Delivering Total Coverage:

MPI - China's Most Comprehensive Outdoor Media Network

媒體伯樂 全覆蓋 全網絡

2001 Annual Report 年報

Media Partners International Holdings Inc.
媒體伯樂集團有限公司

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

George Ka Ki CHANG (Vice Chairman)
Winnie Pik Shan TO (Chief Executive Officer)
Tony Cheung Kin AU-YEUNG

Non-executive Director

Gerald Lokchung CHAN (Chairman)

Independent Non-executive Directors

Lawrence Juen-Yee LAU
Paul Laurence SAFFO III
Meocre Kwok Wing LI

COMPLIANCE OFFICER

George Ka Ki CHANG

COMPANY SECRETARY

Stephen Cheuk Kin LAW (Chief Financial Officer)

QUALIFIED ACCOUNTANT

Florence Yuk Lan WONG

AUDIT COMMITTEE

Meocre Kwok Wing LI
Lawrence Juen-Yee LAU
Paul Laurence SAFFO III

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
PO Box 2681 GT
George Town
Grand Cayman
British West Indies

CORPORATE OFFICE

22nd Floor, Hang Lung Centre
2-20 Paterson Street
Causeway Bay
Hong Kong
Tel: (852) 2894 9800
Fax: (852) 2577 3509

SPONSOR

BNP Paribas Peregrine Capital Limited

AUDITORS

KPMG

PRINCIPAL BANKERS

Standard Chartered Bank
ABN AMRO Bank
Banque Nationale de Paris

SHARE REGISTRAR

Tengis Limited
4th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

FINANCIAL RELATIONS CONSULTANT

Strategic Financial Relations Limited

STOCK CODE

8072

REGIONAL OFFICES

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

15th Floor, Rooms 1506-1510
Hang Lung Centre
2-20 Paterson Street
Causeway Bay
Hong Kong

SHANGHAI

8 Gao An Road, Shanghai
Postcode: 200030

BEIJING

Room 711, Tower W3, Oriental Plaza
No. 1 East Changan Avenue
Dongcheng District, Beijing
Postcode: 100738

CHENGDU

Room D/E, 22nd Floor, Guancheng Plaza
308 Shuencheng Street, Chengdu
Postcode: 610016

CHONGQING

Suite 1208, 12th Floor, Metropolitan Tower
68 Zourong Road, Yu Zhong District
Chongqing
Postcode: 400010

GUANGZHOU METRO JOINT VENTURE

Room 2910, 29th Floor
Guangzhou Merchandise Building
12 Xihu Road, Guangzhou
Postcode: 510030

GUANGZHOU

Rooms 2809-2810, 28th Floor, Huihua Tower
80 Xianlie Road, Guangzhou
Postcode: 510070

NANJING

22nd Floor, Golden Eagle International Plaza
89 Han Zhong Road, Nanjing
Postcode: 210029

SHANGHAI METRO JOINT VENTURE

18 Kangping Lu, Shanghai
Postcode: 200030

WUHAN

Room 1, 23rd Floor, Jian Yin Building
709 Jianshe Road, Wuhan
Postcode: 430015

Milestone

1997

Further expanded the business into the transport sector in Chongqing and Dalian.

1996

Expanded the business into the transport sector in Wuhan and Chengdu.

1995

Set up the PRC headquarters in Shanghai.

1994

- Extended the outdoor advertising business from Hong Kong to the PRC by establishing a unipole network in Shanghai.
- Being granted advertising agency rights for the Hong Kong Stadium, the largest outdoor sports arena in Hong Kong.

1992

Built the world's largest advertising neon sign at Rumsey Street Government Carpark in Hong Kong.

1991

Pioneered a system of international standard size advertising billboards at the Cross Harbour Tunnel of Hong Kong.

1990

Acquired by the Morningside group.

2002

January
Listed on the GEM of the Stock Exchange. (Stock Code : 8072).

2001

January	Expanded bus advertising network in Chengdu by securing advertising rights for additional bus bodies.
March	Entered into exclusive advertising agency agreement in Shenzhen, including advertising spaces at the construction sites of four metro stations and bus shelters along Shen Nan Da Road.
	Expanded advertising media network in Wuhan by securing advertising rights for bus bodies and bus shelters lightboxes in the shopping districts.
June	Extended bus advertising network in Xuzhou.
September	Being appointed as the exclusive advertising agent for all advertising spaces of Oriental Plaza, the largest shopping mall in the PRC.
October	Being awarded exclusive advertising rights to provide advertising services on the Airport Express Line and the Airport Express shuttle buses in Hong Kong.

2000

- Established a co-operative joint venture to carry out metro advertising business in Guangzhou.
- Acquired a majority interest in Shanghai Metro JV that has exclusive advertising rights for Shanghai Metro Line 1.
- Obtained the exclusive advertising rights for tram shelters in Hong Kong.
- Acquired a 49% equity interest of POAD to further enhance existing presence in Hong Kong.
- Secured exclusive advertising rights for bus bodies in Beijing.

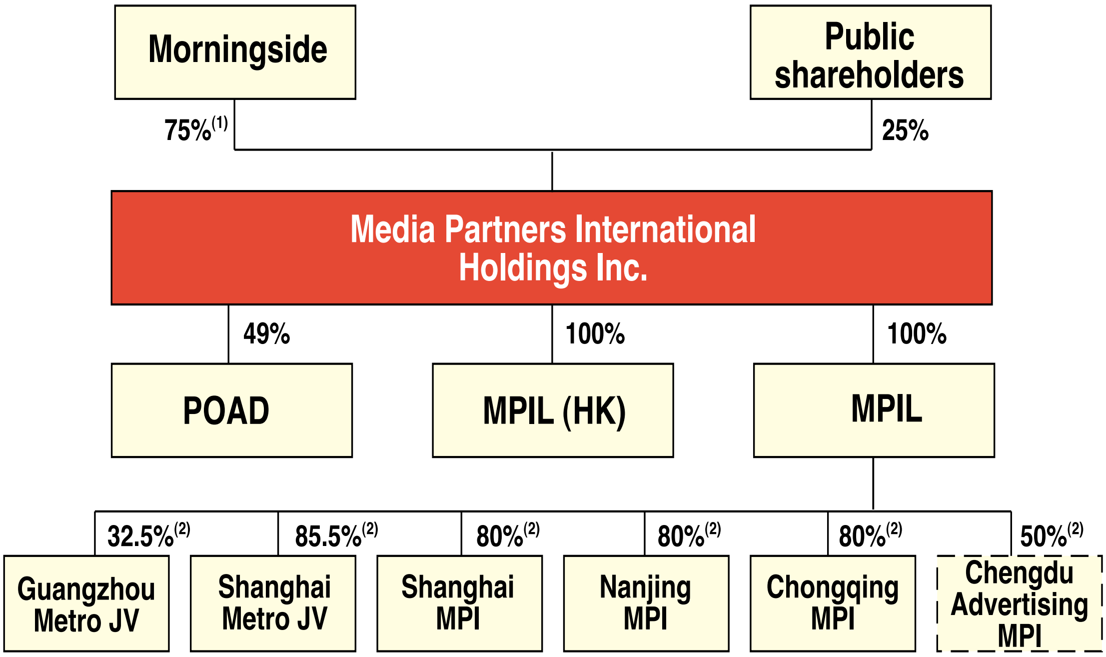
1999

- Established two co-operative joint ventures to carry out bus advertising business in Nanjing and Chongqing.
- Built the first colour changing neon sign at the roof top of Revenue Tower in Hong Kong.

1998

- Secured advertising and agency rights for bus bodies and unipoles in Shanghai, Beijing, Chongqing and Nanjing.
- Acquired exclusive advertising rights for advertising spaces in the Western Harbour Tunnel approach in Hong Kong.

Corporate Profile



Note: (1) If the convertible bond is fully converted, Morningside will have approximately 76.9% of the issued share capital of MPI as enlarged by the conversion shares
(2) Profit-sharing ratio
---------- To be established

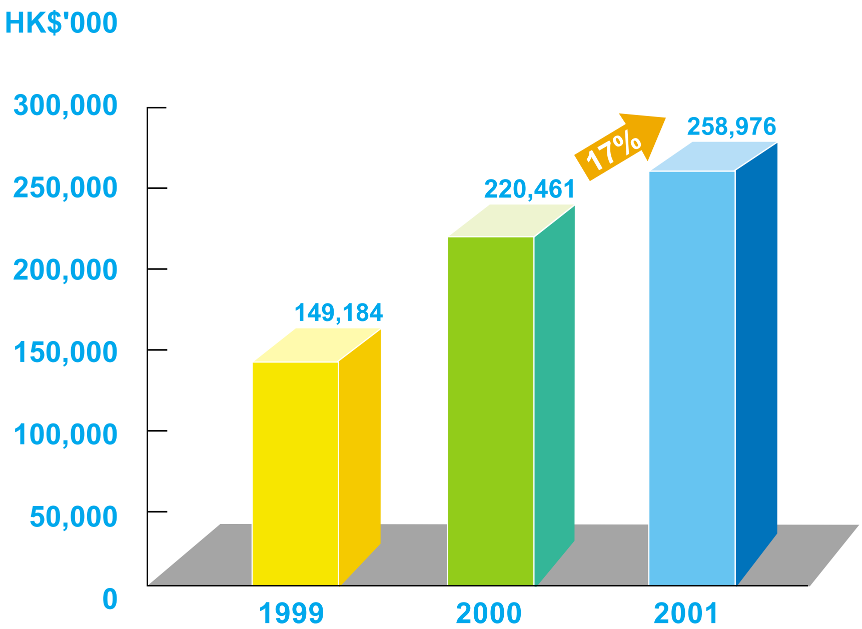
Media Partners International Holdings Inc. (the "Company") and its subsidiaries ("MPI Group") are the leading outdoor advertising media network provider in Greater China, offering comprehensive services in a wide range of billboard, street furniture and transport advertising. The Company was successfully listed on the GEM of the Stock Exchange on 31st January 2002 (Stock Code: 8072).

The outdoor advertising business of MPI Group began in Hong Kong in March 1990, and since then MPI Group has established a strong presence in Hong Kong. In 1994, MPI Group extended its business to the People's Republic of China ("PRC"). Headquartered in Shanghai, MPI Group has established five joint ventures and four offices in Guangzhou, Wuhan, Chengdu and Beijing, covering seven cities in the PRC. In addition, MPI Group's transit advertising media network now extends to 53 major cities in the PRC.

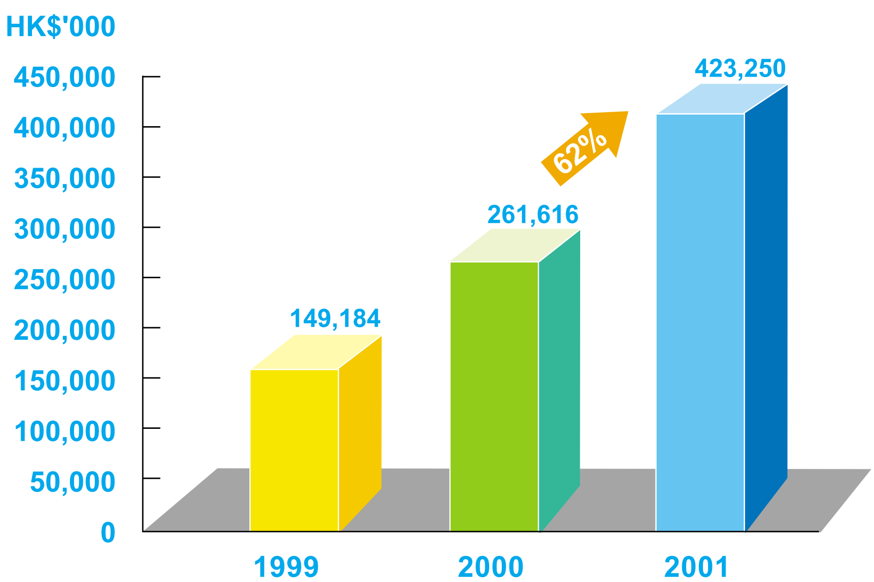
MPI Group is part of the Morningside group, founded by the Chan family, who earlier established the Hang Lung Group in Hong Kong. In the last twelve years, with the strong support from the Morningside group, MPI Group consolidated its market presence in the outdoor advertising business in Hong Kong, and further expanded its business to become the premier outdoor advertising media network provider in Greater China.

Financial Highlights

TURNOVER



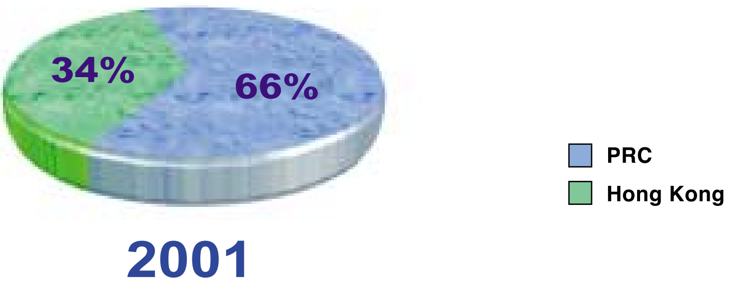
COMBINED TURNOVER*



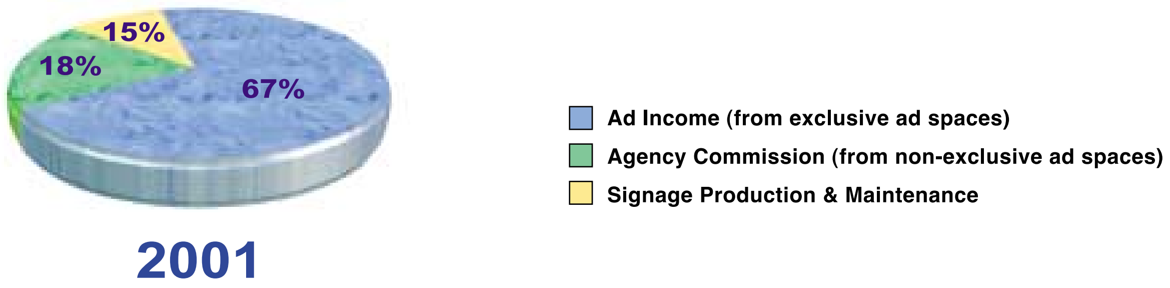
*Combined turnover represents the turnover of MPI Group together with the turnover of the two jointly controlled entities and an associate.

