



CAPITAL PUBLICATIONS LIMITED

資本出版有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8155)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

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This report, for which the directors of Capital Publications Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INTERIM RESULTS

The board of directors (the “Board”) of the Company is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2004, together with the comparative unaudited figures for the corresponding periods in 2003, are as follows:

CONSOLIDATED INCOME STATEMENT — UNAUDITED

		Three months ended		Six months ended	
		30 June		30 June	
		2004	2003	2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	3,208	1,833	6,011	3,634
Direct operating expenses		(2,242)	(1,374)	(3,624)	(2,898)
Other operating income		5	19	6	40
Selling and distribution costs		(1,007)	(679)	(2,154)	(1,068)
Administrative expenses		(559)	(871)	(1,112)	(1,640)
Net loss before taxation	4	(595)	(1,072)	(873)	(1,932)
Taxation	5	—	—	—	—
Net loss attributable to shareholders		(595)	(1,072)	(873)	(1,932)
Loss per share - Basic	7	HK(0.12) cent	HK(0.21) cent	HK(0.17) cent	HK(0.38) cent

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		<u>887</u>	<u>831</u>
Current assets			
Trade receivables	8	2,611	3,110
Other receivables		498	174
Amount due from a related company		23	—
Bank balances and cash		<u>4,571</u>	<u>5,011</u>
		<u>7,703</u>	<u>8,295</u>
Current liabilities			
Trade payables	9	1,668	1,329
Other payables and accrued charges		1,612	1,457
Receipts in advance		52	193
Amount due to a related company		—	16
		<u>3,332</u>	<u>2,995</u>
Net current assets		<u>4,371</u>	<u>5,300</u>
		<u>5,258</u>	<u>6,131</u>
Capital and reserves			
Share capital	10	5,065	5,065
Share premium and reserves	11	193	1,066
		<u>5,258</u>	<u>6,131</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED*For the six months ended 30 June 2004*

	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>
2003					
At 1 January 2003	5,065	11,483	6,044	(13,022)	9,570
Net loss for the period	—	—	—	(1,932)	(1,932)
At 30 June 2003	<u>5,065</u>	<u>11,483</u>	<u>6,044</u>	<u>(14,954)</u>	<u>(7,638)</u>
2004					
At 1 January 2004	5,065	11,483	6,044	(16,461)	6,131
Net loss for the period	—	—	—	(873)	(873)
At 30 June 2004	<u>5,065</u>	<u>11,483</u>	<u>6,044</u>	<u>(17,334)</u>	<u>5,258</u>

CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash flow from operating activities	(270)	(1,544)
Net cash flow from investing activities	(170)	(250)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(440)	(1,794)
Cash and cash equivalents, beginning of the period	5,011	9,677
	<hr/>	<hr/>
Cash and cash equivalents, end of the period	4,571	7,883
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	4,571	7,883
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PRESENTATION

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

The unaudited consolidated financial statements for the three months and six months ended 30 June 2004 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 2003. The unaudited consolidated financial statements have been prepared in accordance with Statements of Standard Accounting Practice 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 2004 and 30 June 2003, 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	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Administrative service fees	159	271
Color separation and photo processing fees	225	172
Rental expenses in respect of office premises	84	84
	<u> </u>	<u> </u>

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	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Sales of magazines, advertising income and promotion project income	<u>3,208</u>	<u>1,833</u>	<u>6,011</u>	<u>3,634</u>

During the three months and six months ended 30 June 2004, the Group's revenue from advertising barter transactions was approximately \$3,000 and \$55,000 respectively (three months and six months ended 30 June 2003: approximately \$51,000 and \$77,000 respectively).

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

4. NET LOSS BEFORE TAXATION

Net loss before taxation has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Staff cost (including directors' emoluments)	1,723	1,477	3,133	2,885
Retirement benefits scheme contributions	56	51	110	104
	<u>1,779</u>	<u>1,528</u>	<u>3,243</u>	<u>2,989</u>
Allowance for bad and doubtful debts	48	3	66	3
Depreciation	59	38	114	71
Auditors' remuneration	75	75	150	150
	<u><u>1,967</u></u>	<u><u>1,644</u></u>	<u><u>3,563</u></u>	<u><u>3,280</u></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 2004 (three months and six months ended 30 June 2003: Nil).

