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31st December, 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 loan arrangements with or had not obtained any credit facilities from any financial institutions; (iv) the Group did not made any material acquisitions, disposals of subsidiaries and affiliated companies and investment other than those set out in the prospectus of the Company dated 10th July, 2002 (the "Prospectus") (Appendix IV under "Reorganisation") and (v) the Group did not have any contingent liabilities.

As the Group had no bank borrowings, no gearing ratio (measured by bank borrowings net of cash and bank balance to shareholders' equity) is presented at 31st December, 2003.

SIGNIFICANT INVESTMENT PLANS

As at 31st December, 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 31st December, 2003, the total number of employees of the Group was 22 (31st December, 2002: 20). Employees' cost (including directors' emoluments) amounted to approximately HK\$6,549,000 for the year (2002: approximately HK\$5,762,000).

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

PROSPECTS

The management team is positive about year 2004, as the Group builds on the current platform of "資本雜誌 Capital" brand and services to further support and serve corporations in Hong Kong and the PRC, and the business community of the region. We shall continue to strengthen our existing business, and extend our current advertising base and other such marketing services, as well as organize more local and regional events and seminars for clients and business persons in the region.

The management team is now in the planning stage for the launch of a new magazine titled "CAPITAL CEO", which will be an extension of the "資本雜誌 Capital" brand. This magazine shall be positioned as a business magazine for entrepreneurs and individual business persons, rather than corporations, in order to better serve the needs of these groups of readers.

The management team shall also focus on the regionalisation of the title, and aggressively seek business and publishing opportunities in the Greater China region.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Business objectives for the six months ended 31st December, 2003 as stated in the Prospectus

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

Continue to broaden subscription base through telemarketing and subscription 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

Continue to develop regional sales forces to expand advertising customer base in the Greater China regions

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

Increase sales and promotional efforts

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

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

Extend into other Chinese-speaking markets

Negotiate with the PRC publishing partners

Finalise the PRC publishing partners

Develop its marketing team and support services team

No plan for this period

Form a marketing team by recruiting 2 to 3 new staff to carry out marketing services of the Group which was planned for the six months ended 30th June, 2003

Form a support services team by recruiting 2 to 3 new staff to take up all support services, including administrative, accountancy, information technology, circulation and human resources functions of the Group which was planned for the six months ended 30th June, 2004

Actual Business Progress

Ad hoc seminars, regular weekly meetings and monthly review meetings held by senior management and newly recruited training staff for its staff members to brief them on current market trends and development, discussions on hot topics and enrichment of contents

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

An award presentation was held on 31st May, 2003 for the awardees of the "Best of the Best for Executives 2003"

The Group has recruited more experienced staff to perform marketing studies in the Greater China region

The Group has published a series of new financial and business-related issues including "Billionaires in the Great China Region", "The Desirable Luxury Collection", "Eco-Smart Office Specials" and "資本壹週 Capital Weekly"

The Group has placed advertisement in magazines, television and radio broadcast during the second half of the year 2003, to promote the Group's magazines and new issues

The 4th Outstanding Information Technology and Financial Enterprise Awards was held on 8th December, 2003

The Group has not identified suitable partners in the PRC up to now and will continue to seek potential partners in the PRC

The Group has recruited 2 marketing staff to carry out marketing services during the year which was planned for the six months ended 30th June, 2003

The Group has replaced 2 more experienced administrative staff to provide support services during the year 2003. The recruitment was implemented earlier than the planned date as specified in the Prospectus

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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			
	For the six months ended 31 December	From date of listing to 31 December	From date of listing to 31 December	For the six months ended 30 June	From date of listing to 31 December	From date of listing to 31 December	
Total	2003	2003	2002	2003	2003	2003	
	HK\$'000	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	1,000	—	49	520	569
Developing marketing team and support services team (note i)	1,500	250	500	—	58	488	546
2. Staff training and recruitment expenses (note i)	1,000	250	750	—	12	870	882
3. Promotion and advertising costs: In Beijing, Shanghai and Guangzhou	2,000	500	1,000	—	—	—	—
In Hong Kong	1,000	500	1,000	—	187	309	496
4. Publication of financial special issues and stand-alone periodicals or books (note ii)	2,000	610	1,440	—	—	2,000	2,000
5. Repayment of loan from a major shareholder of the Company, Mr. Ng Hung Sang, Robert	1,000	—	1,000	1,000	—	—	1,000
6. General working capital	1,200	300	1,200	600	300	300	1,200
	<u>11,700</u>	<u>2,910</u>	<u>7,890</u>	<u>1,600</u>	<u>606</u>	<u>4,487</u>	<u>6,693</u>

Notes:

- (i) The fund has been utilised earlier than the planned date as stated in the Prospectus. The Group has placed more resources in the area of providing marketing and supporting services and staff training in order to cope with the increasing activities of the Group and the upturn of the economy of Hong Kong.
- (ii) The fund was fully utilised in launching a series of new issues, including "Billionaires in the Greater China Region", "The Desirable Luxury Collections", "Eco-Smart Office Specials" and "資本壹週 Capital Weekly".