Financial Highlights

TURNOVER BREAKDOWN BY GEOGRAPHICAL LOCATIONS (HK$'000)	1999	2000	2001
PRC	78,720	141,977	171,851
Hong Kong	70,464	78,484	87,125
	149,184	220,461	258,976

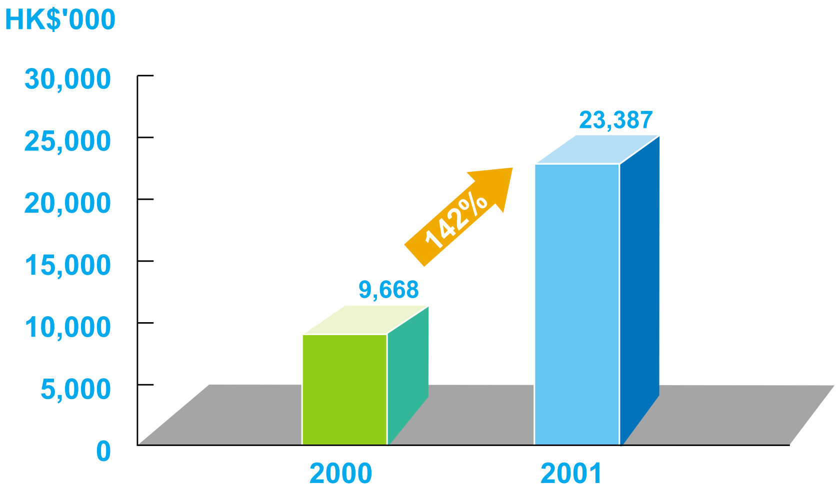


TURNOVER BREAKDOWN BY TYPE (HK$'000)	1999	2000	2001
Ad Income (from exclusive ad spaces)	122,065	145,754	173,433
Agency Commission (from non-exclusive ad spaces)	16,353	55,510	47,443
Signage Production & Maintenance	10,766	19,197	38,100
	149,184	220,461	258,976

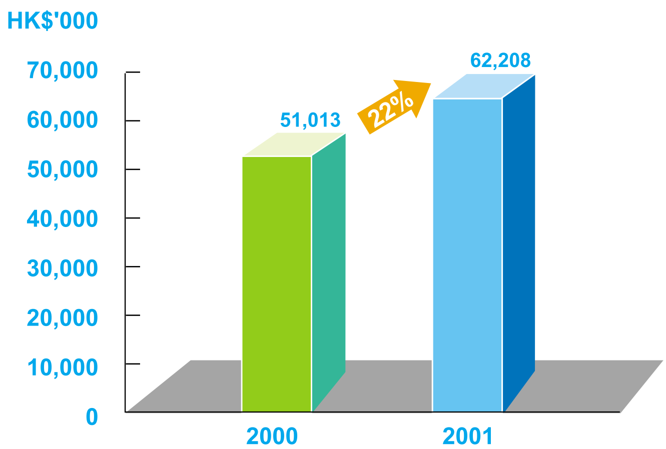


TURNOVER BREAKDOWN BY MEDIA CATEGORIES (HK$'000)	1999	2000	2001
Billboard	64,504	72,954	59,500
Transport	59,156	100,662	129,767
Street Furniture	14,758	27,648	31,609
Signage Production & Maintenance	10,766	19,197	38,100
	149,184	220,461	258,976

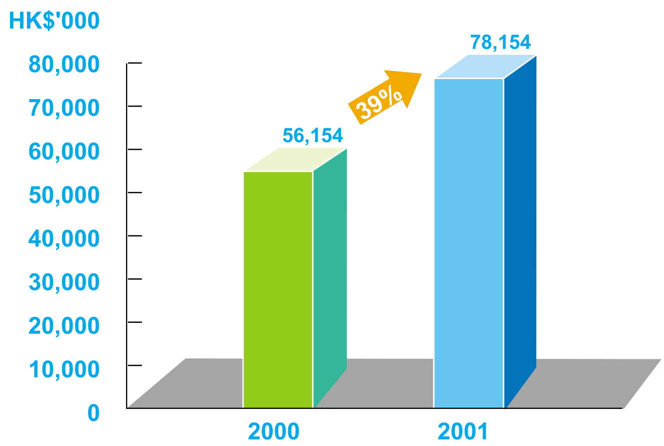
PROFIT ATTRIBUTABLE TO SHAREHOLDERS



EBITDA

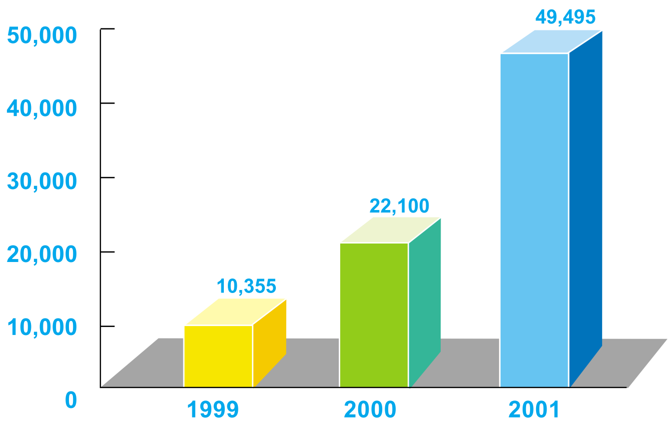


ADJUSTED EBITDA*



*Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, minority interests and including MPI Group's share of profits of an associate, POAD, and a jointly controlled entity, Shanghai Metro JV.

NUMBER OF ADVERTISING SPACES



Chairman's Statement

2001 was another great year for MPI Group. MPI Group's network of outdoor media in the PRC expanded to cover 53 cities. Revenues were healthy across the board. In January 2002, the Company was successfully listed on the GEM of the Stock Exchange.

The second half of 2001 was particularly eventful for the PRC. In July, the 2008 Summer Olympics was awarded to Beijing. In October, the APEC meeting held in Shanghai was a spectacularly successful event attended by many heads of state. In November, the PRC gained accession to the World Trade Organization. The economy of the PRC continues to grow robustly in spite of slowdown in other parts of the world. All these positive factors have bode well for the advertising industry in the PRC.

MPI Group will continue to focus on its core strength of outdoor media, especially in the transport sector. Already a frontrunner, MPI Group will continue to solidify its position in the PRC's metro and bus network. MPI Group is committed to working with its joint venture partners to improve results from operations, and in so doing, build value for its shareholders.

I am particularly indebted to my fellow directors whose guidance to MPI Group has been invaluable. I am also grateful to all the staff of MPI Group for their outstanding performance. MPI Group is fortunate to have a management team that is dedicated, energetic and highly effective.

I am looking forward to 2002 being yet another great year for MPI Group.

Gerald Chan
Chairman
Hong Kong, 18th March 2002

CEO's Statement

Dear Shareholders,

Successful Listing

On behalf of the Board of Directors (the "Directors") of the Company, it gives me great pleasure to report that the Company was successfully listed on the GEM of the Stock Exchange on 31st January 2002. I am also delighted to present the MPI Group's first annual results following our listing, with gross proceeds of HK$235 million.

In the past few years, MPI Group's solid and vigorous growth has enabled us to become the leading outdoor advertising media network provider in the PRC and Hong Kong. While priding ourselves on our recent achievements, we are also committed to strengthening our business portfolio in the immediate future. Given the strong support of our shareholders, I am confident that the successful listing of the Company will further accelerate our business growth, enabling us to build on past successes while continuing to produce excellent results in the coming years.

Financial Results

During the year under review, MPI Group has achieved remarkable growth in profit attributable to shareholders which increased from HK$9.7 million to HK$23.4 million, representing a surge of 142% over the previous year.

Compared with the year ended 31st December 2000, turnover for the year under review increased from HK$220.5 million to HK$259.0 million. By including the turnover of the two jointly controlled entities - Shanghai Metro JV and Guangzhou Metro JV ("JCEs") and the associate - POAD, the combined turnover for the year under review increased from HK$261.6 million to HK$423.2 million, representing a surge of 62%. Profit attributable to shareholders increased to HK$23.4 million and is in line with the profit estimate as stated in the Company's

Prospectus dated 15th January 2002. The outstanding performance was directly associated with the growth in the advertising sales business as a result of revenues generated from a number of advertising contracts entered in 2001. Proforma earnings per share increased from HK1.1 cents last year to HK2.7 cents this year.

Adjusted EBITDA* of MPI Group recorded at HK$78.2 million, a substantial growth of 39%, as compared to the results of HK$56.2 million for the corresponding year of 2000. Adjusted EBITDA margin was 30%, with a year-on-year growth at 18%.

*Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, minority interests and including the MPI Group's share of profits of an associate, POAD, and a jointly controlled entity, Shanghai Metro JV.

CEO's Statement

Business Review

MPI Group is an outdoor advertising media network provider with a growing business presence throughout Greater China. By leveraging our existing exclusive ownership of advertising spaces in prime locations, our well-established and substantial customer base, and our experienced professional staff with their in-depth market knowledge, MPI Group has succeeded in providing a comprehensive range of outdoor media solutions for our clients with value-added services such as media planning, design production and advertising effectiveness research.

With our headquarters in Shanghai, MPI Group, together with the JCEs and an associate, manage and operate a vital network of outdoor advertising media throughout 53 major cities in the PRC. Our focus on the PRC market has produced excellent yields, and accounted for approximately 65% of MPI Group's combined turnover in 2001. MPI Group's combined turnover is mainly derived from advertising in the transport sector that includes bus lines and metro systems. We have also maintained a strong presence in Hong Kong with our billboard, street furniture and transport sector.

As an early mover in the industry catering for a specific market niche in the PRC, MPI Group has adopted a unique business structure, opposed to a business model that relies on short-term contracts requiring large amounts of ongoing capital commitments. We either secure outdoor advertising rights through strategic alliances, including joint ventures with media owners or licensing arrangements with media owners. These long-term concessions enable MPI Group to enjoy a long-term exclusivity in the market, and exercise better control over the cost structure as there is little further capital commitment after the establishment of joint ventures.

Our long-established relationships with partners also have served to protect MPI Group against the rivals, and give a crucial competitive edge. At present, we have five co-operative joint ventures and four offices covering seven cities in the PRC.

In addition to the current offerings, we are expanding our activities into other forms of media. In September 2001, MPI Group was appointed as the exclusive advertising agent for all the exterior and interior advertising spaces of Oriental Plaza, the largest shopping mall in the PRC. In October 2001, MPI Group was awarded exclusive rights to provide advertising services on the Airport Express Line ("AEL") and on the Airport Express shuttle buses in Hong Kong. These are just two examples of our ongoing commitment to expand our advertising network and range of services.

Prospects

Prospects now seem particularly bright in the PRC, as continued economic growth and accelerated globalization are creating unprecedented opportunities in the PRC's rapidly-developing advertising industry. According to Zenithmedia forecasts, it is expected that the advertising spending of the PRC market will achieve a robust growth with a compounded average growth rate of over 21% from 2000 to 2003. A boom in the advertising market is predicted for the foreseeable future. With China's accession to the World Trade Organization and the hosting of the 2008 Olympic Games, MPI Group's positioning and timing in this dynamic market is an industry frontrunner.

In the PRC, exciting prospects lie ahead, a vast number of new metro lines are expected to be completed over the next few years. In line with our strategy for the PRC, we intend to invest substantially to secure advertising concessions in the metro and light rail systems in the PRC by leveraging our experience in the Shanghai and Guangzhou metro lines, and extending our offerings in the arena of bus lines, thus expanding our nationwide coverage of transport systems.

We plan to establish co-operative joint ventures in both Chengdu and Shenzhen in 2002. These will handle advertising services for approximately 80% of the public bus fleet in Chengdu, and act as advertising agents for approximately 80 bus shelters and over 100 advertising spaces at the construction sites of four metro stations in Shenzhen. Furthermore, a joint venture in Shanghai will be established to handle the design and production of a range of advertisements.

The strategic move into the shopping malls serves as a prime example in demonstrating our commitment to strengthen our existing offerings. It marked an important initial step for our further expansion in the in-mall signage sector.

In Hong Kong, we shall continue to expand our coverage and explore possibilities in other forms of outdoor media based on our solid business foundations. We plan to increase our coverage of outdoor advertising in billboards, LEDs and taxis.

Simultaneously, MPI Group will introduce innovative outdoor advertising products backed by advanced technology to create attractive visual impact for higher media value.

The above strategies will allow MPI Group to capitalize on arising market opportunities and to accelerate our business growth. As the industry is expected to go through consolidation, we shall also aggressively seek opportunities for mergers and acquisitions to expand our outdoor network beyond transport sector in the PRC. In addition, we shall also continue with the introduction of new products, implementation of new services, and will look for potential alliances with media owners. All these measures will further strengthen our position as a leading outdoor advertising media network provider in the Greater China region.

Appreciation

Finally, I would like to take this opportunity to express my appreciation to the management and the staff of MPI Group for their wholehearted commitment and dedicated performance, which has been so central to the successful development of MPI Group in recent years. I also wish to extend my sincere thanks to our business associates, customers and suppliers for their continuous co-operation and support.

Winnie To
Chief Executive Officer
Hong Kong, 18th March 2002

Operations Review

Overview of MPI Group

2001 was a good year for MPI Group, with substantial business growth and a strong performance in both the PRC and Hong Kong markets. In terms of advertising rights for the year ended 31st December 2001, MPI Group has secured over 31,000 advertising spaces in the PRC and over 18,300 advertising spaces in Hong Kong. MPI Group has rendered media services to 1,439 advertising consumers during 2001, an increase of 41% compared to the financial year of 2000.

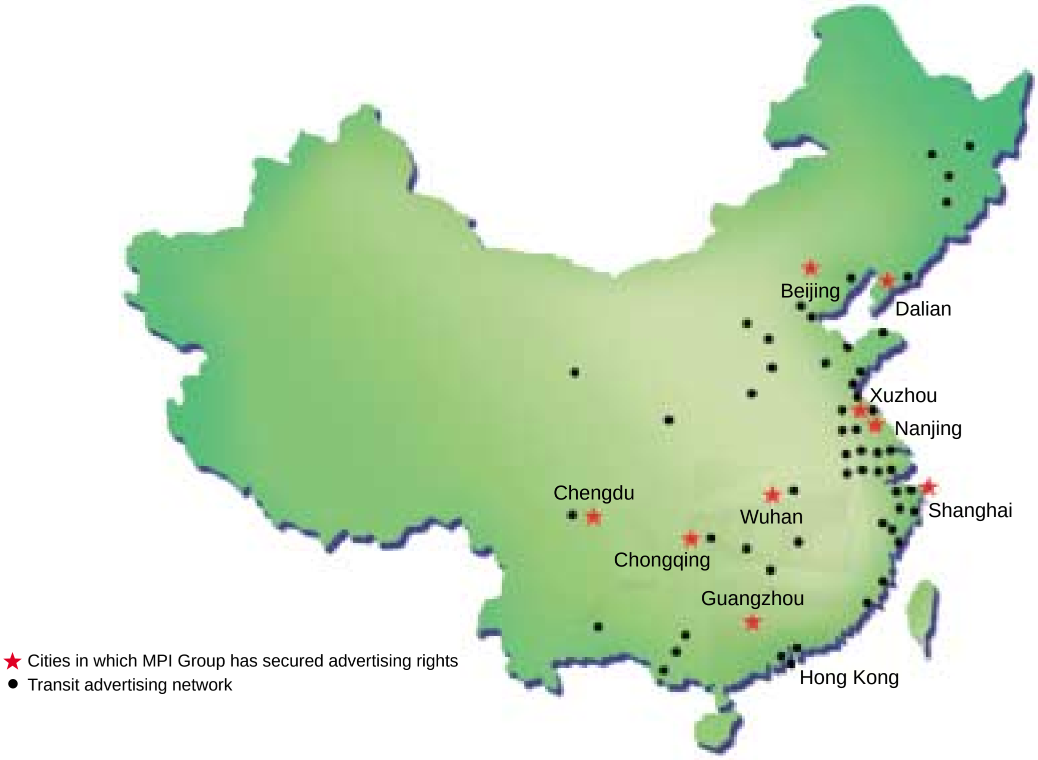
Operations in the PRC

MPI Group has acquired exclusive advertising rights to advertising spaces in the PRC through the implementation of successful networking strategies in negotiating agreements and establishing joint ventures with local transit operators, thereby gaining valuable exclusive advertising rights to various transit systems across the PRC.

During the year under review, MPI, together with its associate and JCEs, secured advertising rights from local transit operators along prime bus routes in Beijing, Shanghai, Nanjing, Chengdu, Chongqing, Wuhan, Dalian and Xuzhou for 12,800 bus bodies, 736 bus shelter lightboxes and panels in Wuhan, Nanjing and Shenzhen. In addition, MPI Group secured the advertising rights to over 17,400 advertising spaces in the metro lines in Shanghai and Guangzhou. MPI Group also acts as the sub-agent of local transit operators in establishing a nationwide transit advertising media network in 53 cities in the PRC.

MPI Group is headquartered in Shanghai, and through Shanghai MPI, a co-operative joint venture, MPI Group currently has exclusive

Types of media	Location	Advertising spaces
Transport		
Bus bodies	The PRC	Over 12,800
Metro systems	The PRC & HK	Over 33,800
Taxis	HK	300
Billboard		
Tunnels, carparks & unipoles	The PRC & HK	257
Neon signs, roof top & wall signs	HK	22
Street Furniture		
Bus shelters & signage	The PRC	736
Lightboxes, LEDs & panels	HK	1,460



advertising rights for 4,352 bus bodies in metropolitan Shanghai. This includes the rights for Route 911, which traverses the busiest business district in the city. MPI Group, through Shanghai Metro JV, has also obtained exclusive rights for more than 11,600 advertising spaces along Shanghai Metro Line 1, with the traffic flows along this line reaching approximately 400,000 to 500,000 passengers per day.

In Nanjing and Chongqing, MPI Group operates two co-operative joint ventures. They have acquired exclusive advertising rights for bus bodies in the entire Nanjing and Chongqing cities. In June 2001, Nanjing MPI also secured advertising rights for 350 bus shelter lightboxes in Nanjing, as well as 100 bus bodies in Xuzhou.

Through its interest in Guangzhou Metro JV, MPI Group has secured exclusive advertising rights for over 5,800 advertising spaces within Guangzhou Metro Line 1. To complement its joint-venture operations, MPI Group has set up offices in Beijing, Chengdu, Guangzhou and Wuhan that are responsible for MPI Group's business development throughout these regions.

In September 2001, MPI Group extended its outdoor advertising media network into shopping malls, by acting as the exclusive agent for all advertising spaces and designing all exterior and interior advertising signage for the Oriental Plaza in Beijing, the largest shopping mall in the PRC. With this strategic move into the field of shopping malls, MPI Group will benefit from the specific experience of designing signage for shopping centres, and simultaneously extend its media network in the PRC.