As at 30 June 2004, no deferred tax asset has been recognised in respect of the unused tax losses of approximately HK\$11.5 million (as at 31 December 2003: approximately HK\$10.7 million), which are subject to the agreement of the Inland Revenue Department of the Hong Kong Special Administrative Region of the People's Republic of China, due to the unpredictability of future profit streams.

6. INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2004 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$595,000 and HK\$873,000 respectively (three months and six months ended 30 June 2003: loss of approximately HK\$1,072,000 and HK\$1,932,000 respectively) and on the number of 506,498,344 shares in issue (506,498,344 shares are in issue throughout the three months and six months ended 30 June 2003).

No diluted loss per share is presented because the exercise prices of the Company's options were higher than the average market price per share during the three months and six months ended 30 June 2004.

8. TRADE RECEIVABLES

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

The following is an aged analysis of trade receivables:

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
0 - 30 days	1,212	1,255
31 - 60 days	636	961
61 - 90 days	319	524
91 to 180 days	423	365
Over 180 days	117	35
	<u>2,707</u>	<u>3,140</u>
Less: allowance for bad and doubtful debts	(96)	(30)
	<u><u>2,611</u></u>	<u><u>3,110</u></u>

9. TRADE PAYABLES

The following is an aged analysis of trade payables:

	As at 30 June 2004 HK\$'000 (Unaudited)	As at 31 December 2003 HK\$'000 (Audited)
0 - 30 days	929	395
31 - 60 days	142	251
61 - 90 days	220	220
91 to 180 days	316	412
Over 180 days	61	51
	<u>1,668</u>	<u>1,329</u>

10. SHARE CAPITAL

	Number of ordinary shares	Share price HK\$	Share capital HK\$'000
<i>Authorised:</i>			
At 1 January 2004 and 30 June 2004	<u>100,000,000,000</u>	0.01	<u>1,000,000</u>
<i>Issued and fully paid:</i>			
At 1 January 2004 and 30 June 2004	<u>506,498,344</u>	0.01	<u>5,065</u>

11. MOVEMENT OF RESERVES

Movements of reserves were:

	Three months ended 30 June				2003
	2004				
	Share premium <i>HK\$'000</i> <i>(Unaudited)</i>	Capital reserve <i>HK\$'000</i> <i>(Unaudited)</i>	Accumulated deficit <i>HK\$'000</i> <i>(Unaudited)</i>	Total <i>HK\$'000</i> <i>(Unaudited)</i>	Total <i>HK\$'000</i> <i>(Unaudited)</i>
THE GROUP					
At 1 April	11,483	6,044	(16,739)	788	3,645
Net loss attributable to shareholders	—	—	(595)	(595)	(1,072)
At 30 June	<u>11,483</u>	<u>6,044</u>	<u>(17,334)</u>	<u>193</u>	<u>2,573</u>
	Six months ended 30 June				2003
	2004				
	Share premium <i>HK\$'000</i> <i>(Unaudited)</i>	Capital reserve <i>HK\$'000</i> <i>(Unaudited)</i>	Accumulated deficit <i>HK\$'000</i> <i>(Unaudited)</i>	Total <i>HK\$'000</i> <i>(Unaudited)</i>	Total <i>HK\$'000</i> <i>(Unaudited)</i>
THE GROUP					
At 1 January	11,483	6,044	(16,461)	1,066	4,505
Net loss attributable to shareholders	—	—	(873)	(873)	(1,932)
At 30 June	<u>11,483</u>	<u>6,044</u>	<u>(17,334)</u>	<u>(193)</u>	<u>2,573</u>

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL PROGRESS

The following is a summary of the actual business progress of the Group in comparison with the business objectives as set out in the prospectus of the Company dated 10 July 2002 (the "Prospectus").

Business objectives for the six months ended 30 June 2004 as stated in the Prospectus **Actual business progress**

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

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

Enhanced content by recruiting good quality staff to the editorial team

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

Complete readers' research with comprehensive findings

Continue to broaden subscription base through telemarketing and subscription campaigns

Have continued to promote the subscription through various marketing campaigns, e.g. HSBC Premier banking. Broadened circulation base by organising joint promotion campaign with large corporations in which a significant amount of magazines have been distributed to their customers as indirect subscription promotion

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

Organized the event "Best of the Best for the Executives 2004" for outstanding brands in Hong Kong

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

The anniversary events will be carried out in the second half of the year.