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, Robert, aged 54, is the Co-Chairman and Chief Executive Officer of the Company. Mr. Ng is actively involved in the overall corporate policies, strategic planning and business development of the Group. Mr. Ng is also the Chairman of South China Holdings Limited ("South China Holdings"), South China Brokerage Company Limited ("South China Brokerage"), South China Industries Limited ("South China Industries"), Wah Shing International Holdings Limited ("Wah Shing") and Jessica Publications Limited ("Jessica"). He holds a Master's degree in marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He has extensive experience in the media industry. Mr. Ng was appointed as a Director of the Company on 28th January, 2002.

Mr. Fung Ka Pun (alias K.B. Fung), aged 58, is the Executive Co-Chairman of E2-Capital (Holdings) Limited, a company listed on the Stock Exchange. Mr. Fung is the Founder and Chairman of Goodwill International (Holdings) Limited, a substantial shareholder of E2-Capital (Holdings) Limited. He has over 28 years of experience in finance, broking, securities trading and corporate finance. Mr. Fung is a member of the Association of International Accountants and The Institute of Chartered Secretaries and Administrators. He was appointed as Director and Executive Co-Chairman of the Company on 30th August, 2002.

Mr. Hui Ping, aged 53, was appointed as a Director of the Company on 28th January, 2002 and as Editorial Director of the Group on 20th March, 2002. He is also the Compliance Officer and one of the Authorised Representatives of the Company. He holds a Master's degree in International Studies from the Griffith University in Australia. He has extensive experience in the media industry. Since November 1999, Mr. Hui worked for the South China Media Group as Deputy Chief Editor and Quality Controller of its magazine publication business, which included, amongst other things, the "資本雜誌 Capital" magazine where his responsibilities included giving editorial direction and management of the editorial teams.

Mr. Ng Yuk Fung Peter, aged 23, was appointed as a Director of the Company on 9th October, 2003. He is also an Executive Director of South China Holdings, South China Industries and Wah Shing. He holds a bachelor's degree in law from King's College, University of London in the United Kingdom. He has engaged in the industrial and pharmaceutical businesses for over two years.

Mr. Ng Yuk Yeung Paul, aged 22, was appointed as a Director of the Company on 9th October, 2003. He is also an Executive Director of South China Brokerage. He graduated with first class honours in law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. He has engaged in the financial service and travel businesses for over one year.

NON-EXECUTIVE DIRECTOR

Ms. Ng, Jessica Yuk Mui, aged 25, was appointed an Non-executive Director of the Company on 20th August, 2003. She is also an Executive Director of South China Holdings and South China Industries and both the Executive Director and Chief Executive Officer of Jessica. Ms. Ng has a bachelor's degree in law from King's College London, University of London in the United Kingdom. Ms. Ng is an associate member of the Chartered Institute of Management Accountants and a member of the Chinese People's Political Consultative Conference Tianjin Provincial Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Law Cho Wa, Richard, aged 38, is the Company Secretary and Group Accounting Manager of Hong Kong Ferry (Holdings) Company Limited, a company listed on the Stock Exchange and in which he has served over 10 years. Mr. Law has extensive experience in accounting, auditing, financial reporting, company secretarial practice, corporate advisory services and general management. He holds a Master's degree in Business Administration from the University of Hong Kong and a Post-graduate Diploma in Corporate Administration from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Society of Accountants, The Hong Kong Institute of Company Secretaries, The Association of Chartered Certified Accountants, and The Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Directors. Mr. Law was appointed as an Independent Non-executive Director of the Company on 5th June, 2002.

Dr. Lo Wing Yan, William, JP, aged 43, is the Executive Director and Vice-president of China Unicom Ltd. He is also the Non-executive Chairman of WPP Greater China. Dr. Lo is a Board Member of the Hong Kong Applied Science and Technology Research Institute as well as the Hong Kong Jockey Club Institute of Chinese Medicine Ltd. He is a non-executive director of a number of companies listed in Hong Kong and in New York including Softbank Investment International (Strategic) Limited, Ocean Grand Chemicals Holdings Limited and Nam Tai Electronics, Inc.. Dr. Lo was the Chief Executive Officer of Citibank's Global Consumer Banking Business for Hong Kong, Macau from 1998 to 1999. Prior to his appointment at Citibank, Dr. Lo was the founding Managing Director of Hongkong Telecom IMS Ltd. Dr. Lo holds a M.Phil. in Molecular Pharmacology and a Ph.D. in Genetic Engineering, both from Cambridge University. He was a Commonwealth Scholar, a Croucher Foundation Fellow (H.K.), and a Bye-Fellow of Downing College, Cambridge. In 1996, Dr. Lo was selected as a "Global Leader for Tomorrow" by World Economic Forum. In 1999, Dr. Lo was appointed as a Justice of the Peace (JP) of Hong Kong. In June 2003, Dr. Lo was appointed as Committee Member of Shantou People's Political Consultative Conference. Dr. Lo was appointed as an Independent Non-executive Director of the Company on 25th February, 2002.