Operations Review

Operations in Hong Kong

In Hong Kong, the outdoor advertising media operated by MPI Group is mainly in the billboard and street furniture sectors and are located at prime locations, such as cross harbour tunnels, Tate's Cairn Tunnel, Causeway Bay, Mongkok, Admiralty, Central and Tsimshatsui.

In October 2001, leveraging MPI Group's experience and expertise in managing the advertising for metro lines in Shanghai and Guangzhou, MPI Group was granted the exclusive advertising rights to provide advertising services on the AEL and Airport Express shuttle buses for a term of two years from 1st January 2002, with an option to extend for further three years. This further expansion strengthened MPI Group's progress in the transport advertising sector.

In December 2000, MPI Group acquired a 49% interest in POAD, a leading outdoor media specialist with established outdoor displays in Hong Kong, POAD first contributed to MPI Group's profits in 2001.

As of 31st December 2001, MPI Group, together with its associate, have secured over 140 advertising spaces in the billboard sector, over 16,700 advertising spaces in the transport sector and 1,460 advertising spaces in the street furniture sector in Hong Kong.

Strong Back-Office Support

MPI Group believes that its skilled and experienced management and sales and marketing teams are valuable assets to MPI Group and create a sustainable competitive edge in the outdoor advertising industry. In early 2001, MPI Group strengthened its operations by centralizing all departments at its Shanghai headquarters in order to increase corporate support to each department at the regional level, and thereby increase efficiency and productivity. The Directors believe that this re-vitalized management structure will allow MPI Group to compete more effectively and to operate more efficiently. To provide timely information on media availability and occupancy rates for all media within MPI Group, a database of the entire MPI Group's media in the PRC has been established to serve as an effective tool for formulating marketing plans and strategies.

Turnover

MPI Group's turnover for the year under review increased to HK$259.0 million, representing an increase of 17%. MPI Group's combined turnover for the year under review amounted to HK$423.2 million, representing MPI Group's turnover of HK$259.0 million together with the turnover of its JCEs and associate of HK$164.2 million. As compared with the previous year, this represents growth of 62%. The growth was achieved by the increasing demand for outdoor advertising business in Hong Kong and the PRC, together with the contribution from the sales and marketing team which expanded the business relationships MPI Group has with the existing customers and helped to win new customers.

In the PRC, MPI Group currently focuses on the advertising channels in the transport sector. MPI Group, together with its JCEs, through strategic alliances with local transit operators, has secured advertising rights to prime bus routes in Beijing, Shanghai, Nanjing, Chengdu, Chongqing, Wuhan, Dalian and Xuzhou and metro lines in Shanghai and Guangzhou. Advertising service income from the transport sector for the year under review amounted to about HK$129.8 million, representing 50% of MPI Group's turnover.

EBITDA and Cashflow

Earnings before interest, tax, depreciation and amortization ("EBITDA"), a key indicator of financial performance for companies in the outdoor media industry, increased from HK$51.0 million to HK$62.2 million. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, minority interests and including MPI Group's share of profits from a jointly controlled entity, Shanghai Metro JV and the associate, POAD. Adjusted EBITDA of MPI Group increased by 39% from HK$56.2 million for 2000 to HK$78.2 million for 2001.

These increases reflected EBITDA margin improvement from 23% for 2000 to 24% for 2001 and Adjusted EBITDA margin improvement from 25% for 2000 to 30% for 2001.

During the year under review, MPI Group generated a net cash inflow from operating activities of HK$57.6 million, an improvement of 113% compared with HK$27.1 million for 2000 and representing 93% of the EBITDA for the year.

Net Profit

Profit attributable to shareholders for 2001 increased to HK$23.4 million and is in line with the profit estimate as stated in the Prospectus. The increase represents growth of 142% as compared with HK$9.7 million

for 2000. The increase reflected a net profit margin improvement from 4.4% in 2000 to 9.0% in 2001.

Proforma earnings per share increased from HK1.1 cents to HK2.7 cents.

Segment Information

The PRC

Turnover from the PRC operations contributed 66% of the total turnover generated by MPI Group for the year under review, compared to 64% for the previous year, reflecting continuous expansion of MPI Group's outdoor advertising business in the PRC. Turnover increased by 21% from HK$142.0 million in 2000 to HK$171.9 million in 2001. MPI Group's combined turnover generated from the PRC operations amounted to HK$275.1 million for 2001, representing the turnover of MPI Group from the PRC operations of HK$171.9 million together with the turnover of its JCEs of HK$103.2 million. As compared with the previous year, this represents growth of 50%. The growth was generated by the additional exclusive advertising rights for prime bus routes in a number of major cities in the PRC and the increasing popularity of advertising in the transport sector in the PRC.

Profit attributable to shareholders for the year under review was HK$18.0 million, representing the growth of 251% as compared with HK$5.1 million for 2000. The growth reflected improvement in net profit margin from 3.6% in 2000 to 10.5% in 2001.

Hong Kong

Turnover from Hong Kong operations contributed 34% of the total turnover generated by MPI Group for the year under review.

Despite the difficult market conditions, turnover increased by 11% to HK$87.1 million in 2001 as compared to HK$78.5 million in 2000. The growth was due to additional exclusive rights for a number of new advertising concessions, such as tram shelters and Windsor House secured by MPI Group during the year under review.

Profit attributable to shareholders for the year under review was HK$5.4 million, representing a growth of 19% as compared with HK$4.6 million for 2000 and MPI Group managed to increase the net profit margin from 5.8% for 2000 to 6.2% for 2001.

Financial Position

As at 31st December 2001, MPI Group had a sound financial position. Pursuant to the listing of the shares of the Company on GEM on 31st January 2002, the Company issued a total of 213,800,000 shares for cash, raising net proceeds of approximately HK$213 million after deduction of underwriting and other related expenses.

Liquidity

a. As at 31st December 2001, MPI Group had aggregate outstanding bank borrowings of approximately HK$136.3 million (2000: HK$111.1 million) comprising unsecured and secured bank loans of approximately HK$9.3 million (2000: HK$9.3 million) and HK$127.0 million (2000: HK$101.8 million) respectively. All bank borrowings are repayable within 1 year. The additional bank borrowings of approximately HK$25.2 million in 2001 were mainly for funding the acquisition of the new advertising rights in 2001. During the year under review, the interest rates for the bank borrowings denominated in Hong Kong dollars were ranging from "25 basis points over the deposit rate" to "1% over the Bank's Funding Rate". The interest rates for the bank borrowings denominated in Renminbi were ranging from "106% on lending rate from People's Bank of China ("PBOC")" to "120% on lending rate from PBOC".

MPI Group's net debts amounted to HK$13.5 million (2000: net cash of HK$20.7 million), representing total bank borrowings of HK$136.3 million less pledged deposits and cash and cash equivalents of HK$122.8 million. Accordingly, MPI Group's net debts represented 8.4% of net assets as at 31st December 2001.

b. MPI Group's borrowings are primarily denominated in Hong Kong dollars and Renminbi. MPI Group has no significant exposure to other foreign exchange rate fluctuations.

c. As at 31st December 2001, MPI Group had loans from a fellow subsidiary of HK$180.5 million and loans from its ultimate holding company of HK$10.5 million. The loans were unsecured and the fellow subsidiary and the ultimate holding company had waived its right to receive interest on the loans. Pursuant to a deed dated 9th January 2002, all outstanding loans from a fellow subsidiary of HK$180.5 million were assigned to the ultimate holding company pursuant to the reorganization. On 9th January 2002, an amount of HK$106.0 million due from the Company to the ultimate holding company was capitalized and the remaining amount of HK$85.0 million were satisfied by the issue of the Convertible Bond. Interest is charged at the rate of 2.5% per annum, payable semi-annually in arrears.

d. The current ratio of MPI Group as at 31st December 2001 was 107% (2000: 115%). The current ratio would be 208% if the net proceeds from the listing were taken into account. The gearing ratio* as at 31st December 2001 was 128% (2000: 130%). MPI Group would achieve a net cash position if the net proceeds from the listing and the capitalization of HK$106.0 million of loans from the ultimate holding company were taken into account.

*The gearing ratio was calculated as the ratio of long term debt and bank loan net of cash balance to net assets

Assets

As at 31st December 2001, MPI Group had total assets of HK$583.7 million (2000: HK$548.3 million), including advertising rights of HK$260.8 million (2000: HK$235.8 million) and pledged deposits and cash and cash equivalents of HK$122.8 million (2000: HK$131.8 million) of which HK$77.6 million (2000: HK$89.2 million) was pledged with banks for banking facilities made available to MPI Group. The pledged deposits of HK$77.6 million and HK$89.2 million represented all of the charges on MPI Group's assets as at 31st December 2001 and as at 31st December 2000 respectively.

The proforma combined net assets of MPI Group as at 31st December 2001 was HK$160.0 million, an improvement of 17% as compared with HK$136.6 million as at 31st December 2000.

The adjusted net assets, taking into account the capitalization of part of the unsecured loans due from the Company to its ultimate holding company of HK$106.0 million and the net proceeds (after deduction of underwriting and other related expenses) of HK$213 million from the placing of shares on GEM, would have been HK$479 million.

MPI Group's accounts receivable were outstanding for an average of 46 days for the year under review.

Financial Resources

MPI Group generally finances its operations and meets its debts with cash generated from its operations and credit facilities provided by its principal bankers. As at 31st December 2001, MPI Group had cash resources of approximately HK$122.8 million and aggregate credit facilities of approximately HK$282.1 million with various banks of which approximately HK$143.6 million had been utilized.

MPI Group has adequate financial resources to meet its ongoing operating and development requirements having taken into account the financial resources currently available to MPI Group and the net proceeds from listing in January 2002. To the extent that MPI Group's cash resources are not immediately required for its ongoing operating and development requirements, such amounts are placed on short-term deposit with banks or other authorized financial institutions in Hong Kong.

As at 31st December 2001, MPI Group had contingent liabilities amounting to HK$7.3 million (2000: HK$3.7 million) in respect of bank guarantees given to independent third parties in the ordinary course of business to ensure the due performance of a subsidiary and observance of the obligations of the subsidiary to certain agreements. The increase of bank guarantees in 2001 was in respect of guarantee relating to MPI Group's newly secured advertising concessions on the AEL.

Foreign Exchange

During 2000 and 2001, MPI Group normally used the receipts from customers and bank loans to pay its suppliers and meet its capital requirements. These are denominated in the local currency of the place in which its subsidiaries or JCEs operate. While MPI Group does not currently engage in hedging to manage possible Renminbi or other currency risk, as it considers the cost associated with such hedging arrangements would exceed the benefits, management will continue to monitor the relevant circumstances and will take such measures as it deems prudent.

Significant Investments and Acquisitions

During the year under review, MPI Group made no significant investments and had no material acquisitions or disposals of subsidiaries or associates. During 2000, MPI Group had established a jointly controlled entity ("JCE") in Guangzhou, acquired a subsidiary which owned a JCE in Shanghai and acquired an associate in Hong Kong. Details of these transactions had been fully disclosed in the Prospectus.

Employees' Remuneration

As at 31st December 2001, MPI Group had 199 (2000: 158) full-time employees, representing an increase of 41 employees or 26%. Although the headcount increase was 26%, employees' remuneration only increased by 16% to HK$26.2 million (2000: HK$22.6 million). The employees' remuneration, including that of the directors, for the year under review, was maintained at about 10% of turnover.

As over 70% of new employees joined the sales, marketing and media planning team, MPI Group places emphasis on expansion and further strengthening of MPI Group's sales and marketing force to explore more business opportunities.

MPI Group remunerates its employees based on their performance, experience and the prevailing industry practice. MPI Group also provides competitive retirement benefits, including a defined contribution scheme and statutory Mandatory Provident Fund benefits to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

Post Balance Sheet Event

Reorganization

Pursuant to a group reorganization (the "Reorganization") to rationalize the structure of MPI Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the subsidiaries now comprising MPI Group on 9th January 2002.

The Reorganization was accomplished by acquiring the entire share capital of Polyland Holdings Limited, in consideration of and in exchange for the issue and allotment of 999,990 shares to Morningside Technologies Inc., the former shareholder of Polyland Holdings Limited. Further details of the Reorganization are set out in the Prospectus.

Capitalization of Shareholder's Loan

Pursuant to a deed dated 9th January 2002, all the outstanding loans from the fellow subsidiary which totaled HK$180.5 million were assigned to the ultimate holding company as part of the Reorganization. On 9th January 2002, the Company entered into an agreement with the ultimate holding company such that, prior to the placing of shares of the Company on GEM, an amount of HK$106.0 million representing unsecured loans due to the ultimate holding company was capitalized. The remaining unsecured loans due to the ultimate holding company of HK$85 million were satisfied by the issue of the Convertible Bond.

The term of the Convertible Bond is for the period from 31st January 2002, the date on which the Company's shares commenced trading on the GEM of the Stock Exchange ("the Listing Date"), to 31st December 2004 ("term of the Convertible Bond"). Interest is charged at the rate of 2.5% per annum, payable semi-annually in arrears.

The holders of the Convertible Bond will have, subject to certain conditions, the right at any time following the expiry of six months from the Listing Date to convert part or all of the Convertible Bond into shares of the Company at a price equivalent to 110% of the Issue Price of HK$1.10 per share.

Unless previously repurchased, cancelled, redeemed or converted, the Convertible Bond will be redeemed at its principal amount together with any accrued interest on maturity.

Listing

The Company was listed on GEM on 31st January 2002 and 213,800,000 shares of the Company were issued by way of Placing.

Intended Use of Net Proceeds from Listing

On 31st January 2002, the shares of the Company were listed on GEM. The future business plans of MPI Group are set out in the Prospectus. The net proceeds from the listing after deduction of the underwriting and other related expenses incurred were approximately HK$213 million.

MPI Group intends to apply such net proceeds as follows:-

- To expand the existing outdoor advertising media network and develop new advertising media
- To secure new advertising concessions in the metro and light rail systems in the PRC
- To establish joint ventures in Shanghai, Shenzhen and Chengdu, and
- To release the charge on pledged deposits placed by the ultimate holding company and to create additional general working capital.

DIRECTORS

Executive Directors

Mr. George Ka Ki CHANG, aged 50, Vice Chairman, joined the MPI Group in 1995 and was appointed a Director on 4th June, 2001. Mr. Chang plays a central role in advising on the strategic and corporate development of MPI Group. Mr. Chang has over eight years' experience in public accounting in Hong Kong and Toronto. He started his professional career in Arthur Andersen & Co, a major international accounting firm. Prior to joining the MPI Group, Mr. Chang held senior financial positions in various international manufacturing and trading companies. Mr. Chang received his Bachelor of Business Administration and Master of Business Administration degrees from the University of Wisconsin at Madison and is a member of the American Institute of Certified Public Accountants, Canadian Institute of Chartered Accountants and Hong Kong Society of Accountants.

Ms. Winnie Pik Shan TO, aged 49, Chief Executive Officer, joined the MPI Group in 1995 and was appointed a Director on 4th June, 2001. Ms. To is responsible for development and implementation of the overall strategies and policies of the MPI Group. Ms. To has extensive experience in managing the sales and marketing of fast-moving consumers goods. Prior to joining the MPI Group, Ms. To was responsible for the Hong Kong market of Kimberly-Clark and Smithkline Beecham and for the PRC and Hong Kong markets of Johnson & Johnson. Ms. To has worked in the PRC for more than 14 years and is a member of the Political Consultative Committee of the City of Chongqing, PRC. Ms. To graduated from the Baptist University of Hong Kong Department of Communication Studies.

Mr. Tony Cheung Kin AU-YEUNG, aged 53, joined the MPI Group in 1998 and was appointed a Director on 4th June, 2001. Mr. Au-Yeung advises the MPI Group on organizational and business development matters in the PRC. Mr. Au-Yeung ran the PRC operations of several multinational companies in the capacity of general manager for more than 17 years, including 11 years in the PRC during which he worked for companies such as Revlon and Gillette. Prior to joining the MPI Group, he was the head of Gillette's operations in the PRC and was instrumental in building up Gillette's PRC operations into one of the major business units in Gillette's International Division. Mr. Au-Yeung holds a Master of Science degree in Physics and a Master of Business Administration degree from Indiana University.

Non-executive Director

Mr. Gerald Lokchung CHAN, aged 51, Chairman, has been with the MPI Group since 1995 and was appointed a non-executive Director on 4th June, 2001. Mr. Chan has been a board member of Hang Lung Group Limited of Hong Kong since 1986. He also serves on the board of a number of companies including Natural Polymer International Corporation and I-Behaviour Inc. Prior to his 15 years career in venture capital and direct investments, both in the US and in the PRC, he was a research fellow in pathology at the Harvard Medical School. His many non-profit activities include serving on the Visiting Committee of the Harvard School of Public Health and of the Cancer Center of the Massachusetts General Hospital in Boston. He received his undergraduate training in engineering at the University of California at Los Angeles and his Doctorate of Science degree in Radiation Biology from Harvard University.