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

Recruited a business development director to broaden the business scope and to expand the customer base in Greater China regions

Business objectives for the six months ended 30 June 2004 as stated in the Prospectus

Actual business progress

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

Increased advertising income by publishing various stand-alone booklet supplements such as “The most expensive homes in Hong Kong”, “Health care report on anti-aging”, “The most prestigious commercial complex in Hong Kong”, “Investment prospective of retail shop”, and “Mission Hill’s expensive houses”

Annual special “資本雜誌Capital” issue 2004

Launched a new magazine “資本才俊Capital CEO”, a new Chinese magazine in core focus on young CEOs, finance and quality lifestyle

Increase sales and promotional efforts

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

In the launching of “資本才俊Capital CEO” in June this year, a combination of digital and outdoor media were used

Extend into other Chinese-speaking markets

Launch the Group’s publishing related business in major cities in PRC such as Beijing, Shanghai and Guangzhou

The Group will continue to seek potential partners in PRC

Develop its marketing team and support services team

Form a support service 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

Recruited a marketing manager to independently carry out marketing activities of the Group. The support service team will be formed in the coming quarters

USE OF PROCEEDS

The net proceeds from the placing of shares in July 2002 (the “Placing”), after deducting related expenses, are approximately HK\$11,989,000.

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

	Budgeted amount		Actual amount used		
	Six months ended 30 June 2004	From date of listing to 31 December 2003	Six months ended 30 June 2004	From date of listing to 30 June 2004	
Total	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1. Recruiting and employment of new staff:					
Employ marketing and sales staff to expand into the PRC market	2,000	500	569	87	656
Developing marketing team and support services team	1,500	250	546	43	589
2. Staff training and recruitment expenses	1,000	250	882	55	937
3. Promotion of advertising costs:					
In Beijing, Shanghai and Guangzhou	2,000	500	—	—	—
In Hong Kong	1,000	500	496	300	796
4. Publication of financial special issues and stand-alone periodicals or books	2,000	540	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
6. General working capital	1,200	300	1,200	—	1,200
	<u>11,700</u>	<u>2,840</u>	<u>6,693</u>	<u>485</u>	<u>7,178</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2004, the Group's turnover was HK\$6,011,000, an increase of 65% when compared to HK\$3,634,000 for the same period of last year. Growth in advertising and promotion project income coupled with an increase in operating expenses have resulted in a decreased loss attributable to shareholders to HK\$873,000 (2003: HK\$1,932,000).

The three months ended 30 June 2004 saw a growth in the Group's turnover to HK\$3,208,000, representing an increase of 75% from that for the same period of last year and an increase of 15% when compared to the last quarter ended 31 March 2004.

In June 2004, the Group launched the first issue of “資本才俊Capital CEO”, a new title for young executives. The magazine features management essentials, such as in-depth CEO interviews, case studies of accomplished enterprises, marketing and sales strategies, brand stories, state-of-the-art information on IT development and a strong focus on lifestyle and leisure. The successful launch has presented the magazine as a unique publication in the marketplace.

In reinforcing the brand image of “資本雜誌Capital”, the Group hosted the “Best of the Best for Executives 2004” awards in June 2004. In each exclusive category, a brand was selected by a panel of renowned judges together with the Group's editorial team and awarded as “Best of the Best for Executives”. The campaign received tremendous response in the market. Recipients of the awards included “Philips”, “3G”, “Haagen-Dazs”, “Toyota”, “Simmons”, “Lampe Berger”, “United Airlines”, “Sony” and “Fujitsu”.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2004, 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 2004, the Group had net current assets of approximately HK\$4,371,000 (31 December 2003: net current assets of approximately HK\$5,300,000).

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

During the six months ended 30 June 2004, the Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies and investment.

As at 30 June 2004, (i) the Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) the Group had no charges on its assets; (iii) the Group had no significant investment held; (iv) the Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (v) the Group did not have any contingent liabilities.

As the Group had no bank borrowings, no gearing ratio (measured by bank borrowings net of cash and bank balance to shareholders' equity) is presented at 30 June 2004.

SIGNIFICANT INVESTMENT PLANS

As at 30 June 2004, the Group did not have any significant investment plans, except the plans set out in the section headed “Statement of Business Objectives” in the Prospectus.