SENIOR MANAGEMENT

Mr. Chan Chi Keung, aged 30, is the Company Secretary, Qualified Accountant and one of the Authorised Representatives of the Company. He graduated from Hong Kong Baptist University with an Honours Degree in Professional Accounting. He is an associate member of the Association of Chartered Certified Accountants. Mr. Chan has about 7 years' experience in auditing, accounting and financial management.

Mr. Lam Chun Wai, aged 40, is the Managing Chief Editor of the "資本雜誌 Capital" magazine. Mr. Lam joined the Group on 24th April, 2002 and is responsible for editing and reporting of the "資本雜誌 Capital" magazine. He graduated with a Bachelor's degree of Arts from Tamkang University in Taiwan and has about 8 years of experience in the media industry.

Mr. Ng Hung Sang, Robert is the father of Ms. Ng, Jessica Yuk Mui, Mr. Ng Yuk Fung Peter and Mr. Ng Yuk Yeung Paul. Save for these relationships, there are no family relationships between any Directors or senior management and any other Directors or senior management of the Company.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements of the Company and of the Group for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 22 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2003 (2002: nil).

GROUP FINANCIAL SUMMARY

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

	For the period from 19th May, 1999 to				
	2003	For the year ended 31st December,			31st December,
Results	HK\$'000	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	9,653	6,977	9,172	10,858	5,746
Direct operating expenses	(7,531)	(5,591)	(8,545)	(7,025)	(3,119)
Other operating income	73	179	—	—	—
Selling and distribution costs	(2,933)	(1,206)	(2,290)	(1,927)	(1,077)
Administrative expenses	(2,701)	(3,809)	(2,455)	(3,136)	(1,671)
Loss for the year/period	(3,439)	(3,450)	(4,118)	(1,230)	(121)
Loss attributable to shareholders	(3,439)	(3,450)	(4,118)	(1,230)	(121)

DIRECTORS' REPORT

GROUP FINANCIAL SUMMARY *(continued)*

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

Assets and liabilities

	As at 31st December,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Non-current asset	<u>831</u>	<u>567</u>	<u>113</u>	<u>—</u>	<u>—</u>
Current assets	8,295	11,401	1,678	7,044	5,351
Current liabilities	(2,995)	(2,398)	(7,260)	(8,395)	(5,472)
Net current assets (liabilities)	<u>5,300</u>	<u>9,003</u>	<u>(5,582)</u>	<u>(1,351)</u>	<u>(121)</u>
Net assets (liabilities)	<u>6,131</u>	<u>9,570</u>	<u>(5,469)</u>	<u>(1,351)</u>	<u>(121)</u>

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Further details in relation to the Company's share capital are set out in note 15 to the financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Ng Hung Sang, Robert (Co-Chairman and Chief Executive Officer)	(appointed Chief Executive Officer on 28th August, 2003)
Mr. Fung Ka Pun (Co-Chairman)	
Mr. Hui Ping	
Mr. Ng Yuk Fung Peter	(appointed on 9th October, 2003)
Mr. Ng Yuk Yeung Paul	(appointed on 9th October, 2003)
Mr. Au Tze Sheung (Chief Executive Officer)	(resigned on 27th March, 2003)
Mr. Wong Po Ki	(resigned on 15th May, 2003)
Mr. Lau Ho Kit, Ivan	(appointed on 27th March, 2003 and resigned on 17th January, 2004)

Non-executive Director:

Ms. Ng, Jessica Yuk Mui	(appointed on 20th August, 2003)
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Independent Non-executive Directors:

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

In accordance with Articles 116 and 119 of the Articles of Association of the Company, Mr. Hui Ping, Ms. Ng, Jessica Yui Mui, Mr. Ng Yuk Fung Peter, Mr. Ng Yuk Yeung Paul and Dr. Lo Wing Yan, William, JP will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

The executive Directors have entered into a service contract with the Company for an initial fixed term of one year commencing from 28th January, 2002 (for Mr. Ng Hung Sang, Robert, Mr. Au Tze Sheung, Mr. Hui Ping and Mr. Wong Po Ki) and from 30th August, 2002 (for Mr. Fung Ka Pun), which continues thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. In addition, Mr. Au Tze Sheung and Mr. Hui Ping are required to work full time for the Company. Mr. Lau Ho Kit, Ivan ("Mr. Lau") entered into an engagement contract with a wholly-owned subsidiary of the Company on 1st April, 2003 and that such contract would be terminated upon one month's notice in writing served by the Company to Mr. Lau or three months' notice in writing served by Mr. Lau to the Company.