Independent non-executive Directors

Mr. Lawrence Juen-Yee LAU, aged 57, was appointed an independent non-executive Director on 11th July, 2001. Mr. Lau is the Kwoh-Ting Li Professor of Economic Development, Department of Economics, Stanford University, and a senior fellow of the Hoover Institution on War, Revolution and Peace, the Institute for International Studies, and the Stanford Institute for Economic Policy Research, Stanford University. Mr. Lau received his Bachelor of Science degree in Physics and Economics, with Great Distinction, from Stanford University in 1964 and his Master of Arts and Doctorate of Philosophy degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. Mr. Lau joined the faculty of the Department of Economics, Stanford University in 1966 and became a full professor in 1976. In 1992, he was named the first Kwoh-Ting Li Professor of Economic Development at Stanford University. From 1992 to 1996, he served as a Co-Director of the Asia/Pacific Research Center, Stanford University. From 1997 to 1999, he served as the director of the Stanford Institute for Economic Policy Research, Stanford University.

Mr. Paul Laurence SAFFO III, aged 47, was appointed an independent non-executive Director on 11th July, 2001. A Director and Roy Amara Fellow at the Institute For The Future, Mr. Saffo is a technology forecaster studying long-term information technology trends and their impact on business and society. Mr. Saffo serves on a variety of boards and advisory panels, including the AT&T Technology Advisory Board, and the advisory boards of Coactive Networks and Digital Island. He was a 1997 McKinsey Judge for The Harvard Business Review, and in the same year was named one of one hundred “Global Leaders for Tomorrow” by the World Economic Forum. In 2000, Mr. Saffo was elected a Member of the Royal Swedish Academy of Engineering Sciences. Institute For the Future is a 30-year old foundation that provides strategic planning and forecasting services to major corporations and government agencies. Mr. Saffo holds degrees from Harvard College, Cambridge University, and Stanford University.

Mr. Meocre Kwok Wing LI, aged 46, was appointed an independent non-executive Director on 20th December, 2001. Mr Li is the founder and chief executive of Alpha Alliance Finance Holdings Limited. He was previously the chief executive of ICEA Finance Holdings Limited, the investment banking subsidiary of The Industrial and Commercial Bank of China. Prior to this, Mr. Li was the chief executive of NatWest Markets Corporate Finance Asia Limited, and before that the managing partner of an international accountancy firm, Arthur Andersen & Co’s Hong Kong and PRC operations. Mr. Li holds a Bachelor of Commerce degree from the University of Alberta, Canada and completed the Program for Management Development from the Harvard Graduate School of Business. Mr. Li is a qualified accountant and a member of the Hong Kong Society of Accountants and of the Association of Chartered Certified Accountants, United Kingdom.

SENIOR MANAGEMENT

Mr. Stephen Cheuk Kin LAW, aged 39, Chief Financial Officer and Company Secretary, was appointed by the Group on 11th July, 2001. He has 17 years of experience in accounting, finance, investments and development. Mr. Law is responsible for corporate development, financial management, corporate compliance and investor relations of the MPI Group. Prior to joining the MPI Group, Mr. Law gained an extensive corporate finance and media industry experience working for the Wheelock and Wharf Groups for over five years, first, in corporate development and later in corporate finance leading the dual listing of i-Cable Communications Limited in Hong Kong and the United States. Prior to working for Wheelock, Mr. Law served as regional financial controller of international companies. Mr. Law started his career with a big five accounting firm in United Kingdom. Mr. Law holds a Bachelor of Science degree from the University of Birmingham and a

Master degree in Business Administration from the University of Hull, United Kingdom. Mr. Law is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Society of Accountants and a registered Certified Public Accountant in Hong Kong.

Mr. George Cheng-Chung CHU, aged 57, Chief Operating Officer, joined the MPI Group in March, 2002. He involves in sales, operations, marketing media developments, human resources development and information technology of the MPI Group. Mr. Chu has over 28 years experience in operations and management in various industries. He has held senior management positions for 20 years. In addition, he was also an experienced consultant for the China Light Industry and Taiwan Food Research Institute. Prior to joining the MPI Group, Mr. Chu was the executive director and country manager of Thomas Group China for Dallas USA where he was involved in management consulting, marketing and re-engineering business in PRC. Prior to that, Mr. Chu was the general manager for Guangzhou Iao Son Hong in PRC, vice president of The Coca Cola China and the Coca Cola Shanghai Shen-Mei Bottling Co., director of quality assurance of American Maize Co., director of technical service of American Fructose Co. Mr. Chu was the president of American Chinese Food Society and was elected as Young Executives in USA in 1989. Mr. Chu also was awarded twice the Magnolia Award by the Shanghai Municipal Government. Mr. Chu holds a Bachelor of Science degree in Microbiology from Chung Hsing University, Taiwan, and a Master of Science degree in Food Science and Nutrition from Tuskegee Institute, Alabama and an Executive Master of Business Administration degree from the Lake Forest Graduate School of Business, Illinois, USA.

Mr. Danny Zi Lin YANG, aged 38, Vice President of Finance, joined the MPI Group in January, 1999. Mr. Yang is responsible for overseeing the finance and accounting functions of the PRC operations of the MPI Group. Prior to joining the MPI Group, Mr. Yang gained extensive industry experience as the chief accountant and financial controller of Dentsu, Young & Rubicam China. Mr. Yang, prior to his eight years with Dentsu, Young & Rubicam China, served as the vice director of the financial department at Shanghai Advertising & Decoration Corp. Mr. Yang graduated from Shanghai Financial & Economy University, as well as from Shanghai Business Accounting College and has a Master of Business Administration degree from China Europe International Business School. Mr. Yang is a qualified accountant in PRC.

Mr. Bob Kwai Hang LEUNG, aged 45, Vice President of Sales, joined the MPI Group in June, 1999. Mr. Leung is in charge of the sales operations of the MPI Group. Prior to joining the MPI Group, Mr. Leung was the general manager of Gillette Stationery Group Hong Kong. He was involved in overseeing Gillette's operations in Singapore, Taiwan and Hong Kong. Mr. Leung has over 20 years of experience in sales, marketing and general management from working at various multi-national corporations such as Gillette, Parker Pen, San Miguel, Vitasoy and Kimberly-Clark.

Mr. Marcus Kwok Wing MA, aged 52, Vice President of Media Development and Management, joined the MPI Group in July, 1996. Mr. Ma is in charge of the Media Development and Management operations of the Group in the PRC and serves as the General Manager in Beijing. Mr. Ma has over 30 years of experience in the advertising industry and has over 13 years of experience in the PRC. Prior to joining the MPI Group, Mr. Ma had worked with Allied Advertising, Harpers, Dentsu, Young and Rubicam China, Grey and Bates China. Mr. Ma began working at Grey when the group was founded and served 15 years as the media director. In 1992, Mr. Ma was appointed by Grey as a general manager in Beijing when the company set up a joint venture operation in PRC. Mr. Ma joined Bates China in 1994 and was appointed general manager of Shanghai in charge of Central China .

Mr. Tony Hong Lin JIN, aged 33, Vice President of Special Projects, joined the MPI Group in November, 2001. Mr. Jin is responsible for special projects related to overall operational systems assigned by the company and advises the company on strategic development for the MPI Group. Currently he focuses on building MIS systems for the MPI Group. Prior to joining the MPI Group, Mr. Jin was the general manager of Beijing Century Yaolan Technology Ltd. From 1996 to 1998, Mr. Jin was the investing project manager of Sino-Pacific Fund Management Ltd. and was responsible for overseeing several joint venture investments with multi-national enterprises. Mr. Jin has a unique vision and rich experience in management information data mining with advanced technology tools. Mr. Jin holds a Master degree from Beijing Foreign Studies University where he focused on computational linguistics.

Ms. Florence Yuk Lan WONG, aged 34, Corporate Controller, was appointed as qualified accountant on 7th January, 2002. She is responsible for overseeing the corporate accounting functions of the MPI Group. Prior to joining the MPI Group, Ms. Wong spent seven years with i-Cable Communications Limited, a company dually listed on the Hong Kong Stock Exchange and the Nasdaq Stock Market, Inc. in the United States, and was responsible for overseeing financial accounting and regulatory reporting. Ms. Wong started her professional career with PricewaterhouseCoopers, a major international accounting firm. Ms. Wong holds a professional diploma in accountancy from the Hong Kong Polytechnic University. Ms. Wong is a member of the Association of Chartered Certified Accountants and a member of the Hong Kong Society of Accountants.

Ms. Wei Fen LUO, aged 46, Director of Human Resources Administration, joined the MPI Group in September, 2000. Ms. Luo is responsible for the MPI Group's human resources development strategy including the training and development of key personnel in the PRC. Prior to joining the MPI Group, Ms. Luo spent five years with Stora Enso Suzhou Paper Company as the training and recruitment manager and later as the human resources director. Ms. Luo graduated from Shanghai Television University and completed a Master degree in human resources management from Suzhou University.

Mr. Richard Ye TIAN, aged 29, Director of Marketing, joined the MPI Group in November, 2000. Mr. Tian is responsible for developing and executing the marketing and sales strategies in the PRC and Hong Kong. Prior to joining the MPI Group, Mr. Tian was national account director (key account) for Beijing Top Results Public Transportation Advertising Co., Ltd. From 1995 to1998, Mr. Tian worked for Unilever Service (Shanghai) Co. Ltd. ("Unilever") as operation manager for Central China. In addition to Unilever, Mr. Tian worked for sino-foreign Med Tech Grand Pharmaceutical Ltd. where he was sales supervisor. Mr. Tian holds a Bachelor of Medical Science degree from Hubei Medical University.

Mr. Hang Jun LIU, aged 41, General Manager — Nanjing, joined the MPI Group in March, 1999. Mr. Liu is responsible for the management of daily operations and the implementation of strategies for Nanjing MPI. Mr. Liu has over 20 years' experience in the transportation and advertising industries in Nanjing. Prior to joining the MPI Group, Mr. Liu worked for the Nanjing Municipal Public Transportation Advertising Company for 12 years, most recently in the role of general manager. Mr. Liu was appointed as the deputy officer of Public Transportation Advertising Committee of China Advertising Association and sits upon various regional advertising committees. Mr. Liu received a diploma from the faculty of Journalism and Communication of the Nanjing University and was educated at the Economic Management School of Nanjing Agriculture University.

Mr. Bruce Ka Lim Yu, aged 54, General Manager — Hong Kong, joined the Group in 2001. Mr. Yu is responsible for the management of the daily operations and implementation of strategies for the Group's Hong Kong operations. Mr. Yu is an advertising, marketing and media veteran with over 30 years of Hong Kong and regional experiences in areas ranging from advertising agencies, clients and media owners. Before joining MPI Group, Mr. Yu was the chief sales and marketing officer of Stareastnet. com. Prior to that, in the capacity as media owners, Mr. Yu was the senior vice president of sales and marketing of Star TV and was the deputy sales and marketing controller and subsequently the controller of international affairs and public relations of TVB. Mr. Yu gained substantial sales and marketing experiences as a country marketing director of Hewlett Packard Hong Kong and through his 9 years' association with British American Tobacco Co. in Hong Kong. Mr. Yu started his advertising career in accounts servicing with McCann Erickson and Ogilvy and Mather Hong Kong. Mr. Yu holds a Bachelor of Arts degree in Economics from the University of Hong Kong.

Mr. Dexter Tak Yin HO, aged 40, General Manager — South West China, joined the MPI Group in April, 1999. He is responsible for management of the daily operations and implementation of the strategies for the MPI Group's operations in the south west region of the PRC. Prior to joining the MPI Group, Mr. Ho worked as a regional manager, sales operation manager and area manager for Polaroid Far East Limited in Guangzhou, Shanghai and Chengdu, respectively. With over 15 years experience, Mr. Ho has also held sales positions with Corning Hong Kong Limited, RJ Reynolds Nabisco China Limited and Nestle China Limited. Mr. Ho holds a Bachelor Degree of Business Administration in Marketing (Hons) from the Chinese University of Hong Kong.

Mr. Michael Jun Hao DENG, aged 31, General Manager — South China, joined the MPI Group in February, 1996. He is responsible for the management of the daily operations and implementation of the strategies for south region of the PRC. Prior to joining the MPI Group, Mr. Deng gained industry experience as the chief controller of design and production of New Generation Signage Advertising, a subsidiary of the Guangzhou Municipal Advertising Company. Prior to that, Mr. Deng was involved in design and production of outdoor advertising as the art designer for the Guangzhou Municipal Advertising Company. Mr. Deng holds an arts degree from Guangzhou Municipal Fine Arts College and has completed advanced studies at the Enterprise Management Faculty of Guangzhou Chi Nan Ren Institute.

Ms. Nora Wing Chung LI, aged 44, General Manager (Sales & Marketing) — Shanghai Metro JV, joined the MPI Group in August, 1996. Ms. Li has been seconded to Shanghai Metro JV and is responsible for managing the sales operations and developing marketing strategies for the Shanghai Metro JV. Prior to her current position, Ms. Li served as the general manager for the Guangzhou Metro JV and sales agent for the MPI Group outdoor media. Before joining the MPI Group, Ms. Li worked as account manager (Hong Kong MTR project) for JC Decaux Pearl & Dean Limited, an international out-of-home media specialist, for four years and followed by another four years in developing the Shanghai Metro project. From 1980-1988, Ms. Li worked for Asia Television Limited where she was a group sales manager. Ms. Li holds a Bachelor of Arts degree in Economics from the University of Manitoba, Canada.

Report of the Directors

The Directors have pleasure in submitting their first annual report together with the audited financial statements of Media Partners International Holdings Inc. ("the Company") for the period from 14th May, 2001 (date of incorporation) to 31st December, 2001. Attached to the audited financial statements is the proforma financial information of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2001 prepared on the basis set out on page 61. The Group was legally formed on 9th January, 2002.

GROUP REORGANIZATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

The Company was incorporated in the Cayman Islands on 14th May, 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands under the name of MPI Holdings Inc. The Company changed its name to Media Partners International Holdings Inc. on 8th June, 2001. Pursuant to a group reorganization (the "Reorganization") for the purpose of listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the subsidiaries now comprising the Group on 9th January, 2002. Details of the Company's subsidiaries now comprising the Group are set out in note 36 on the proforma financial information.

Further details of the Reorganization are set out in note 1 to the financial statements and in the Company's prospectus dated 15th January, 2002 (the "Prospectus").

On 31st January, 2002, pursuant to the placing, the shares of the Company were listed on and commenced trading on GEM.

To facilitate comparison of the financial results and position of the Group with that presented in the accountants' report in the Prospectus, proforma financial information comprising proforma combined profit and loss account, balance sheet and cash flow statement are also included in the annual report. The basis of presentation of the proforma financial information is set out on page 61 of the annual report and the accounting policies set out on pages 71 to 81 have been consistently applied for presenting the proforma financial information referring to the Group in this report.

PRINCIPAL ACTIVITIES

As at 31st December, 2001, the Company has not carried out any business since the date of the incorporation save for the acquisitions of Mei Ti Bo Le Group Limited and Media Partners International Holdings Limited and the incurring of certain expenditure relating to the Reorganization.

The principal activity of the Company during the period from its date of incorporation to 31st December, 2001 was investment holding. The principal activities and other particulars of its subsidiaries are set out in note 8 on the financial statements.

Pursuant to the Reorganization, the principal activity of the Company and its subsidiaries, together with its associate and jointly controlled entities, is to manage and operate a prominent network of outdoor advertising media in the PRC and Hong Kong.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries, pursuant to the Reorganization, are set out in note 36 on the proforma financial information.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's proforma sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total %
The largest customer	3.82
Five largest customers in aggregate	13.32
The largest supplier	7.63
Five largest suppliers in aggregate	28.21

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in any of the major customers and suppliers referred to above.

FINANCIAL STATEMENTS

The loss of the Group for the period ended 31st December, 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 44 to 60.

The proforma combined profit of the Group for the year ended 31st December, 2001 and the state of the Group's affairs as at that date, are set out in the proforma financial information on pages 62 to 128.

The Directors of the Company do not recommend the payment of a dividend for the period ended 31st December, 2001.

FIXED ASSETS

Movements in fixed assets of Group are set out in note 14 on the proforma financial information.

SHARE CAPITAL

Details of the movements in the share capital of the Company since 14th May, 2001 (date of incorporation), together with reasons therefor are set out in note 11 to the financial statements.

Details of the Company's share option scheme are set out in the section headed "Share Option Scheme" of this report.

Details of the Convertible Bond are set out in note 37 on the proforma financial information.

