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JESSICA

JESSICA PUBLICATIONS LIMITED

Stock Code : 8137

2006

Third Quarterly Report



JESSICA PUBLICATIONS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8137)

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this Report (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 Jessica Publications Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM 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.

UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the “Board”) of the Company hereby announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED

	<i>Notes</i>	Three months ended 30 September		Nine months ended 30 September	
		2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Revenue	2 & 4	20,267	25,315	63,384	67,033
Direct operating expenses		(18,782)	(18,132)	(53,454)	(46,280)
Other operating income		71	134	204	166
Selling and distribution costs		(4,606)	(4,894)	(15,063)	(13,940)
Administrative expenses		(2,269)	(1,947)	(6,550)	(5,197)
Other operating expenses		(3,558)	(83)	(4,050)	(237)
Gain on deconsolidation of subsidiary		5,435	–	5,435	–
(Loss) Profit before income tax	3 & 4	(3,442)	393	(10,094)	1,545
Income tax expense	5	–	–	–	–
(Loss) Profit for the period		(3,442)	393	(10,094)	1,545
Attributable to:					
Equity holders of the Company		(4,841)	393	(10,551)	1,545
Minority interests		1,399	–	457	–
(Loss) Profit for the period		(3,442)	393	(10,094)	1,545
Basic (loss) earnings per share for (loss) profit attributable to the equity holders of the Company during the period	7	HK(0.96) cents	HK0.08 cents	HK(2.08) cents	HK0.30 cents

Notes:

1 BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months and nine months ended 30 September 2006 have not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the GEM Listing Rules.

These financial statements should be read, where relevant, in conjunction with the 2005 annual financial statements of the Group.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

2 REVENUE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of magazines	5,690	6,051	17,045	16,759
Advertising income	11,663	14,575	38,593	40,677
Promotion and marketing income	2,914	4,689	7,746	9,597
	<u>20,267</u>	<u>25,315</u>	<u>63,384</u>	<u>67,033</u>

3 DEPRECIATION

During the three months and nine months ended 30 September 2006, loss before income tax is arrived at after charging depreciation of approximately HK\$136,000 and HK\$412,000 respectively (three months and nine months ended 30 September 2005: HK\$129,000 and HK\$402,000 respectively) in respect of the Group's property, plant and equipment.

4 GEOGRAPHICAL SEGMENTS

An analysis of the Group's revenue by geographical location* is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	15,595	17,095	47,030	44,505
Other regions of the People's Republic of China (the "PRC")/("Mainland China")	4,672	8,220	16,354	22,528
	<u>20,267</u>	<u>25,315</u>	<u>63,384</u>	<u>67,033</u>

An analysis of the Group's (loss) profit by geographical location* is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	(545)	1,838	(1,195)	3,548
Mainland China	(2,897)	(1,445)	(8,899)	(2,003)
	<u>(3,442)</u>	<u>393</u>	<u>(10,094)</u>	<u>1,545</u>

* Revenue and (loss) profit contribution by geographical location is determined on the basis of the destination of delivery of magazines and publication of advertisements.

5 INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no estimated assessable profit arising in or derived from Hong Kong during the three months and nine months ended 30 September 2006 (three months and nine months ended 30 September 2005: Nil). Taxation on profits elsewhere have been calculated on the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both periods.

6 DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the nine months ended 30 September 2006 (nine months ended 30 September 2005: Nil).

7 (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the three months and nine months ended 30 September 2006 are based on the loss attributable to the equity holders of the Company of HK\$4,841,000 and HK\$10,551,000 respectively (three months and nine months ended 30 September 2005: profit of HK\$393,000 and HK\$1,545,000 respectively) and on 506,639,716 (30 September 2005: 506,639,716) shares in issue.

For the three months and nine months ended 30 September 2006, no diluted loss per share has been presented as it is anti-dilutive.

For the three months and nine months ended 30 September 2005, no diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares.

8 MOVEMENT OF RESERVES

There is no movement of the reserves of the Group except the loss of current period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the nine months ended 30 September 2006, the Group recorded turnover of HK\$63.4 million, comprised of HK\$47 million from Hong Kong operations, a year-on-year increase of 6%, and HK\$16.4 million from PRC operations, a year-on-year decrease of 27%. Up to 30 September 2006, the Group recorded a loss of HK\$10.6 million, in contrast to a profit of HK\$1.5 million in 2005, the loss was mainly attributable to the lowered of advertising and circulation income during the management restructure of a subsidiary related to the two titles “完全生活手冊 Paralife” and “捌週刊8 Weekly” since second quarter this year.

Our main title, “旭茉JESSICA” had slight improvement in advertising dollars (2% year-on-year) and moderate growth in terms of circulation income (18% year-on-year).