The non-executive Director and the independent non-executive Directors are appointed for an initial term of two years commencing from her/his date of appointment and will thereafter be subject to retirement by rotation at the annual general meeting according to the Articles of Association of the Company.

Save for the aforesaid, none of the Directors has entered into any service contract or has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 31st December, 2003, the interests or 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 of Hong Kong Limited ("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 Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (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	18,766,800	3.71%
	The Company	Corporate interest	318,132,403	62.81%
			(Note)	
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 Limited ("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.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES *(continued)*

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 31st December, 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 24th June, 2002 and became effective on 18th July, 2002. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) *Summary of the Scheme*

1. *Purpose of the Scheme*

The purpose of the Scheme is to recognise and motivate the contribution of the Employees (as defined in sub-section headed "Participants of the Scheme" below) and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

2. *Participants of the Scheme*

The board of directors of the Company or a duly authorised committee thereof (the "Board"), may, at its discretion, makes offers to any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director) of the Group (the "Employees"), adviser, consultant, contractor, client or supplier who have contributed to the Group (collectively the "Participants"), to take up options to subscribe for shares of HK\$0.01 each in the share capital of the Company ("Shares") in accordance with the provisions of the Scheme.

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

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

As at 31st December, 2003, 5,064,983 Shares were issuable pursuant to share options granted under the Scheme. In addition, up to 31st December, 2003, no options were exercised by the grantee pursuant to the Scheme.

As at 31st December, 2003, the total number of Shares available for issue under the Scheme was 45,584,851, representing approximately 9% of the issued share capital of the Company as at 18th March, 2004.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

(i) *Summary of the Scheme (continued)*

4. *Maximum entitlement of each participant*

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

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

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

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

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

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

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

8. *Basis of determining the exercise price of the option*

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

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

9. *Remaining life of the Scheme*

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

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

DIRECTORS' REPORT

SHARE OPTION SCHEME (continued)

(ii) Details of options granted

Particulars and movements during the year ended 31st December, 2003 of the outstanding share options granted under the Scheme were as follows:-

Name or category of participant	Number of share options					As at 31.12.2003	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 year	Exercised during the year	Lapsed during the year	Cancelled during the year				Initial exercise price per share HK\$ (Note b)	Immediately preceding the grant date of share options HK\$ (Note c)	Immediately preceding 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 1/3%
25th - 36th months	33 1/3%
37th - 48th months	33 1/3%

- (b) The exercise price is subject to adjustment. Provided always that any part of the share options not exercised in full in accordance with the periods specified above shall remain exercisable during the exercise period of share options but the exercise price shall be adjusted by increasing 5% per annum (on a cumulative basis) until such time as the relevant portion of the share options shall have been fully exercised or lapsed in accordance with the Scheme.
- (c) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (d) No consideration in respect of share options was received because no share options were granted during the year (2002: HK\$1).

DIRECTORS' REPORT

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in "SHARE OPTION SCHEME" above, during the year ended 31st December, 2003, neither the Company nor any of its subsidiaries issued or granted any convertible securities, options, warrants or similar rights and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31st December, 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	18,766,800	3.71%
	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	336,899,203 (Note c)	66.52%

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 336,899,203 shares in which Mr. Ng Hung Sang, Robert is interested by virtue of the SFO.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, as at 31st December, 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.

MANAGEMENT SHAREHOLDERS

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

CONNECTED TRANSACTIONS

Details of the transactions with companies controlled by, or affiliated, with, South China Holdings are set out in note 17 to the financial statements. A Director, Mr. Ng Hung Sang, Robert is a director and substantial shareholder of South China Holdings. Save as disclosed therein, there were no other transactions to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, Robert, Co-Chairman, Chief Executive Officer 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 is 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 Holdings. As Jessica and certain members of South China Media Limited ("SC Media") (collectively, the "SC Media Group"), 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, is an ex-employee of SC Media. Ms. Ng, Jessica Yuk Mui, a non-executive Director of the Company, is also a director of Jessica, South China Holdings and certain members of SC Media and therefore is regarded to be interested in such competing businesses of the Group.

Mr. Ng Yuk Fung Peter is an executive director of South China Holdings. He is not regarded to have any businesses competing with the business of the Group since he is not involved in the day-to-day running of the businesses of SC Media Group.

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

DIRECTORS' REPORT

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

BOARD PRACTICES AND PROCEDURES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in Note 20 to the financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31st December, 2003, the five largest customers of the Group accounted for less than 30% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 73.5% of the Group's total purchases. In addition, the largest supplier accounted for approximately 40.9% of the Group's total purchases. Success Production Limited, a member of South China Holdings, is one of the top five suppliers.