RESERVES

Details of movement in the reserves of the Group are set out in note 33 on the proforma financial information.

DIRECTORS

The Directors of the Company since 14th May, 2001 (date of incorporation) and up to the date of this report were as follows:—

Executive Directors

George Ka Ki CHANG	(appointed on 4th June, 2001)
Winnie Pik Shan, TO	(appointed on 4th June, 2001)
Tony Cheung Kin AU-YEUNG	(appointed on 4th June, 2001)

Non-executive Directors

Ronnie C. CHAN	(appointed on 4th June, 2001 and resigned on 21st December, 2001)
Gerald Lokchung CHAN	(appointed on 4th June, 2001)

Independent non-executive directors

Lawrence Juen Yee LAU	(appointed on 11th July, 2001)
Paul Laurence SAFFO III	(appointed on 11th July, 2001)
Meocre Kwok Wing LI	(appointed on 20th December, 2001)

In accordance with Article 86(3) of the Company's Articles of Association, all the existing directors of the Company will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group are set out in notes 7 and 8 on the proforma financial information.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group and the employer's costs charged to the proforma combined profit and loss account for the year ended 31st December, 2001 are set out in notes 5 and 12 on the proforma financial information.

DIRECTORS' INTERESTS IN SHARES

Subsequent to the balance sheet date of 31st December, 2001, the Company's shares were listed on the GEM on 31st January, 2002. At the date of this report, none of the directors or their associates had any personal, family, corporate or other interest in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTION SCHEME

The Company adopted a share option scheme approved by way of written resolution of the Company on 7th January, 2002 under which the Directors of the Company may invite any employees (whether or not full-time or part time and, for the avoidance of doubt, including the Directors except Mr. Gerald Lokchung Chan), certain consultants, suppliers and customers of the Group from time to time to take up options to subscribe for shares of the Company. As at the date of this report, no options had been granted to the Directors.

Apart from the foregoing, at no time during the period was the Company, its holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the directors of the Company or any their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As the date of this report, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company:—

Name	No. of shares held	Approximate percentage of issued share capital
Morningside CyberVentures Holdings Limited ("MSCV") (note 1)	640,000,000	75%
Verrall Limited via MSCV (note 2)	640,000,000	75%

Notes:

1. MSCV is a company incorporated in the British Virgin Islands and is wholly-owned by Verrall Limited in its capacity as the trustee of the trust referred to in note (2) below.

2. Verrall Limited, a company incorporated in the Isle of Man, is the trustee of a discretionary trust established by Mdm. Chan Tan Ching Fen, the mother of Mr. Gerald Lokchung Chan, for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of this trust are Directors nor are they otherwise involved in the management of the Group.

Other than as disclosed above, the Company has not been notified of any other interest representing 10% or more of the Company's issued share capital as at the date of this report.

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, other than MSCV and Verrall Limited as disclosed above, there is no other person who is directly or indirectly, interested in 5% or more of the issued share capital of the Company and who is able, as a practical matter, to direct or influence the management of the Company.

SPONSOR'S INTEREST

As at 31st December, 2001, neither BNP Paribas Peregrine Capital Limited (the "Sponsor") nor its directors or employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company.

Pursuant to an agreement dated 15th January, 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's sponsor for the period from 31st January, 2002 to 31st December, 2004.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of George Ka Ki Chang and Tony Cheung Kin Au-Yeung has entered into a Director's service agreement with the Company and Winnie Pik Shan To has entered into a Director's service agreement with Media Partners International Limited, a wholly-owned subsidiary of the Company. Each agreement is for a period of two years commencing on 7th January, 2002 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' prior notice in writing, so as to expire no earlier than the end of the second year or any time thereafter.

The term of office of each of the non-executive directors is for the period up to 6th January, 2004.

Except for the above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, have engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

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

Since the Listing of the Company, neither the Company or its subsidiaries had purchased, sold or redeemed any of Company's securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31st December, 2001 are set out in note 24 on the proforma financial information.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 129 of the annual report.

CONNECTED TRANSACTIONS

Subsequent to the balance sheet date of 31st December, 2001, shares of the Company were listed on GEM on 31st January, 2002.

As disclosed in the section headed "Connected transactions" in the Prospectus, the following represent continuing connected transactions (the "Ongoing Transactions") (as defined under the GEM Listing Rules):—

(a) Lease arrangements

On 11th September, 1999, Media Partners International (Hong Kong) Limited, a wholly-owned subsidiary of the Company entered into a tenancy agreement with Hang Lung Real Estate Agency Limited as Agent for Hang Chui Company Limited, a wholly-owned subsidiary of Hang Lung Properties Limited to rent the premises at Rooms 1506-10 of Hang Lung Centre, 2-20 Paterson Street, Causeway Bay, Hong Kong for a term of three years commencing on 1st September, 1999 at a monthly rent of HK$40,013 plus rates and management fees.

On 7th August, 2001, Shanghai Media Partners International Ltd., a non-wholly owned subsidiary of the Company entered into a tenancy agreement with Noble State Company Limited, which is an entity ultimately controlled by the Chan family, to rent the premises at 1st and 2nd levels of No. 8 Gao On Road, Shanghai for a term of three years commencing on 1st June, 2001 at a monthly rent of US$8,480 (approximately HK$66,144).

(b) Administrative services

On 9th January, 2002, the Company entered into an administrative services agreement with MTI Administration Limited, a wholly-owned subsidiary of MSCV, the ultimate holding company, to provide or procure the provision of administrative services to the Group, which include but are not limited to the following:—

i company secretarial and corporate development work;

ii legal services; and

iii administrative services incidental to the above

(together hereinafter referred to as the "Administrative Services")

The Company agreed to pay MTI Administration Limited, on a monthly basis, a proportion of the monthly total staff costs in relation to the above administrative services rendered by such persons supplied by MTI Administration Limited by reference to their timesheets for the amount of time they have spent on matters for the Group as a proportion to their total working time.

Pursuant to a waiver granted by the Stock Exchange, the Ongoing Transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that these connected transactions have been entered into (a) in the ordinary and usual course of business of the Group (b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 37 on the proforma financial information.

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 31st January, 2002.

AUDIT COMMITTEE

The Company established an audit committee on 7th January, 2002 with written terms of reference in compliance with the requirements as set out in Rule 5.23 of the GEM Listing Rules. In respect of the financial statements and the proforma financial information for the period ended 31st December, 2001, the audit committee had met once to review the financial reporting process and internal control system of the Group and provide advice and comments to the Board of Directors of the Company.

The audit committee comprises three independent non-executive directors, Mr. Meocre Kwok Wing LI, Professor Lawrence Juen Yee LAU and Mr. Paul Laurence SAFFO III.

The consolidated profit and loss account and the proforma combined profit and loss account of the Group for the year ended 31st December, 2001 and the consolidated balance sheet and the proforma combined balance sheet of the Group at 31st December, 2001 together with the notes attached thereto have been reviewed by the audit committee, which 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.

AUDITORS

KPMG were first appointed as auditors of the Company in January, 2002.

KPMG retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Law Cheuk Kin, Stephen
Company Secretary

Hong Kong, 18th March, 2002

Auditors' Report

Auditors' report to the shareholders of
Media Partners International Holdings Inc.
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 44 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong. We have also audited the proforma financial information on pages 62 to 128. The proforma financial information has been prepared in accordance with the "Basis of presentation of the proforma financial information" set out on page 61 and the accounting policies set out on pages 71 to 81.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of the financial statements and proforma financial information which give a true and fair view. In preparing financial statements and proforma financial information which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and proforma financial information and to report our opinion to you.

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 and proforma financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and proforma financial information, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 and proforma financial information are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and proforma financial information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion,

(a) the financial statements set out on pages 44 to 60 give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001 and of the Group's loss and cash flows for the period from 14th May, 2001 (date of incorporation of the Company) to 31st December 2001 and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

(b) the proforma financial information set out on pages 62 to 128 has been properly prepared in accordance with the "Basis of presentation of the proforma financial information" set out on page 61 and the accounting policies set out on pages 71 to 81 and, on that basis, gives a true and fair view of the state of the affairs of the Group as at 31st December, 2001 and of the Group's profit and cash flows for the year then ended as if the Group's reorganization had been effected on 31st December, 2001 and the Group structure had been in existence then.

KPMG
Certified Public Accountants

Hong Kong, 18th March, 2002

Consolidated Profit and Loss Account

For the period from 14th May, 2001
(the date of incorporation) to 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	Period from 14th May, 2001 to 31st December, 2001 $'000
Operating expenses		(123)
Loss from ordinary activities before taxation	4	(123)
Taxation	5	—
Loss from ordinary activities after taxation		(123)
Loss per share		
— Basic	7	(123)
— Diluted	7	(123)

No separate statement of recognized gains and losses has been prepared as the net loss for the period would be the only component of this statement.

The notes on pages 48 to 60 form part of these financial statements.

Consolidated Balance Sheet

At 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001
		$'000
Current assets		
Receivables, deposits and prepayments	**9**	**3,187**
Cash and cash equivalents		**1**
		3,188
Current liabilities		
Payables and accruals		**101**
Amounts due to fellow subsidiaries	**10**	**3,210**
		3,311
NET LIABILITIES		**(123)**
CAPITAL AND RESERVES		
Share capital	**11**	**—**
Reserves	**12**	**(123)**
		(123)

Approved and authorized for issue by the board of directors on 18th March, 2002.

George Ka Ki Chang	**Winnie Pik Shan To**
Director	*Director*

The notes on pages 48 to 60 form part of these financial statements.

Balance Sheet

At 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000
Non-current assets		
Investments in subsidiaries	8	—
Current assets		
Receivables, deposits and prepayments	9	3,187
Cash and cash equivalents		1
		3,188
Current liabilities		
Payables and accruals		101
Amounts due to fellow subsidiaries	10	3,200
		3,301
Net current liabilities		(113)
NET LIABILITIES		(113)
CAPITAL AND RESERVES		
Share capital	11	—
Reserves	12	(113)
		(113)

Approved and authorized for issue by the board of directors on 18th March, 2002.

George Ka Ki Chang
Director

Winnie Pik Shan To
Director

The notes on pages 48 to 60 form part of these financial statements.

Consolidated Cash Flow Statement

For the period from 14th May, 2001
(date of incorporation) to 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000
Net cash inflow from operating activities	(a)	**1**
Net cash inflow from returns on investments and servicing of finance		**—**
Tax paid		**—**
Net cash inflow from investing activities		**—**
Increase in cash and cash equivalents		**1**
Cash and cash equivalents at 14th May,		**—**
Cash and cash equivalents at 31st December,		**1**

NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT
(Expressed in Hong Kong dollars)

(a) Reconciliation of loss from ordinary activities before taxation to net cash inflow from operating activities

	2001 $'000
Loss from ordinary activities before taxation	**(123)**
Increase in receivables, deposits and prepayments	**(3,187)**
Increase in payables and accruals	**101**
Increase in amounts due to fellow subsidiaries	**3,210**
Net cash inflow from operating activities	**1**

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1 STATUS OF THE COMPANY

(a) The Company

The Company was incorporated in the Cayman Islands on 14th May, 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands under the name of MPI Holdings Inc. The name of the Company was changed to Media Partners International Holdings Inc. on 8th June, 2001.

During the period from 14th May, 2001 (date of incorporation) to 31st December, 2001, the Company has not carried out any business save for the acquisitions of Mei Ti Bo Le Group Limited and Media Partners International Holdings Limited and the incurring of expenses related to the Reorganization, as defined in note 1(b) below.

The consolidated results of the Company and of its subsidiaries for the period from 14th May, 2001 to 31st December, 2001 and the balance sheet of the Company and the Group as at 31st December, 2001 are presented on pages 44 to 60 of the financial statements.

As the Company was incorporated on 14th May, 2001, no comparative figures are presented.

(b) Group reorganization and listing on the Growth Enterprise Market

Pursuant to a group reorganization (the "Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the subsidiaries now comprising the Group on 9th January, 2002. Details of the Company's subsidiaries comprising the Group as from 9th January, 2002 are set out in note 36 on the proforma financial information.

1 STATUS OF THE COMPANY *(continued)*

(b) Group reorganization and listing on the Growth Enterprise Market *(continued)*

The Reorganization was accomplished by acquiring the entire share capital of Polyland Holdings Limited ("Polyland"), which is, at the date of this report, the intermediate holding company of the subsidiaries set out in note 36 on the proforma financial information, in consideration of and in exchange for the issue and allotment of 999,990 shares to Morningside Technologies Inc., the former shareholder of Polyland. Further details of the Reorganization are set out in the Company's prospectus dated 15th January, 2002 ("the Prospectus").

The Company obtained a listing on GEM on 31st January, 2002.

(c) Basis of preparation

As the Reorganization took place on 9th January, 2002, in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants the effect of the Reorganization is not reflected in the Company's financial statements for the period ended 31st December, 2001.

However, since all entities which took part in the Reorganization were wholly owned by Morningside CyberVentures Holdings Limited ("MSCV") before and immediately after the Reorganization and, consequently, there was a continuation of the risks and benefits to the ultimate shareholder that existed prior to the Reorganization, additional proforma financial information, prepared using the merger basis of accounting, has been presented on pages 62 to 128, as if the Group had always been in existence. Further details concerning the basis of presentation of the proforma financial information is set out on page 61.

The measurement basis used in the preparation of the financial statements is historical cost.

1 STATUS OF THE COMPANY *(continued)*

(d) Basis of consolidation

(i) The consolidated financial statements include the financial statements of the Company and all 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 profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(ii) Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share in the fair value of the identifiable assets and liabilities acquired. Positive goodwill is stated at cost less any accumulated amortization and any impairment losses (see accounting policy 2(c)). Amortization of positive goodwill is on a straight-line basis over its estimated useful life which does not exceed 20 years.

(iii) On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortized through the profit and loss account is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of GEM. A summary of the significant accounting policies adopted by the Group is set out below.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognized in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealized profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see accounting policy 2(c)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognized in the profit and loss account as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognized.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies

The financial statements are prepared in Hong Kong dollars.

Foreign currency transactions are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(e) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3 TURNOVER

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 8 on the financial statements. The Group did not earn any income during the period from the date of incorporation of the Company to 31st December, 2001.

4 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

During the period ended 31st December, 2001, certain expenses of the Group, including auditors' remuneration of $50,000, have been borne by a fellow subsidiary of the Company which has waived its right of recovery thereof.

(Expressed in Hong Kong dollars)

5 TAXATION

No provision for Hong Kong profits tax has been made as no income assessable to Hong Kong profits tax was earned during the period ended 31st December, 2001.

6 DIRECTORS' REMUNERATION

	2001 $'000
Fees	—
Basic salaries, housing and other allowances and benefits in kind	—
Discretionary bonuses	—
Retirement scheme contributions	—
	—

7 BASIC AND DILUTED LOSS PER SHARE

The calculation of the loss per share is based on the loss attributable to shareholders for the period ended 31st December, 2001 and on the 1 share of the Company in issue during the period ended 31st December, 2001.

8 INVESTMENTS IN SUBSIDIARIES

	The Company 2001 $'000
Unlisted shares, at cost	—

Details of the subsidiaries held by the Company at 31st December, 2001 are set out as follows:

Name of company	Place of incorporation and operation	Proportion of attributable equity interest held directly	Issued share capital	Principal activities
Mei Ti Bo Le Group Limited (formerly Wise Rich Resources Limited)	Hong Kong	100%	HK$2	Dormant
Media Partners International Holdings Limited	Hong Kong	100%	HK$2	Dormant

9 RECEIVABLES, DEPOSITS AND PREPAYMENTS

All of the receivables, deposits and prepayments are expected to be recovered within one year.

(Expressed in Hong Kong dollars)

10 AMOUNTS DUE TO FELLOW SUBSIDIARIES

	The Group 2001 $'000	The Company 2001 $'000
Amounts due to fellow subsidiaries	**3,210**	**3,200**

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

11 SHARE CAPITAL

	Number of shares	Amount
Authorized:		
On incorporation and at 31st December, 2001, ordinary shares of $1.00 each	50,000	$ 50,000
Issued and fully paid:		
Shares issued upon incorporation and at 31st December, 2001	1	$ 1

The Company was incorporated on 14th May, 2001 with an authorized share capital of $50,000 divided into 50,000 shares of $1.00 each, of which 1 share of $1.00, credited as fully paid, was allotted and issued.

On 7th January, 2002, the authorized share capital of the Company was increased from $50,000 to $100,000,000 by the creation of an additional 99,950,000 shares of $1.00 each ranking pari passu with the then existing shares of the Company in all respects.