“旭茉JESSICACODE” remains to be our fastest growing title for the third quarter, circulation income increased considerably to record an 85% growth year-on-year. Furthermore, advertising income continued the strong trend following the second half of 2005 to reach a 86% growth year-on-year.

As for “味道 LISA”, advertising and circulation income remains steady.

PRC operations suffered a temporary setback during a management reshuffle. However, nearing the end of the third quarter, both circulation and advertising revenue recovered to match our historic levels. JESSICA China is still in its investment stage and improvement in advertising revenue for the third quarter is yet to be seen.

The Group accounted for a one-off gain on deconsolidation of a subsidiary of HK\$5.4 million following the cessation of control over the operating and financial policies of the subsidiary in the PRC. As a result of the above, the Group has made an additional amount of bad debt provision of HK\$3.5 million for accounts receivable of the subsidiary.

LIQUIDITY AND FINANCIAL RESOURCES

During the nine months ended 30 September 2006, the Group's operation was mainly financed by the internal financial resources of the Group.

As at 30 September 2006, the Group had net current liabilities of approximately HK\$4.1 million (31 December 2005: net current assets of HK\$1 million). The current assets comprised bank balances and cash of approximately HK\$1.7 million and trade and other receivables of approximately HK\$13.9 million. The current liabilities comprised trade payables, accruals and other payable of approximately HK\$19.3 million and amount due to related company of HK\$0.4 million.

As at 30 September 2006, the Group had aggregate banking facilities granted under corporate guarantee by the Company in respect of a revolving term loan of HK\$1 million, none of which had been utilized.

As the Group had no bank borrowings, no gearing ratio is presented at 30 September 2006.

The Board is of the opinion that, taking into account the internal financial resources of the Group and the financial support provided by the substantial shareholder, the Group has sufficient working capital for its present requirements.

PROSPECTS

In line with the market trend, the fourth quarter is going to be our peak season for our Hong Kong operations. We expect advertising dollars to outperform year on year, and circulation to remain steady.

We are confident that our two major PRC titles, “完全生活手冊 Paralife” and “捌週刊 8 Weekly” will continue to bounce back in its growth in the coming months. As for JESSICA China, the preliminary response for next year's advertising sales are promising, but we maintain cautious until our results materialize.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, the interests and short positions of the Directors and the chief executives 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 standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

(1) Long positions in the ordinary shares of HK\$0.001 each of the Company

Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate % of Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Ng Hung Sang	Beneficial owner	18,102,800	–	318,132,403 (<i>Note</i>)	–	336,235,203	66.37%
Ng Yuk Mui, Jessica	Beneficial owner	1,834,000	–	–	–	1,834,000	0.36%

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 Earntrade Investments Limited ("Earntrade"), which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Ms. Cheung Choi Ngor 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 Earntrade. Each of Parkfield, Fung Shing and Ronastar is wholly owned by Mr. Ng Hung Sang.

(2) Long positions in the underlying shares of the Company

Share Option Scheme

The Company's existing share option scheme (the "Scheme") was adopted on 20 December 2001 and became effective on 8 January 2002. Particulars and movements of the outstanding share options granted under the Scheme during the nine months ended 30 September 2006 were as follows:–

Name or category of participant	Number of share options					Outstanding as at 30/09/2006	Date of grant of share options (Note a)	Exercise period of share options	Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note b) HK\$	Price immediately preceding the exercise date of share options (Note c) HK\$
	Outstanding as at 01/01/2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
Directors											
Foo Kit Tak	1,600,000	-	-	-	-	1,600,000	15/04/2002	15/04/2003 – 07/01/2012	0.69	0.68	N/A
	1,600,000	-	-	-	-	1,600,000	02/09/2002	02/09/2003 – 07/01/2012	0.31	0.30	N/A
Cheung Mei Yu	1,600,000	-	-	-	-	1,600,000	15/04/2002	15/04/2003 – 07/01/2012	0.69	0.68	N/A
	1,600,000	-	-	-	-	1,600,000	02/09/2002	02/09/2003 – 07/01/2012	0.31	0.30	N/A
Sub-total	6,400,000	-	-	-	-	6,400,000					
Employees											
In aggregate	1,600,000	-	-	-	-	1,600,000	15/04/2002	15/04/2003 – 07/01/2012	0.69	0.68	N/A
	2,080,000	-	-	(160,000)	-	1,920,000	02/09/2002	02/09/2003 – 07/01/2012	0.31	0.30	N/A
Sub-total	3,680,000	-	-	(160,000)	-	3,520,000					
Others											
In aggregate	2,960,000	-	-	(160,000)	-	2,800,000	15/04/2002	15/04/2003 – 07/01/2012	0.69	0.68	N/A
	1,013,440	-	-	(160,000)	-	853,440	02/09/2002	02/09/2003 – 07/01/2012	0.31	0.30	N/A
Sub-total	3,973,440	-	-	(320,000)	-	3,653,440					
Total	14,053,440	-	-	(480,000)	-	13,573,440					

Notes:

- (a) All share options granted are subject to a vesting period and becoming exercisable 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 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.
- (c) The weighted average closing price of the shares immediately before the date on which the options were exercised.
- (d) As no share options were granted during the nine months ended 30 September 2006, no consideration in respect of share options was received and the disclosure of value of options granted during the period is also not applicable.