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

Save as disclosed above, none of the directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers as at 31st December, 2003.

DIRECTORS' REPORT

AUDIT COMMITTEE

The Company established an audit committee on 25th February, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two members, Mr. Law Cho Wa, Richard and Dr. Lo Wing Yan, William, JP, who are independent non-executive Directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's 2002 annual report and 2003 half-yearly report and quarterly reports as well as the Company's internal control procedures.

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

SPONSOR'S INTERESTS

As at 31st December, 2003, MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

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

AUDITORS

Except for the period from the date of incorporation to November 2002, in which Messrs. Arthur Andersen & Co. acted as auditors of the Company and upon the merging of practices of Arthur Andersen & Co. with Messrs. PricewaterhouseCoopers, the latter were appointed as auditors of the Company to fill the casual vacancy, Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past two years.

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

On behalf of the Board

Ng Hung Sang, Robert

Co-Chairman

Hong Kong Special Administrative Region of the People's Republic of China
18th March, 2004

AUDITORS' REPORT

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中 111 號
永安中心 26 樓

**Deloitte
Touche
Tohmatsu**

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

(Incorporated in the Cayman Islands with limited liability)

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18th March, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	5	9,653	6,977
Direct operating expenses		(7,531)	(5,591)
Other operating income	6	73	179
Selling and distribution costs		(2,933)	(1,206)
Administrative expenses		(2,701)	(3,809)
		<hr/>	<hr/>
Loss for the year	7	(3,439)	(3,450)
		<hr/> <hr/>	<hr/> <hr/>
Basic loss per share	10	HK(0.68) cents	HK(0.72) cents
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

At 31st December, 2003

CAPITAL PUBLICATIONS LIMITED

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current asset			
Plant and equipment	11	<u>831</u>	<u>567</u>
Current assets			
Trade receivables	13	3,110	1,580
Other receivables		174	144
Bank balances and cash		5,011	9,677
		<u>8,295</u>	<u>11,401</u>
Current liabilities			
Trade payables	14	1,329	970
Other payables and accrued charges		1,457	1,254
Receipts in advance		193	163
Amount due to a related company	17	16	11
		<u>2,995</u>	<u>2,398</u>
Net current assets		<u>5,300</u>	<u>9,003</u>
		<u>6,131</u>	<u>9,570</u>
Capital and reserves			
Share capital	15	5,065	5,065
Share premium and reserves		1,066	4,505
		<u>6,131</u>	<u>9,570</u>

The financial statements on pages 23 to 43 were approved and authorised for issue by the Board of Directors on 18th March, 2004 and are signed on its behalf by:

NG HUNG SANG, ROBERT

Co-Chairman

HUI PING

Director

BALANCE SHEET

At 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current asset			
Investments in subsidiaries	12	<u>1,108</u>	<u>1,108</u>
Current assets			
Other receivables		—	3
Amounts due from subsidiaries		13,535	10,071
Bank balances and cash		<u>4,065</u>	<u>8,552</u>
		<u>17,600</u>	<u>18,626</u>
Current liabilities			
Other payables and accrued charges		—	40
Amounts due to subsidiaries		<u>—</u>	<u>1,041</u>
		<u>—</u>	<u>1,081</u>
Net current assets		<u>17,600</u>	<u>17,545</u>
		<u>18,708</u>	<u>18,653</u>
Capital and reserves			
Share capital	15	5,065	5,065
Share premium and reserves	16	<u>13,643</u>	<u>13,588</u>
		<u>18,708</u>	<u>18,653</u>

CAPITAL PUBLICATIONS LIMITED

NG HUNG SANG, ROBERT

Co-Chairman

HUI PING

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 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>
At 1st January, 2002	—	—	—	(5,469)	(5,469)
Issue of shares by a subsidiary at a premium	—	—	6,500	—	6,500
Issue of shares on group reorganisation (note i)	456	—	(456)	—	—
Issue of bonus shares	4,103	—	—	(4,103)	—
Placing of shares	506	14,688	—	—	15,194
Share issue expenses	—	(3,205)	—	—	(3,205)
Loss for the year	—	—	—	(3,450)	(3,450)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	5,065	11,483	6,044	(13,022)	9,570
Loss for the year	—	—	—	(3,439)	(3,439)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	<u>5,065</u>	<u>11,483</u>	<u>6,044</u>	<u>(16,461)</u>	<u>6,131</u>

Note:

- (i) The amount represented the difference between the nominal value of the Company's shares issued and a subsidiary's share acquired as part of the group reorganisation.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES		
Loss for the year	(3,439)	(3,450)
Adjustments for:		
Interest income	(58)	(63)
Depreciation of plant and equipment	176	79
	<hr/>	<hr/>
Operating loss before working capital changes	(3,321)	(3,434)
Increase in trade and other receivables	(1,560)	(46)
Increase (decrease) in trade payables	359	(1,228)
Increase in other payables and accrued charges	203	575
Increase in receipts in advance	30	18
Increase (decrease) in amount due to a related company	5	(4,227)
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(4,284)	(8,342)
INVESTING ACTIVITIES		
Purchases of plant and equipment	(440)	(533)
Interest received	58	63
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(382)	(470)
FINANCING ACTIVITIES		
Proceeds from issue of shares	—	15,194
Proceeds from issue of shares in a subsidiary	—	6,500
Expenses incurred in connection with the issue of shares	—	(3,205)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	—	18,489
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,666)	9,677
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	9,677	—
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		
representing bank balances and cash	5,011	9,677
	<hr/> <hr/>	<hr/> <hr/>

CAPITAL PUBLICATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

I. GENERAL

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

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 22.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") – Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRSs is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

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

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

INVESTMENTS IN SUBSIDIARIES

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

TURNOVER

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

Advertising income is recognised when the advertisements are published.

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

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

ADVERTISING BARTER TRANSACTIONS

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

PLANT AND EQUIPMENT

Plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at 20% per annum.

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

IMPAIRMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

RETIREMENT BENEFITS SCHEME

Payments to the Group's Mandatory Provident Fund Scheme and the defined contribution retirement benefits plan are charged as an expense as they fall due.

OPERATING LEASES

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

5. TURNOVER

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

	2003	2002
	HK\$'000	HK\$'000
Sale of magazines	1,774	1,029
Advertising income	7,065	5,712
Promotion and marketing income	814	236
	<u>9,653</u>	<u>6,977</u>

During the year, the Group's revenue from advertising barter transactions was HK\$26,450 (2002: HK\$9,000).

6. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Bank interest income	58	63
Reversal of allowance for bad and doubtful debts	1	116
Sundry income	14	—
	<u>73</u>	<u>179</u>

7. LOSS FOR THE YEAR

	2003	2002
	HK\$'000	HK\$'000
Loss for the year has been arrived at after charging:		
Staff costs including directors' emoluments	6,328	5,545
Retirement benefits scheme contributions	221	217
	<u>6,549</u>	<u>5,762</u>
Auditors' remuneration	300	300
Depreciation	176	79
	<u>6,825</u>	<u>6,141</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003	2002
	HK\$'000	HK\$'000
Independent Non-Executive Directors		
Fees	100	71
Executive Directors		
Fees	25	34
Salaries and other benefits	1,043	1,512
Retirement benefits scheme contributions	28	39
	1,096	1,585
	1,196	1,656

For the year ended 31st December, 2003, the executive directors received individual emoluments of HK\$540,000 (2002: HK\$474,495), HK\$278,000 (2002: HK\$ Nil), HK\$122,581 (2002: HK\$556,452), HK\$102,481 (2002: HK\$232,290) and HK\$ Nil (2002: HK\$248,901) respectively. The other directors did not receive any emoluments (2002: nil).

(b) Employees' emoluments

Of the five highest paid individuals in the Group, one (2002: two) was director of the Company whose remunerations were set out in (a) above. The emoluments of the remaining four (2002: three) individuals were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,620	816
Retirement benefits scheme contributions	48	33
	1,668	849

The aggregate emoluments of each of the individuals during the years 2002 and 2003 were below HK\$1,000,000.

During each of the two years ended 31st December, 2003, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. TAXATION

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

The reconciliations of nil provision to the loss per the income statements are as follows:

	2003	2002
	HK\$	HK\$
Loss before taxation	<u>(3,439)</u>	<u>(3,450)</u>
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(602)	(552)
Tax effect of expenses that are not deductible in determining taxable profit	3	—
Tax effect of income that is not taxable in determining taxable profit	(10)	(28)
Tax effect of unrecognised deferred tax assets in respect of tax losses	<u>609</u>	<u>580</u>
Taxation charge for the year	<u>—</u>	<u>—</u>

Details of the deferred taxation are set out in note 21.

10. BASIC LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss of approximately HK\$3,439,000 (2002: HK\$3,450,000) and on the number of 506,498,344 (2002: weighted average number of 479,301,062) shares in issue.