11 SHARE CAPITAL *(continued)*

On 7th January, 2002, by means of a sub-division of share capital, the par value of the shares of the Company was reduced from $1.00 each to $0.10 each, and every issued and unissued share of $1.00 was subdivided into 10 shares (“Subdivision”). Immediately after the Subdivision, the authorized share capital of the Company became $100,000,000 comprising 1,000,000,000 shares of $0.10 each of which 10 shares were in issue.

On 9th January, 2002, the Company acquired 1 share of US$1.00 in Polyland, representing the entire issued share capital of Polyland from Morningside Technologies Inc. (“MTI”) in consideration for the issue and allotment of 999,990 shares to MTI. The Company became the holding company of the Group with effect from 9th January, 2002.

On 9th January, 2002, the Company entered into an agreement with MSCV, the ultimate holding company, such that, an amount of $105,978,176 representing unsecured loans due to MSCV was capitalized and 639,000,000 shares were allotted and issued to MSCV.

Pursuant to the listing of the shares of the Company on GEM on 31st January, 2002, 213,800,000 shares of the Company were issued by way of a Placing.

All shares authorized or issued since incorporation rank pari passu with each other in all respects.

Share option scheme

The Company conditionally adopted a share option scheme on 7th January, 2002 whereby any employees whether or not full time or part time and, for the avoidance of doubt, including the Directors of the Group except Mr. Gerald Lokchung CHAN who, at the sole discretion of the Board have, subject to the terms of the share option scheme, contributed to the Group, may be granted options to subscribe for shares in the Company. Details of the share option scheme are disclosed in the Directors’ Report.

12 RESERVES

	The Group	The Company
	$'000	$'000
Loss for the period ended 31st December, 2001	(123)	(113)
At 31st December, 2001	(123)	(113)

13 MATERIAL RELATED PARTY TRANSACTIONS

Pursuant to the Reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the subsidiaries now comprising the Group on 9th January, 2002.

The Reorganization was accomplished by acquiring the entire share capital of Polyland, which is, at the date of this report, the intermediate holding company of the subsidiaries set out in note 36 on the proforma financial information, in consideration of and in exchange for the issue and allotment of 999,990 shares to MTI, the former shareholder of Polyland. Further details of the Reorganization are set out in the Company's prospectus dated 15th January, 2002 ("the Prospectus").

14 POST BALANCE SHEET EVENTS

The following events took place subsequent to 31st December, 2001:

(a) Subsequent to the year end date, there were movements in share capital as set out in note 11 on the financial statements.

(b) On 9th January, 2002, the Company completed the Reorganization in preparation for the listing of its shares on GEM. As a result of the Reorganization, the Company has become the holding company of the Group. Further details of the Reorganization are set out in the Prospectus of the Company dated 15th January, 2002.

14 POST BALANCE SHEET EVENTS *(continued)*

(c) A share option scheme was established on 7th January, 2002, further details of which are set out in the Prospectus of the Company dated 15th January, 2002.

(d) On 9th January, 2002, all the outstanding loans from a fellow subsidiary at 30th November, 2001, which totalled $180,529,859 at that date were assigned to MSCV pursuant to the Reorganization.

(e) Pursuant to the Listing of the shares of the Company on GEM on 31st January, 2002, 213,800,000 shares of the Company were issued by way of a Placing for cash of HK$1.10 per share.

(f) On 9th January, 2002, the Company entered into an agreement with MSCV such that, prior to the Placing, an amount of $105,978,176 representing unsecured loans due to MSCV was capitalized and 639,000,000 shares were allotted and issued to MSCV. After considering the loan capitalization of $106.0 million as mentioned above, the remaining unsecured loans due to MSCV at 30th November, 2001 of $85 million were satisfied by the issue of the Convertible Bond.

The term of the Convertible Bond is for the period from the date on which the Company's shares commenced trading on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Listing Date"), to 31st December, 2004 ("term of the Convertible Bond"). Interest is payable at a rate of 2.5% per annum, semi-annually in arrears.

The holders of the Convertible Bond will have, subject to certain conditions, the right at any time following the expiry of six months from the Listing Date to convert part or all of the Convertible Bond into shares of the Company at a price equivalent to 110% of the Issue Price which was $1.10 per share.

Unless previously repurchased, cancelled, redeemed or converted, the Convertible Bond will be redeemed at its principal amount together with any accrued interest on maturity.

15 ULTIMATE HOLDING COMPANY

The Directors of the Company consider MSCV, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

Proforma Financial Information

(Expressed in Hong Kong dollars)

BASIS OF PRESENTATION OF THE PROFORMA FINANCIAL INFORMATION

Note 1(b) to the financial statements on page 48 describes the reorganization of the Group that took place prior to its listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 31st January, 2002 ("the Reorganization"). As stated in note 1(c) on the financial statements, since the Reorganization took place on 9th January, 2002, in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants, the effect of the Reorganization is not reflected in the Company's financial statements for the period ended 31st December, 2001.

However, since all entities which took part in the Reorganization were wholly owned by Morningside CyberVentures Holdings Limited ("MSCV") before and immediately after the Reorganization and, consequently, there was a continuation of the risks and benefits to the ultimate shareholder that existed prior to the Reorganization, additional proforma information, prepared using the merger basis of accounting, has been presented on pages 62 to 128.

The proforma combined profit and loss account of the Group for the year ended 31st December, 2001 includes the financial results of the companies which now comprise the Group for the period from 1st January, 2001 (or the date of incorporation or the date that the Group's effective control commenced, if later) to 31st December, 2001 as if the current group structure had been in existence and remained unchanged throughout the period presented. The proforma combined balance sheet of the Group as at 31st December, 2001 has been prepared to present the combined assets and liabilities of the Group as at that date as if the current group structure was in existence then. The comparative figures as at and for the year ended 31st December, 2000 have been presented on the same basis.

Although this proforma financial information does not form part of the financial statements for the year ended 31st December, 2001, it will form the basis of the comparative information in the financial statements for the year ending 31st December, 2002. This is because, when adopting the merger basis of accounting in accordance with SSAP 27, in the period in which the Reorganization is first reflected in the financial statements, the financial statement items for any comparative periods should be included in the financial statements as if the Reorganization had taken place from the beginning of the earliest period presented.

Proforma Combined Profit and Loss Account

For the year ended 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Operating revenue			
Turnover	3	258,976	220,461
Other revenue	4	22,053	8,447
Other net income/(loss)	4	1,684	(88)
Operating expenses			
Site rental and other direct costs		(177,960)	(142,811)
Staff costs		(26,224)	(22,623)
Depreciation and amortization		(35,574)	(33,394)
Other operating expenses		(16,321)	(12,373)
Profit from operations		26,634	17,619
Finance costs	5(a)	(7,371)	(4,095)
Share of profits less losses of an associate		5,046	—
Share of profits less losses of jointly controlled entities		15,125	4,638
Profit from ordinary activities before taxation	5	39,434	18,162
Taxation	6	(12,316)	(6,155)
Profit from ordinary activities after taxation		27,118	12,007
Minority interests		(3,731)	(2,339)
Profit attributable to shareholders	9 & 33	23,387	9,668
Earnings per share			
— Basic	11(a)	3.7 cents	1.5 cents
— Diluted	11(b)	3.7 cents	1.5 cents
Proforma earnings per share			
— Basic	11(c)	2.7 cents	1.1 cents

The notes on pages 70 to 128 form part of this proforma financial information.

Proforma Combined Statement of Recognized Gains and Losses

For the year ended 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Profit attributable to shareholders	**9 & 33**	**23,387**	9,668
Total recognized gains		**23,387**	9,668
Net goodwill movement dealt with in reserves	**33**	**—**	(73,791)
		23,387	(64,123)

The notes on pages 70 to 128 form part of this proforma financial information.

Proforma Combined Balance Sheet

At 31st December, 2001

(Expressed in Hong Kong dollars)

	Note	2001	2000
		$'000	$'000
Non-current assets			
Fixed assets	14	14,159	14,230
Interest in an associate	15	4,760	370
Investments in jointly controlled entities	16	60,115	53,953
Amounts due from a jointly controlled entity	16	18,692	18,692
Advertising rights	17	260,796	235,794
		358,522	323,039
Current assets			
Accounts receivable	18	42,896	22,020
Other receivables, deposits and prepayments	18	50,280	49,962
Amounts due from jointly controlled entities	19	2,383	12,883
Amounts due from minority shareholders	20	6,294	4,469
Amounts due from related companies	21	493	4,185
Pledged bank deposits	22	77,588	89,228
Cash and cash equivalents	23	45,257	42,532
		225,191	225,279
Current liabilities			
Bank loans	24	136,308	111,078
Accounts payable	25	22,513	15,474
Other payables, deposits and accruals	25	43,358	67,543
Amounts due to jointly controlled entities	26	6,610	136
Taxation	27	1,510	1,669
		210,299	195,900
Net current assets		14,892	29,379
Total assets less current liabilities		373,414	352,418
Non-current liabilities			
Loans from a fellow subsidiary and ultimate holding company	28	190,977	197,902
Minority interests	29	22,438	17,953
Deferred taxation	30	49	—
		213,464	215,855
NET ASSETS		159,950	136,563

	Note	**2001**	2000
		$'000	$'000
CAPITAL AND RESERVES			
Share capital	**32**	**—**	—
Reserves	**33**	**159,950**	136,563
		159,950	136,563

Approved and authorized for issue by the board of directors on 18th March, 2002.

George Ka Ki Chang	**Winnie Pik Shan To**
Director	*Director*

The notes on pages 70 to 128 form part of this proforma financial information.

Proforma Combined Cash Flow Statement

For the year ended 31st December, 2001
(Expressed in Hong Kong dollars)

	Note		2001		2000
		$'000	$'000	$'000	$'000
Net cash inflow from operating activities	(a)		**57,637**		27,069
Returns on investments and servicing of finance					
Interest received		**4,288**		3,101	
Interest paid		**(7,371)**		(4,095)	
Dividends received from jointly controlled entities		**3,782**		—	
Dividends paid to minority shareholders		**(1,454)**		—	
Net cash outflow from returns on investments and servicing of finance			**(755)**		(994)
Taxation					
Hong Kong profits tax paid		**(887)**		(232)	
PRC tax paid		**(5,702)**		(4,805)	
Tax paid			**(6,589)**		(5,037)
Investing activities					
Decrease/(increase) in pledged deposits		**11,640**		(81,356)	
Payment for the purchase of fixed assets		**(4,634)**		(3,081)	
Proceeds from sales of fixed assets		**2,103**		413	
Payment for the purchase of advertising rights		**(74,982)**		(59,743)	
Payment for the purchase of jointly controlled entities		**—**		(117,463)	
Payment for the purchase of an associate		**—**		(17,169)	
Advances to jointly controlled entities		**—**		(18,692)	
Net cash outflow from investing activities			**(65,873)**		(297,091)
Net cash outflow before financing carried forward			**(15,580)**		(276,053)

	Note		2001		2000
		$’000	$’000	$’000	$’000
Net cash outflow before financing brought forward			**(15,580)**		(276,053)
Financing	**(b)**				
New bank loans		**25,230**		42,810	
Capital injection		**—**		251,646	
Repayment of loans from the PRC partners of certain subsidiaries		**—**		(2,422)	
Repayment of loans from a fellow subsidiary and ultimate holding company		**(6,925)**		(25,199)	
Net cash inflow from financing			**18,305**		266,835
Increase/(decrease) in cash and cash equivalents			**2,725**		(9,218)
Cash and cash equivalents at 1st January,			**42,532**		51,750
Cash and cash equivalents at 31st December,	**(c)**		**45,257**		42,532

Proforma Combined Cash Flow Statement

For the year ended 31st December, 2001
(Expressed in Hong Kong dollars)

NOTES TO THE PROFORMA COMBINED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow from operating activities

	2001	2000
	$'000	$'000
Profit from operations	**26,634**	17,619
Interest income	**(4,288)**	(3,101)
Depreciation and amortization	**35,574**	33,394
(Profit)/loss on sales of fixed assets	**(1,684)**	88
Increase in accounts receivable	**(20,876)**	(6,587)
Increase in other receivables, deposits and prepayments	**(318)**	(5,378)
Decrease/(increase) in amounts due from jointly controlled entities	**16,974**	(3,563)
Decrease/(increase) in amounts due from minority shareholders	**383**	(3,037)
Decrease/(increase) in amounts due from related companies	**3,692**	(2,834)
Increase/(decrease) in accounts payable	**7,039**	(1,433)
(Decrease)/increase in other payables, deposits and accruals	**(5,493)**	1,901
Net cash inflow from operating activities	**57,637**	27,069

(b) **Analysis of changes in financing during the year**

	Share capital $'000	Bank loans $'000	Loans from a fellow subsidiary and ultimate holding company $'000
Balance at 1st January, 2001	—	111,078	197,902
Net cash inflow/(outflow) from financing	—	25,230	(6,925)
Balance at 31st December, 2001	—	136,308	190,977
Balance at 1st January, 2000	—	68,268	223,101
Net cash inflow/(outflow) from financing	—	42,810	(25,199)
Balance at 31st December, 2000	—	111,078	197,902

(c) **Analysis of the balances of cash and cash equivalents**

	2001 $'000	2000 $'000
Cash at bank and in hand	**42,188**	30,145
Deposits with banks	**3,069**	12,387
	45,257	42,532

1 GROUP REORGANIZATION AND BASIS OF PREPARATION OF PROFORMA FINANCIAL INFORMATION

(a) The Company

The Company was incorporated in the Cayman Islands on 14th May, 2001 as an exempted company with limited liability under the Companies law (2000 Revision) of the Cayman Islands.

During the period from 14th May, 2001 (date of incorporation) to 31st December, 2001, the Company has not carried out any business save for the acquisitions of Mei Ti Bo Le Group Limited and Media Partners International Holdings Limited and the incurring of expenses related to the Reorganization as defined in note 1(b) below.

(b) Group reorganization and listing on the Growth Enterprise Market

Pursuant to a group reorganization (the "Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the subsidiaries now comprising the Group on 9th January, 2002. Details of the Company's subsidiaries comprising the Group as from 9th January, 2002 are set out in note 36 on the proforma financial information.

The Reorganization was accomplished by acquiring the entire share capital of Polyland, which is, at the date of this report, the intermediate holding company of the subsidiaries set out in note 36 on the proforma financial information, in consideration of and in exchange for the issue and allotment of 999,990 shares to MTI, the former shareholder of Polyland. Further details of the Reorganization are set out in the Company's prospectus dated 15th January, 2002 ("the Prospectus").

The Company obtained a listing on GEM on 31st January, 2002.

1 GROUP REORGANIZATION AND BASIS OF PREPARATION OF PROFORMA FINANCIAL INFORMATION *(continued)*

(c) Basis of preparation of the proforma financial information

The measurement basis used in the preparation of the proforma financial information is historical cost.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The proforma financial information has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The proforma financial information also conforms with the applicable disclosure requirements of GEM. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated in the proforma financial information, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the proforma combined balance sheet at fair value with changes in fair value recognized in the proforma combined profit and loss account as they arise.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Subsidiaries *(continued)*

Intra-group balances and transactions, and any unrealized profits arising from intra-group transactions, are eliminated in full in preparing the proforma financial information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The Group has accounted for the financial results of SHMPI as a subsidiary during the relevant period, notwithstanding that the Group's equity interest therein was only 49% up to 6th July, 2000, as, in the opinion of the directors of the Company, the Group has had effective control over the financial and operating decisions of SHMPI since its establishment. The Group increased its equity interest in SHMPI to 91.5% with effect from 7th July, 2000.

Minority interests represent those interests of outside shareholders in the operating results and net assets of certain subsidiaries.

Where a subsidiary, in which there are minority shareholders, has net liabilities, the minority's share thereof is not accounted for unless the minority shareholders have a contractual obligation to reimburse the Group for their share of the losses of that subsidiary and receipt of such reimbursement is probable.

(c) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Associates and jointly controlled entities *(continued)*

An investment in an associate or a jointly controlled entity is accounted for in the proforma financial information under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognized in the proforma combined profit and loss account as they arise. The proforma combined profit and loss account reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortization of positive or negative goodwill charged or credited during the year in accordance with note 2(d).

Unrealized profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the proforma combined profit and loss account.

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries and associates and jointly controlled entities:

— for acquisitions before 1st January, 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 2(g)); and

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Goodwill *(continued)*

— for acquisitions on or after 1st January, 2001, positive goodwill is amortized to the proforma combined profit and loss account on a straight-line basis over its estimated useful life which does not exceed 20 years. Positive goodwill is stated in the proforma combined balance sheet at cost less any accumulated amortization and any impairment losses (see note 2(g)).