Save as disclosed above and the interests as disclosed under the sub-section headed “Share Option Scheme”, none of the Directors or chief executives of the Company had, as at 30 September 2006, any interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 30 September 2006, shareholders (other than Directors or chief executives of the Company) 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, which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions of substantial shareholders in the ordinary shares of HK\$0.001 each of the Company

Name	Capacity	Number of ordinary shares	% of shareholding
Parkfield	Beneficial owner	92,966,000 (<i>Note a</i>)	18.35%
Fung Shing	Beneficial owner	99,012,563 (<i>Note a</i>)	19.54%
Earntrade	Beneficial owner	62,661,600 (<i>Note b</i>)	12.37%
	Interest of a controlled corporation	59,325,840 (<i>Note b</i>)	11.71%
Bannock	Beneficial owner	59,325,840 (<i>Note b</i>)	11.71%

Notes:

- (a) Each of Parkfield and Fung Shing is wholly owned by Mr. Ng Hung Sang, the Chairman of the Company.
- (b) Earntrade, which is owned as to 60%, 20% and 20% by Mr. Ng Hung Sang, Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges, directors of South China Holdings, respectively, is the holding company of Bannock. Thus, Earntrade is deemed to be interested in the 59,325,840 shares of the Company held by Bannock.

Save as disclosed above, as at 30 September 2006, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng Hung Sang, the Chairman and management shareholder of the Company, is also the Chairman of South China Holdings and a Co-Chairman of Capital Publications Limited ("Capital"). Mr. Ng Hung Sang, personally and through Parkfield, Fung Shing and Ronastar, has interest in South China Holdings and Capital. Mr. Ng Hung Sang together with Ms. Cheung Choi Ngor and Mr. Richard Howard Gorges, management shareholders of the Company, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares in South China Holdings and Capital. Ms. Cheung Choi Ngor, who is an ex-director of Capital Publishing Limited, a wholly owned subsidiary of Capital and Mr. Richard Howard Gorges, are directors of various members of South China Holdings and Mr. Ng Yuk Fung, Peter, an Executive Director and the Chief Executive Officer of the Company, is also an Executive Director of South China Holdings and Capital. As Capital and certain members of South China Media Limited, a subsidiary of South China Holdings, are principally engaged in magazine publication, therefore Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Mr. Ng Yuk Fung, Peter are regarded as interested in competing business of the Group.

Ms. Ng Yuk Mui, Jessica, a Non-executive Director of the Company, is also a Non-executive Director of South China Holdings and Capital. She is not regarded to have any business competing with the business of the Group since she is not involved in the day-to-day running of the business of the Group.

Save as disclosed above, none of the Directors or the management shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the nine months ended 30 September 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices of the GEM Listing Rules during the nine months ended 30 September 2006 with the exception that the Non-executive Directors are not appointed for a specific term, the Articles of Association of the Company does not provide that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the next following annual general meeting of the Company instead of the first general meeting of the Company after their appointment. In view of good corporate governance practices, all Non-executive Directors have agreed to comply with the GEM Listing Rules and that their term of appointment will be limited accordingly. Furthermore, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rule 5.28 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 three members, Mr. So Siu Ming, George (Committee Chairman), Ms. Pong Oi Lan, Scarlett and Mr. Cheng Yuk Wo, who are Independent Non-executive Directors of the Company.

The Group's unaudited results for the three months and nine months ended 30 September 2006 were 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 were made.

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

During the nine months ended 30 September 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

As at the date of this Report, the Board comprises (1) Mr. Ng Hung Sang, Mr. Ng Yuk Fung, Peter, Ms. Foo Kit Tak and Ms. Cheung Mei Yu as Executive Directors; (2) Ms. Ng Yuk Mui, Jessica as a Non-executive Director; and (3) Mr. So Siu Ming, George, Ms. Pong Oi Lan, Scarlett and Mr. Cheng Yuk Wo as Independent Non-executive Directors.

On behalf of the Board

Ng Hung Sang

Chairman

Hong Kong, 7 November 2006