No diluted loss per share has been presented because the exercise price of the Company's share options was higher than the average market price per share for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

II. PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and office equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP			
COST			
At 1st January, 2003	511	135	646
Additions	25	415	440
At 31st December, 2003	536	550	1,086
DEPRECIATION			
At 1st January, 2003	55	24	79
Provided for the year	105	71	176
At 31st December, 2003	160	95	255
NET BOOK VALUES			
At 31st December, 2003	376	455	831
At 31st December, 2002	456	111	567

12. INVESTMENTS IN SUBSIDIARIES

	2003	2002
	HK\$'000	HK\$'000
Unlisted shares	1,108	1,108

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

Details of the Company's subsidiaries are set out in note 22.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. 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:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 - 30 days	1,255	547
31 - 60 days	961	470
61 - 90 days	524	435
91 to 180 days	365	127
Over 180 days	35	32
	<hr/>	<hr/>
	3,140	1,611
	<hr/>	<hr/>
Less: Allowance for bad and doubtful debts	(30)	(31)
	<hr/>	<hr/>
	3,110	1,580
	<hr/> <hr/>	<hr/> <hr/>

14. TRADE PAYABLES

The following is an aged analysis of trade payables:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0 to 30 days	395	153
31 to 60 days	251	258
61 to 90 days	220	153
91 to 180 days	412	402
Over 180 days	51	4
	<hr/>	<hr/>
	1,329	970
	<hr/>	<hr/>
	1,329	970
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

15. SHARE CAPITAL

	Number of ordinary shares	Share price HK\$	Share capital HK\$'000
Authorised:			
At time of incorporation and 1st January, 2002	35,000,000	0.01	350
Increase on 17th January, 2002	99,965,000,000	0.01	999,650
Subdivision on 30th January, 2002	900,000,000,000	—	—
	<u>1,000,000,000,000</u>	0.001	1,000,000
Consolidation on 24th June, 2002	<u>(900,000,000,000)</u>	—	—
At 31st December, 2002 and 31st December, 2003	<u><u>100,000,000,000</u></u>	0.01	<u><u>1,000,000</u></u>
Issued and fully paid:			
At 1st January, 2002	1	0.01	—
Subdivision on 30th January, 2002	9	—	—
	<u>10</u>	0.001	—
Issue of shares	455,850,334	0.001	456
Issue of bonus shares	4,102,653,096	0.001	4,103
Consolidation on 24th June, 2002	<u>(4,102,653,096)</u>	—	—
	455,850,344	0.01	4,559
Placing and public offer of shares	<u>50,648,000</u>	0.01	<u>506</u>
At 31st December, 2002 and 31st December, 2003	<u><u>506,498,344</u></u>	0.01	<u><u>5,065</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

15. SHARE CAPITAL (Continued)

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

- (a) The Company was incorporated on 9th July, 2001 in the Cayman Islands with an authorised share capital of HK\$350,000 divided into 35,000,000 shares of HK\$0.01 each. On the date of incorporation, one share of HK\$0.01 was issued and allotted to the subscriber;
- (b) On 17th January, 2002, pursuant to the resolutions passed by the shareholders of the Company, the authorised share capital of the Company was increased from HK\$350,000 to HK\$1,000,000,000 by the creation of an additional 99,965,000,000 shares of HK\$0.01 each;
- (c) On 30th January, 2002, each of the issued and unissued shares of HK\$0.01 each in the capital of the Company was subdivided into 10 shares of HK\$0.001 each;
- (d) On 22nd February, 2002, the Company issued and allotted a total of 455,850,334 shares of HK\$0.001 each in the Company to effect the group reorganisation;
- (e) On 20th June, 2002, pursuant to the resolutions of the Directors of the Company passed on 18th June, 2002, the Company issued and allotted a total of 4,102,653,096 ordinary shares of HK\$0.001 each in the Company to the existing shareholders of the Company credited as fully paid at par. This bonus issue of shares was made on the basis of 9 shares for every ordinary share held on 18th June, 2002;
- (f) On 24th June, 2002, pursuant to the resolutions passed by the shareholders of the Company on the same date, every 10 issued and unissued shares of HK\$0.001 each in the capital of the Company were consolidated into 1 issued or unissued shares of HK\$0.01 each;
- (g) Pursuant to the prospectus dated 10th July, 2002 of the Company (the "Prospectus") and by means of placing, the Company issued a total of 50,648,000 new ordinary shares of HK\$0.01 each at the price of HK\$0.30 per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. SHARE PREMIUM AND RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2002	—	—	—	—
Reserve arising on group reorganisation (note i)	—	652	—	652
Premium arising on issues of shares by means of placing	14,688	—	—	14,688
Expenses incurred in connection with the issue of shares	(3,205)	—	—	(3,205)
Profit for the year	—	—	5,556	5,556
Issue of bonus shares	—	—	(4,103)	(4,103)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	11,483	652	1,453	13,588
Profit for the year	—	—	55	55
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	<u>11,483</u>	<u>652</u>	<u>1,508</u>	<u>13,643</u>

Note:

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

Under the Companies Law (Revised) (Chapter 22) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its articles of association and a statutory solvency test. It is provided that a dividend cannot be paid if this would result in the Company being unable to pay its debts as they fall due. In accordance with the Company's articles of association, the Company's reserves available for distribution to shareholders represent the accumulated profit, capital reserve and share premium which in total amounted to approximately HK\$13,643,000 (2002: HK\$13,588,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

17. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings Limited (collectively referred to as "South China Holdings"). 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

	2003	2002
	HK\$'000	HK\$'000
Administrative service fees	487	748
Advertising expenses	110	—
Colour separation and photo processing fees	492	308
Corporate finance service fee	—	301
Marketing service fees	7	79
Rental expenses in respect of office premises	168	84
Staff costs and personnel expenses	—	471
Underwriting commission	—	380
	—————	—————

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

At the balance sheet date, the Group had an amount due to a related company arising from the above related party transactions. The amount is unsecured, interest-free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

18. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Office premises	<u>168</u>	<u>84</u>

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

	2003	2002
	HK\$'000	HK\$'000
Within one year	<u>168</u>	<u>168</u>
In the second to fifth year inclusive	<u>85</u>	<u>253</u>
	<u>253</u>	<u>421</u>

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

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

19. SHARE OPTION SCHEME

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

At 31st December, 2003, the number of shares in respect of which options were granted under the Scheme was 5,064,983 (2002: 5,064,983), representing 1% (2002: 1%) of the shares of the Company in issue at that date. As at 31st December, 2003, the total number of shares available for issue under the Scheme was 45,584,851, representing approximately 9% of the issued share capital of the Company as at 18th March, 2004. Without prior approval from the Company's shareholders, the total aggregate number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the aggregate number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

19. SHARE OPTION SCHEME (Continued)

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

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

Date of grant	Outstanding at	Vested at	
	I.1.2003 and 31.12.2003	1.1.2003	31.12.2003
27th August, 2002	5,064,983	—	5,064,983

No share options granted were exercised or cancelled during 2003.

Details of specific categories of options are as follows:

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

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

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 month	Nil
13th - 24th month	33 $\frac{1}{3}$ %
25th - 36th month	33 $\frac{1}{3}$ %
37th - 48th month	33 $\frac{1}{3}$ %

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

No share options were granted during the year and therefore no consideration in respect of the share options was received (2002: HK\$1).

No charge is recognised in the income statement for either year in respect of the value of options granted during 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

20. RETIREMENT BENEFITS SCHEME

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

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

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

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. As at 31st December, 2003, there were no material forfeited contributions, which arose upon employees leaving the ORSO Scheme, are available to reduce the contributions payable in future years.

21. DEFERRED TAXATION

The following are the major deferred taxation assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002			
- as previously reported	—	—	—
- adjustment on adoption of SSAP 12 (Revised)	18	(18)	—
	<hr/>	<hr/>	<hr/>
- as restated	18	(18)	—
Charge (credit) to income	3	(3)	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	21	(21)	—
Charge (credit) to income	48	(48)	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	69	(69)	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

21. DEFERRED TAXATION *(Continued)*

At 31st December, 2003, the Company has unused tax losses of approximately HK\$12,800,000 (2002: HK\$9,844,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$393,000 (2002: HK\$131,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$12,407,000 (2002: HK\$9,713,000) due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

22. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by Company		Principal activities
			Directly	Indirectly	
Media Bonus Limited	British Virgin Islands	US\$2	100%	—	Investment holding
Capital Publishing Management Limited	Hong Kong	HK\$2	—	100%	Provision of employee and personnel services for the Group and holding a lease agreement
Capital Publishing Limited	Hong Kong	HK\$2	—	100%	Publication of “資本雜誌 Capital” magazine
Capital Weekly Limited	Hong Kong	HK\$2	—	100%	Publication of “資本壹週 Capital Weekly” magazine

CAPITAL PUBLICATIONS LIMITED

FINANCIAL SUMMARY

RESULTS

	For the year ended 31st December,			2003 HK\$'000
	2000 HK\$'000 (Note i)	2001 HK\$'000 (Note i)	2002 HK\$'000	
Turnover	10,858	9,172	6,977	9,653
Direct operating expenses	(7,025)	(8,545)	(5,591)	(7,531)
Other operating income	—	—	179	73
Selling and distribution costs	(1,927)	(2,290)	(1,206)	(2,933)
Administrative expenses	(3,136)	(2,455)	(3,809)	(2,701)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss for the year	<u>(1,230)</u>	<u>(4,118)</u>	<u>(3,450)</u>	<u>(3,439)</u>

ASSETS AND LIABILITIES

	As at 31st December,		2003 HK\$'000
	2001 HK\$'000	2002 HK\$'000 (Note ii)	
Total assets	1,791	11,968	9,126
Total liabilities	(7,260)	(2,398)	(2,995)
	<u> </u>	<u> </u>	<u> </u>
Net (liabilities) assets	<u>(5,469)</u>	<u>9,570</u>	<u>6,131</u>

Notes:

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