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1st January, 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1st January, 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognized, it is recognized in the proforma combined profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the proforma combined profit and loss account over the useful life of those non-monetary assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the proforma combined profit and loss account.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortized through the proforma combined profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	over the term of the lease
Advertising displays	over the term of the contract
Computer equipment	4 to 5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4 to 5 years

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense in the proforma combined profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

Subsequent expenditure relating to a fixed asset that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the proforma combined profit and loss account on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Advertising rights

Advertising rights represent fees paid to secure exclusive rights to sell advertising space on certain specified assets or at certain specified locations for a specific period of time.

Advertising rights are stated at cost less accumulated amortization.

Amortization is calculated on a straight-line basis over the agreed periods of use of the advertising rights, which range from 5 to 15 years, starting from the date of commencement of the commercial use of the advertising rights.

The carrying amounts of advertising rights are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognized as an expense in the proforma combined profit and loss account.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment of assets *(continued)*

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the proforma combined profit and loss account in the year in which the reversals are recognized.

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

(i) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallize in the foreseeable future.

Future deferred tax benefits are not recognized unless their realization is assured beyond reasonable doubt.

(j) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Recognition of income

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the proforma combined profit and loss account as follows:

(i) Advertising and other advertising-related service income is recognized in the year in which the services are provided.

(ii) Signage production and maintenance service income is recognized in the year in which the services are provided.

(iii) Management fee income is recognized in the year in which the services are provided.

(iv) Interest income is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

(v) Government incentives are recognized when the right to receive such incentives is established and receipt thereof is probable.

(l) Translation of foreign currencies

The proforma financial information is prepared in Hong Kong dollars.

Foreign currency transactions are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the proforma combined profit and loss account.

The financial statements of subsidiaries which are not denominated in Hong Kong dollars are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserves.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Operating leases

Rentals payable under operating leases are accounted for in the proforma combined profit and loss account on a straight-line basis over the periods of the respective leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognized in the proforma combined profit and loss account as an integral part of the aggregate net lease payments payable.

(n) Retirement costs

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and central pension schemes operated by the local governments in the People's Republic of China ("PRC") are charged to the proforma combined profit and loss account when incurred.

(o) Borrowing costs

Borrowing costs are expensed in the proforma combined profit and loss account in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(p) Related parties

For the purposes of the proforma financial information, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the relevant year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items may comprise financial and corporate assets, interest-bearing loans, borrowings from the ultimate holding company, corporate and financing expenses and minority interests.

(Expressed in Hong Kong dollars)

3 TURNOVER

The principal activities of the Group comprise acting as an advertising agent and advertising licensor and licensee, providing consultancy services related to outdoor advertising, the production of advertisement signage and the provision of signage maintenance services.

Turnover represents income from advertising and other advertising-related services rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-group transactions. The amount of each significant category of revenue recognized in turnover during the year is as follows:

	2001 $'000	2000 $'000
Advertising fees	**220,876**	201,264
Signage production fees	**32,854**	15,207
Signage maintenance fees	**5,246**	3,990
	258,976	220,461

4 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	2001 $'000	2000 $'000
Other revenue		
Interest income from bank deposits	**4,180**	2,982
Interest income from amounts due from minority shareholders	**108**	119
Management fee income from jointly controlled entities	**8,074**	4,499
Training income from customers	**437**	215
Forfeited deposits from customers	**839**	—
PRC Government incentives (note)	**7,131**	—
Income from consultancy services	**916**	—
Sundry income	**368**	632
	22,053	8,447
Other net income/(loss)		
Profit/(loss) on sales of fixed assets	**1,684**	(88)

Note: Nanjing Media Partners International Public Transport Advertising Co., Ltd. ("NMPI"), a non-wholly owned PRC subsidiary of the Group is classified by the local PRC government as an approved "Technology and Development Entity". Accordingly, the subsidiary received incentives from a department of the local PRC government amounting to HK$6,196,000 during the year ended 31st December, 2001. The incentives were computed based on 100% of foreign enterprise income tax ("FEIT") and 50% of the business tax paid during the year ended 31st December, 2000. For the year ended 31st December, 2001 and each of the years ending 31st December, 2002 and 2003, the subsidiary will be entitled to further incentives computed based on 50% of the aggregate FEIT and business tax paid in the previous year. For each of the years ending 31st December, 2004, 2005 and 2006, the subsidiary will be entitled to incentives computed based on 50% of the FEIT paid in the previous year. The incentives were received in cash during the year ended 31st December, 2001.

The remaining balance of HK$935,000 represents other government incentives received by other subsidiaries in the PRC.

(Expressed in Hong Kong dollars)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2001	2000
	$'000	$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**7,304**	3,729
Interest on loans from a fellow subsidiary repayable within five years (note 35)	**—**	319
Other borrowing costs	**67**	47
	7,371	4,095
(b) Other items:		
Staff retirement scheme contributions (note 12)	**1,870**	1,650
Exchange loss	**413**	27
Auditors' remuneration	**583**	615
Operating lease charges		
— properties	**3,242**	2,652
— site rentals	**82,490**	66,766
Provision for bad debts	**1,881**	1,374
Depreciation of fixed assets	**4,286**	4,699
Amortization of advertising rights	**31,288**	28,695

6 TAXATION

Taxation in the proforma combined profit and loss account represents:

	2001	2000
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	123	753
Over-provision in respect of prior years	(11)	—
	112	753
Overseas taxation	6,318	3,855
Deferred taxation (note 30)	49	(425)
Share of taxation of jointly controlled entities	5,181	1,972
Share of taxation of an associate	656	—
	12,316	6,155

The provision for Hong Kong profits tax has been calculated separately at 16% (2000: 16%) of the estimated assessable profits for the year ended 31st December, 2001 of each subsidiary and associate of the Group with operations subject to Hong Kong profits tax.

Taxation for subsidiaries and jointly controlled entities operating in the PRC except noted hereinafter is calculated at 33% (2000: 33%) of the estimated assessable profits of these entities for the year ended 31st December, 2001.

Pursuant to the relevant laws and regulations in the PRC, Chongqing MPI Public Transportation Advertising Co., Ltd. ("CQMPI"), a non-wholly owned subsidiary of the Group is entitled to relief from PRC income tax of 3% of taxable profits for two years commencing from its first profit-making year of operations and thereafter, it is entitled to relief from PRC income tax of 1.5% of taxable profits for the following three years.

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 18.29 of the GEM Listing Rules is as follows:

Three out of seven directors of the Company were also directors or employees of a subsidiary during the year. Details of the emoluments paid and payable to these directors in their capacity as executives of the subsidiary are as follows:

	2001	2000
	$'000	$'000
Fees	**—**	—
Basic salaries, housing and other allowances and benefits in kind	**2,076**	2,076
Discretionary bonuses	**—**	—
Retirement scheme contributions	**146**	130
	2,222	2,206

An analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2001	2000
	$'000	$'000
Not more than HK$1,000,000	**2**	2
HK$1,000,001 - HK$1,500,000	**—**	—
HK$1,500,001 - HK$2,000,000	**—**	—
HK$2,000,001 - HK$2,500,000	**1**	1
	3	3

7 DIRECTORS' REMUNERATION *(continued)*

Of the three directors of the Company as noted above, two of the directors did not receive any emoluments during the year whilst one director received emoluments of approximately HK$2,222,000 for the year ended 31st December, 2001 (2000: HK$2,206,000)

During the years ended 31st December, 2000 and 2001, there were no amounts paid to former directors in connection with their retirement from employment with the Group. No amounts were paid or payable to directors as an inducement to join or upon joining the Group and no director waived any emoluments during the years ended 31st December, 2000 and 2001.

During the years ended 31st December, 2000 and 2001, no emoluments were paid or payable to the non-executive director and the three independent non-executive directors of the Company.

8 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Set out below are analyses of the emoluments of those employees of the Group who, not being directors of the Company or its subsidiaries, were among the top five paid individuals (including directors and other employees of the Group) employed by the Group.

	2001	2000
	$'000	$'000
Basic salaries, housing and other allowances and benefits in kind	**4,480**	4,635
Discretionary bonuses	**—**	—
Retirement scheme contributions	**265**	227
	4,745	4,862

8 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS *(continued)*

An analysis of senior management's emoluments by number of employees and emolument ranges is as follows:

	2001	2000
	$'000	$'000
Not more than $1,000,000	**—**	—
$1,000,001 - $1,500,000	**4**	3
$1,500,001 - $2,000,000	**—**	1
	4	4

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31st December, 2000 and 2001.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of HK$113,000 which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

The Company has not declared or paid any dividend since its incorporation on 14th May, 2001.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the proforma combined profit attributable to shareholders of $23,387,000 (2000: $9,668,000) and on the 640,000,000 shares of the Company outstanding after the Reorganization and loan capitalization as if those shares had been outstanding for each year presented.

(b) Diluted earnings per share

If the Convertible Bond had been converted in full into ordinary shares on 1st January, 2000, it would have had an anti-dilutive effect on earnings per share. Accordingly, diluted earnings per share is the same as the basic earnings per share for each year presented.

(c) Proforma earnings per share

Proforma earnings per share is calculated based on the proforma combined profit attributable to shareholders of $23,387,000 (2000: $9,668,000) and on the 853,800,000 shares of the Company outstanding on the assumption that the Reorganization, the capitalization issue and the listing of the Company's shares had been effective on 1st January, 2000.

(d) Reconciliations

	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**640,000,000**	640,000,000
Issue of ordinary shares upon listing on GEM	**213,800,000**	213,800,000
Number of ordinary shares used in calculating proforma earnings per share	**853,800,000**	853,800,000

12 RETIREMENT SCHEMES

Set out below are certain particulars of retirement schemes operated by the Group.

(a) Nature of the schemes

The employees of the Group's subsidiaries in Hong Kong are members of a defined contribution scheme, managed by an independent trustee. The Group and its employees each make monthly contributions to the scheme calculated at 5% to 10% of the employees' monthly salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the Group's employer's contribution and the accrued interest thereon upon retirement or upon leaving the Group after completion ten years of service, or at a reduced scale of between 10% to 90% after completing one to nine years of service. The defined contribution scheme operated by the Group was closed to new employees after 1st December, 2000 while existing members of the scheme can continue to accrue future benefits. When an employee leaves the scheme prior to his/her interest in the Group's employer's contributions vesting fully, the ongoing contributions payable by the Group in respect of other members may be reduced by the relevant amount of forfeited contributions or forfeited contributions may be refunded to the Group.

With effect from 1st December, 2000, the Group has participated in a Mandatory Provident Fund ("MPF") scheme operated by an approved MPF trustee. All eligible staff and the employer make mandatory contributions which comply with the minimum requirements of the Mandatory Provident Fund Schemes Ordinance.

The employees of the Group's subsidiaries in the PRC, are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, which range from 7% to 22%, and are charged to the proforma combined profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

12 RETIREMENT SCHEMES *(continued)*

(b) Retirement benefit costs for the year were as follows:

	2001	2000
	$'000	$'000
Retirement contributions payable to retirement schemes	**1,870**	1,696
Forfeited contributions refunded to the Group	**—**	(46)
Total contributions payable to retirement schemes	**1,870**	1,650

At 31st December, 2001, there were no forfeited contributions, which arose upon employees leaving the retirement schemes up to 31st December, 2001, available to reduce the contributions payable by the Group in future periods.

13 SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of the advertisements placed by customers and the location of the provision of advertising and related services rendered to customers is chosen as the reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions.

Geographical segments by the location of customers and by the location of assets

The Group's business can be subdivided into the PRC and Hong Kong markets.

The Group's geographical segments are classified according to the location of the advertisements placed by customers and the location of the provision of advertising and related services rendered to customers. No separate disclosure of the Group's geographical segments according to the location of assets has been made as there is no material difference between the Group's geographical segments classified by location of customers or by location of assets.

Management consider that all items in the proforma combined profit and loss account and assets included in the proforma combined balance sheet can be reasonably allocated to each geographical segment.

13 SEGMENT REPORTING *(continued)*

Business segments

No information has been disclosed in respect of the Group's business segments as the Group operates only one business segment which is the provision of advertising and related services.

	Year ended 31st December,							
	Hong Kong		PRC		Inter-segment elimination		Combined	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000
Turnover	**87,125**	78,484	**171,851**	141,977	**—**	—	**258,976**	220,461
Other revenue	**1,002**	626	**21,051**	7,821	**—**	—	**22,053**	8,447
Inter-segment other revenue	**—**	2,026	**—**	—	**—**	(2,026)	**—**	—
Total revenue	**88,127**	81,136	**192,902**	149,798	**—**	(2,026)	**281,029**	228,908
Segment result and profit from operations	**1,470**	5,201	**25,164**	14,444	**—**	(2,026)	**26,634**	17,619
Finance costs	**(283)**	(320)	**(7,088)**	(5,801)	**—**	2,026	**(7,371)**	(4,095)
Share of profits less losses of an associate	**5,046**	—	**—**	—			**5,046**	—
Share of profits less losses of jointly controlled entities	**—**	—	**15,125**	4,638			**15,125**	4,638
Profit from ordinary activities before taxation	**6,233**	4,881	**33,201**	13,281			**39,434**	18,162
Taxation	**(818)**	(328)	**(11,498)**	(5,827)			**(12,316)**	(6,155)
Profit from ordinary activities after taxation	**5,415**	4,553	**21,703**	7,454			**27,118**	12,007
Minority interests	**—**	—	**(3,731)**	(2,339)			**(3,731)**	(2,339)
Profit attributable to shareholders	**5,415**	4,553	**17,972**	5,115			**23,387**	9,668
Depreciation and amortization	**1,086**	1,640	**34,488**	31,754			**35,574**	33,394
Capital expenditure incurred during the year	**289**	73	**60,635**	10,746			**60,924**	10,819

13 SEGMENT REPORTING *(continued)*

	Hong Kong		PRC		Inter-segment elimination*		Combined	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000
Segment assets #	**60,420**	60,318	**471,554**	456,638	**(31,828)**	(41,653)	**500,146**	475,303
Interest in an associate	**4,760**	370	**—**	—	**—**	—	**4,760**	370
Investments in jointly controlled entities	**—**	—	**60,115**	53,953	**—**	—	**60,115**	53,953
Amounts due from a jointly controlled entity	**—**	—	**18,692**	18,692	**—**	—	**18,692**	18,692
Total assets							**583,713**	548,318
Segment liabilities #	**(50,466)**	(51,389)	**(191,710)**	(186,164)	**31,828**	41,653	**(210,348)**	(195,900)
Unallocated liabilities							**(190,977)**	(197,902)
Total liabilities							**(401,325)**	(393,802)
Minority interests	**—**	—	**(22,438)**	(17,953)	**—**	—	**(22,438)**	(17,953)

Segment assets and liabilities are before elimination of inter-segment balances.

* Inter-segment elimination of $31,828,000 (2000: $41,653,000) represents inter-segment current accounts.

14 FIXED ASSETS

	Leasehold improvements	Advertising displays	Computer equipment	Furniture, fixtures and equipment	Motor vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost:						
At 1st January, 2001	2,113	16,878	2,944	2,080	1,254	25,269
Additions	646	1,078	1,364	901	645	4,634
Disposals	—	(1,224)	(186)	(355)	—	(1,765)
At 31st December, 2001	2,759	16,732	4,122	2,626	1,899	28,138
Accumulated depreciation:						
At 1st January, 2001	1,369	6,408	1,504	1,320	438	11,039
Charge for the year	609	2,678	551	196	252	4,286
Written back on disposals	—	(1,224)	(67)	(55)	—	(1,346)
At 31st December, 2001	1,978	7,862	1,988	1,461	690	13,979
Net book value:						
At 31st December, 2001	781	8,870	2,134	1,165	1,209	14,159
At 31st December, 2000	744	10,470	1,440	760	816	14,230

(Expressed in Hong Kong dollars)

15 INTEREST IN AN ASSOCIATE

	2001 $'000	2000 $'000
Share of net assets other than goodwill	**4,760**	370

Name of company	Place of incorporation/ operation	Issued share capital	Attributable proportion of equity interest directly	indirectly	Principal activities
POAD Group Limited ("POAD")	Hong Kong	HK$1,000	—	49%	Provision of advertising production and agency services

The Group acquired a 49% equity interest in POAD on 30th December, 2000.

The following supplementary financial information is disclosed relating to POAD, which is based on its consolidated financial statements for the year ended 31st December, 2001.