EMPLOYEES

As at 30 June 2004, the total number of employees of the Group was 30 (30 June 2003: 34). Employees' cost (including directors' emoluments) amounted to approximately HK\$3,243,000 for the six months ended 30 June 2004 (six months ended 30 June 2003: approximately HK\$2,989,000).

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

PROSPECTS

As reflected from the booming business cooperation between Hong Kong and Mainland China, the economic prospective for the coming half-year is promising.

The Group will continue to broaden the business scope for our monthly magazine “資本雜誌Capital” both in revenue and readership bases. We will continue to carry stand-alone advertising supplements in each month in order to extend the reach of the “資本雜誌Capital” brand to customers, agencies and media partners.

The launch of “資本才俊Capital CEO” in June 2004 has been well received by the general public, advertisers and readers. The Group is confident in building up this title in the coming months in order to achieve growth in advertising and circulation income and strengthening of the brand.

Furthermore, the Group will continue to seek potential partners in the PRC with a view to extending its business into China.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY SECURITIES

As at 30 June 2004, 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 Rule 5.46 of the GEM Listing Rules, relating to the required standard 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	326,588,403	64.48%
			(Note)	
Mr. Fung Ka Pun	The Company	Beneficial owner	6,000,000	1.18%

Note: The 326,588,403 shares referred to above include 101,422,000 shares held by Parkfield Holdings Limited (“Parkfield”), 99,012,563 shares held by Fung Shing Group Limited (“Fung Shing”), 4,166,400 shares held by Ronastar Investments Limited (“Ronastar”) and 121,987,440 shares held by Eartrade Investments Limited (“Eartrade”), which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Robert, Ms. Cheung Choi Ngor, Christina and Mr. Richard Howard Gorges, directors of South China Holdings, respectively. The 121,987,440 shares referred to above include the 59,325,840 shares held by Bannock Investment Limited (“Bannock”) which is a wholly owned subsidiary of Eartrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang, Robert.

All interests disclosed above represent long position in the shares of the Company.

Save as disclosed above and the interests of a director of the Company in the share options of the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, as at 30 June 2004, 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 Rule 5.46 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 24 June 2002 and became effective on 18 July 2002. Particulars and movements of the outstanding share options granted under the Scheme during the period for the six months ended 30 June 2004 were as follows:-

Name or category of participant	Number of share options					As at 30/6/2004	Date of grant of share options <i>(Note a)</i>	Exercise period of share options	Price of the Company's shares		
	As at 1/1/2004	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				Immediately preceding		
									Initial exercise price per share <i>(Note b)</i> HK\$	the grant date of share options <i>(Note c)</i> HK\$	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 $\frac{1}{3}$ %
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 2004, 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	326,588,403 <i>(Note a)</i>	64.48%
Parkfield	The Company	Beneficial owner	101,422,000 <i>(Note a)</i>	20.02%
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%

Notes:

- (a) The 326,588,403 shares referred to above include 101,422,000 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) All interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 30 June 2004, the directors or chief executives of the Company were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

SPONSOR'S INTERESTS

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

As updated and notified by MasterLink, MasterLink, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules), as at 30 June 2004, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

COMPETING INTERESTS

Mr. Ng Hung Sang, Robert, Co-Chairman, 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 the 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 and in the Prospectus, none of the directors or the management shareholders of the Company or their respective associates have any interest in any business, which competes or may compete or had any conflicts of interest 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 5.34 to 5.45 of the GEM Listing Rules since the shares of the Company were listed on GEM of the Stock Exchange on 18 July 2002.

AUDIT COMMITTEE

The Company established an audit committee on 25 February 2002 with written terms of reference in compliance with Rules 5.29 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The audit committee comprises two members, Mr. Law Cho Wa, Richard and Dr. Lo Wing Yan, William, JP, who are independent non-executive directors of the Company.

The Group's unaudited results for the three months and six months ended 30 June 2004 have been reviewed by the audit committee, who is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

As at the date of this announcement, the board of directors of the Company comprises (1) Mr. Ng Hung Sang, Robert, Mr. Fung Ka Pun, Mr. Hui Ping, Mr. Ng Yuk Fung Peter and Mr. Ng Yuk Yeung Paul as executive directors; (2) Ms. Ng, Jessica Yuk Mui as non-executive director; and (3) Mr. Law Cho Wa, Richard and Dr. Lo Wing Yan, William, JP as independent non-executive directors.

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

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

11 August 2004