Results for the year ended 31st December, 2001

	2001 $'000
Turnover	**61,107**
Profit from ordinary activities before taxation	**10,298**
Taxation	**(1,339)**
Profit after taxation for the year	**8,959**

15 INTEREST IN AN ASSOCIATE *(continued)*

Assets and liabilities as at 31st December, 2001

	2001 $'000
Non-current assets	**2,238**
Current assets	**23,587**
Current liabilities	**(16,111)**
	9,714

16 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2001 $'000	2000 $'000
Share of net assets other than goodwill	**60,115**	53,953
Amounts due from a jointly controlled entity	**18,692**	18,692
	78,807	72,645

(Expressed in Hong Kong dollars)

16 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the jointly controlled entities are as follows:

Name of company	Form of business structure	Place and date of incorporation/ establishment and operation	Particulars of registered capital	Group's share of profits or losses	Principal activities
Guangzhou Yong Tong Metro Advertising Company Limited	Co-operative joint venture	People's Republic of China	RMB 23,400,000	32.5%#	Outdoor advertising agent
Shanghai Metro-ads Advertising Co., Ltd	Co-operative joint venture	People's Republic of China	US$ 2,100,000	90%*	Outdoor advertising agent

\# Held through a wholly-owned subsidiary which has contributed 100% of the registered capital.

The Group's interest in Guangzhou Yong Tong Metro Advertising Company Limited ("Guangzhou Yong Tong") is held under a joint venture agreement dated 26th August, 1999. The Group obtained the approval for the establishment of Guangzhou Yong Tong on 9th March, 2000. Throughout the joint venture period, the Group is entitled to share 32.5% of the financial results and net assets of Guangzhou Yong Tong in accordance with the terms of the joint venture agreement. The joint venture is for a period of 10 years from 10th May, 2000 to 10th May, 2010.

* Held through a 95% owned subsidiary which has contributed 100% of the registered capital.

Shanghai Metro-ads Advertising Co., Ltd. ("Shanghai Metro-ads") was established by a subsidiary of the Group and Shanghai Metro-Advertising Co., Ltd. under a joint venture agreement dated 2nd July, 1993. Throughout the joint venture period, 3% and 22% of the total net sales of Shanghai Metro-ads are to be paid to Shanghai Metro-Advertising Co., Ltd and Shanghai Metro Operation Co., Ltd., an entity related to Shanghai Metro-Advertising Co., Ltd, respectively, as a guaranteed return. The profit or loss after taxation of Shanghai Metro-ads, after payment of the guaranteed return, is shared by the subsidiary of the Group and Shanghai Metro-Advertising Co., Ltd. in the ratio of 90:10, respectively. The joint venture is for a period of 18 years from 7th December, 1993 to 6th December, 2011.

16 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Amounts due from a jointly controlled entity of $18,692,000 are non-interest bearing, unsecured and have no fixed terms of repayment. These amounts represent part of the total cost of purchase of a property in Guangzhou and may not be settled before 31st December, 2002 (see note 35 for further details).

The following supplementary financial information is disclosed relating to the Group's jointly controlled entities, Guangzhou Yong Tong and Shanghai Metro-ads, which is based on their audited financial statements.

Guangzhou Yong Tong

Results for the year ended 31st December, 2001 and the year ended 31st December, 2000

	2001	2000
	$'000	$'000
		(Note)
Turnover	37,490	16,187
Loss from ordinary activities before taxation	(4,960)	(7,615)
Taxation	—	—
Loss for the year	(4,960)	(7,615)

Note: Guangzhou Yong Tong was incorporated and commenced business operations in May, 2000 and, accordingly, the Group's share of losses from Guangzhou Yong Tong for the year ended 31st December, 2000 represents the Group's share of losses of Guangzhou Yong Tong for the period from the date of establishment on 10th May, 2000 to 31st December, 2000.

Assets and liabilities as at 31st December, 2001 and as at 31st December, 2000

	2001	2000
	$'000	$'000
Non-current assets	**21,787**	21,891
Current assets	**15,674**	23,765
Current liabilities	**(6,684)**	(9,919)
	30,777	35,737

16 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Shanghai Metro-ads

Results for the year ended 31st December, 2001 and the year ended 31st December, 2000

	2001	2000
	$'000	$'000
		(Note)
Turnover	**65,677**	24,968
Profit from ordinary activities before taxation	**18,920**	8,117
Taxation	**(5,757)**	(2,190)
Profit for the year	**13,163**	5,927

Note: Shanghai Metro-ads was effectively acquired by the Group in May, 2000 and, accordingly, the Group's share of profits from Shanghai Metro-ads for the year ended 31st December, 2000 represents the Group's share of profits of Shanghai Metro-ads for the period from the date of acquisition to 31st December, 2000.

Assets and liabilities as at 31st December, 2001 and as at 31st December, 2000

	2001	2000
	$'000	$'000
Non-current assets	**14,783**	13,253
Current assets	**29,287**	34,834
Current liabilities	**(20,367)**	(33,345)
	23,703	14,742

17 ADVERTISING RIGHTS

	Advertising rights $'000
Cost:	
At 1st January, 2001	315,127
Additions	56,290
At 31st December, 2001	371,417
Accumulated amortization:	
At 1st January, 2001	79,333
Charge for the year	31,288
At 31st December, 2001	110,621
Net book value:	
At 31st December, 2001	260,796
At 31st December, 2000	235,794

Pursuant to agreements signed between certain subsidiaries of the Group and various companies in the PRC, the Group acquired exclusive advertising rights on certain bus routes, billboards and street furniture in major cities in the PRC. The cost of advertising rights represents fees paid to secure exclusive advertising rights over fixed periods of time which normally range from 5 to 15 years.

18 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2001	2000
	$'000	$'000
Accounts receivable	**42,896**	22,020

	2001	2000
	$'000	$'000
Other receivables	**11,102**	8,650
Deposits for the acquisition of advertising rights	**186**	24,912
Utility and rental deposits	**31,812**	13,573
Amounts due from joint venture partners	**907**	—
Others	**6,273**	2,827
	50,280	49,962

The amount of other receivables, deposits, and prepayments expected to be recovered after more than one year is $7,739,000 (2000: $2,990,000). All of the other receivables, deposits and prepayments are expected to be recoverable within one year.

An ageing analysis of accounts receivable at the year end is as follows:

	2001	2000
	$'000	$'000
Current	**14,554**	7,735
1 to 3 months overdue	**13,976**	5,977
More than 3 months overdue	**14,366**	8,308
	42,896	22,020

18 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Debts are due within 30 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted.

19 AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts due from jointly controlled entities are interest free, unsecured and repayable on demand.

20 AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The amounts due from minority shareholders are non-interest bearing, unsecured and repayable on demand except for amounts of $4,558,000 (2000: $4,504,000) which are interest bearing at a rate of 2% per annum.

All amounts due from minority shareholders are expected to be repaid in full before 31st December, 2002.

21 AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are interest free, unsecured and repayable on demand.

22 PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits placed with banks as security for banking facilities made available to the Group (note 24).

(Expressed in Hong Kong dollars)

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $16,468,000 (2000: $19,745,000) which is denominated in Renminbi ("RMB") in the amount of RMB17,621,000 (2000: RMB21,127,000). RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, in certain circumstances the Group is permitted to exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business.

24 BANK LOANS

	2001	2000
	$'000	$'000
Bank loans		
— Unsecured	**9,346**	9,346
— Secured	**126,962**	101,732
	136,308	111,078

The banking facilities of certain subsidiaries are secured by deposits of $70,988,000 placed with banks at 31st December, 2001. Such banking facilities, amounting to $68,561,000, were utilized to the extent of $67,080,000 at 31st December, 2001.

Other secured bank loans also include loans totalling $54,084,000 which are secured by cash deposits of $54,084,000 placed by the company's ultimate holding company. The remaining secured bank loans of $5,798,000 are secured by term deposits of $6,600,000 pledged with a bank under a Deed of Charge entered into by a subsidiary of the Group on 10th November, 1999 and a guarantee granted by MTI, a fellow subsidiary of the Company.

All the bank loans are repayable within one year or on demand.

25 ACCOUNTS PAYABLE, OTHER PAYABLES, DEPOSITS AND ACCRUALS

	2001 $'000	2000 $'000
Accounts payable	**22,513**	15,474

	2001 $'000	2000 $'000
Other payables	**6,418**	5,590
Deferred revenue	**3,098**	7,403
Deposits received in advance	**20,572**	25,652
Accrued expenses	**13,270**	10,207
Amount payable to a joint venture partner's immediate holding company	**—**	18,691
	43,358	67,543

Deferred revenue represents amounts received at 31st December, 2001 before the related work was performed.

Deposits received in advance represent advertising site rental deposits received from advertisers and advances from customers.

The amount payable to a joint venture partner's immediate holding company represented an amount payable for the purchase of advertising rights. The amount was unsecured, interest free and repaid during the year ended 31st December, 2001.

The amount of other payables and accrued expenses expected to be settled after more than one year is $2,554,000 (2000: $1,863,000).

25 ACCOUNTS PAYABLE, OTHER PAYABLES, DEPOSITS AND ACCRUALS *(continued)*

Included in accounts payable, other payables, deposits and accruals are accounts payable with the following ageing analysis:

	2001	2000
	$'000	$'000
Due within 1 month or on demand	**9,349**	10,135
Due after 1 month but within 3 months	**6,826**	2,772
Due after 3 months	**6,338**	2,567
	22,513	15,474

26 AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts due to jointly controlled entities are unsecured, interest free and repayable on demand.

27 TAXATION

	2001	2000
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**123**	753
PRC tax payable	**1,672**	1,056
Provisional tax paid	**(481)**	(231)
	1,314	1,578
Tax payable relating to prior years	**196**	91
Taxation payable	**1,510**	1,669

28 LOANS FROM A FELLOW SUBSIDIARY AND ULTIMATE HOLDING COMPANY

	2001	2000
	$'000	$'000
Loans from a fellow subsidiary	**180,530**	180,530
Loans from ultimate holding company	**10,447**	17,372
	190,977	197,902

The loans from a fellow subsidiary and ultimate holding company are unsecured and analyzed as follows:

	Fellow subsidiary	**Ultimate holding company**	**Total**
	$'000	$'000	$'000
Non-interest bearing	80,874	10,447	91,321
Interest-bearing at 1 month HIBOR + 0.25% per annum	80,000	—	80,000
Interest-bearing at bank deposit account rate	19,656	—	19,656
	180,530	10,447	190,977

The fellow subsidiary has waived its right to receive interest from the $80,000,000 loan since 1st September, 2000. In addition, the fellow subsidiary has waived its right to receive interest from the $19,656,000 loan since 1st January, 2001. The fellow subsidiary has agreed to waive the interest from the loans mentioned above, in view of the continued expansion of the business of the Group, until 9th January, 2002 when all these loans were assigned to the ultimate holding company as explained below.

28 LOANS FROM A FELLOW SUBSIDIARY AND ULTIMATE HOLDING COMPANY *(continued)*

All the loans from the fellow subsidiary and ultimate holding company were repayable after two years but within five years.

Pursuant to a deed dated 9th January, 2002, all the outstanding loans from the fellow subsidiary which totalled $180,529,859 at 30th November, 2001 were assigned to the ultimate holding company as part of the Reorganization. On 9th January, 2002, the Company entered into an agreement with the ultimate holding company such that, prior to the placing of shares of the Company on GEM, an amount of $105,978,176 representing unsecured loans due to the ultimate holding company as at 30th November, 2001 was capitalized. The remaining unsecured loans due to the ultimate holding company as at 30th November, 2001 of $85 million were satisfied by the issue of the Convertible Bond. Details of the Loan Capitalization and the Convertible Bond are set out in note 37 on the proforma financial information below.

29 MINORITY INTERESTS

	2001	2000
	$'000	$'000
Amounts due to minority shareholders	**8,773**	6,565
Minority shareholders' share of net assets	**13,665**	11,388
	22,438	17,953

The amounts due to minority shareholders are unsecured, interest free and are not expected to be settled before 31st December, 2002.

30 DEFERRED TAXATION

(i) Movements on deferred taxation comprise:

	2001	2000
	$'000	$'000
Balance at 1st January	**—**	425
Transfer to/(from) the proforma combined profit and loss account (note 6)	**49**	(425)
Balance at 31st December,	**49**	—

(ii) Major components of deferred taxation of the Group at 31st December, 2001 are set out below:

	2001		2000	
		Potential liabilities/ (assets)		Potential liabilities/ (assets)
	Provided	**unprovided**	Provided	unprovided
	$'000	**$'000**	$'000	$'000
Future benefit of tax losses	**—**	**(4,325)**	—	(4,139)
Depreciation allowances in excess of the related depreciation	**49**	**—**	—	—
Other timing differences	**—**	**—**	—	—
	49	**(4,325)**	—	(4,139)

Unprovided deferred tax assets of the Group, which relate principally to the future benefit of tax losses in certain subsidiaries, the realization of which is uncertain, amounted to $4,325,000 at 31st December, 2001 (2000: $4,139,000).

31 DISTRIBUTABLE RESERVES

As at 31st December, 2001, the Company has not carried out any business since the date of its incorporation save for the acquisitions of Mei Ti Bo Le Group Limited and Media Partners International Holdings Limited and the incurring of expenses relating to the Reorganization. Accordingly, there were no reserves available for distribution to shareholders as at 31st December, 2001.

The Company became the holding company of the Group on 9th January, 2002 pursuant to the Reorganization. Had the Reorganization been completed on 31st December, 2001, the net assets of the Company would have been $159,950,000 representing its investment in subsidiaries. The net liabilities of the Company at 31st December, 2001 amounted to $113,000.

32 SHARE CAPITAL

The following is a summary of movements in the authorized and issued share capital of the Company.

	Note	Number of shares	Amount
			$'000
Authorized:			
On incorporation and at 31st December, 2001, ordinary shares of $1.00 each	**(a)**	50,000	50
Increase in authorized share capital	**(b)**	99,950,000	99,950
Subdivision of ordinary shares into $0.10 each	**(c)**	900,000,000	—
At 31st January, 2002, the listing date		1,000,000,000	100,000
Issued and fully paid:			
Shares issued upon incorporation, 14th May, 2001	**(a)**	1	—
At 31st December, 2001		1	—
Subdivision of ordinary shares into $0.10 each	**(c)**	9	—
Shares issued upon Reorganization	**(d)**	999,990	100
Loan capitalization	**(e)**	639,000,000	63,900
New issue and Placing of shares	**(f)**	213,800,000	21,380
At 31st January, 2002, the Listing Date		853,800,000	85,380

(Expressed in Hong Kong dollars)

32 SHARE CAPITAL *(continued)*

Notes:

(a) The Company was incorporated on 14th May, 2001 with an authorized share capital of $50,000 divided into 50,000 shares of $1.00 each, of which 1 share of $1.00, credited as fully paid, was allotted and issued.

(b) On 7th January, 2002, the authorized share capital of the Company was increased from $50,000 to $100,000,000 by the creation of an additional 99,950,000 shares of $1.00 each ranking pari passu with the then existing shares in all respects.

(c) On 7th January, 2002, by means of a sub-division of share capital, the par value to the shares of the Company was reduced from $1.00 each to $0.10 each, and every issued and unissued share of $1.00 was subdivided into 10 shares (the “Subdivision”). Immediately after the Subdivision, the authorized share capital of the Company became $100,000,000 comprising 1,000,000,000 shares of $0.10 each of which 10 shares were in issue.

(d) On 9th January, 2002, the Company acquired 1 share of US$1.00 in Polyland, representing the entire issued share capital of Polyland from MTI in consideration for the issue and allotment of 999,990 shares to MTI. The Company became the holding company of the Group with effect from 9th January, 2002.

(e) On 9th January, 2002, the Company entered into an agreement with MSCV, the ultimate holding company such that, an amount of $105,978,176 represented unsecured loans due to MSCV at 30th November, 2001 was capitalized and 639,000,000 shares were allotted and issued to MSCV.

(f) Pursuant to the listing of the shares of Company on GEM on 31st January, 2002, 213,800,000 shares of the Company were issued by way of a Placing. The excess of the issue price over the par value of the shares issued has been credited to the share premium account of the Company.

(g) All shares both issued and unissued rank pari passu in all respects at 31st January, 2002.

33 RESERVES

	Merger reserves $'000	Other capital reserves $'000	Revenue reserves $'000	Total $'000
At 1st January, 2000	3,820	12,273	(67,053)	(50,960)
Movements during the year	251,646	—	—	251,646
Goodwill arising on acquisition of subsidiaries	—	(56,992)	—	(56,992)
Goodwill arising on acquisition of an associate	—	(16,799)	—	(16,799)
Profit for the year	—	—	9,668	9,668
At 31st December, 2000	255,466	(61,518)	(57,385)	136,563
At 1st January, 2001	255,466	(61,518)	(57,385)	136,563
Profit for the year	—	—	23,387	23,387
At 31st December, 2001	255,466	(61,518)	(33,998)	159,950

Other capital reserves represent the excess/shortfall of the cost of investments in subsidiaries and an associate over the appropriate share of the fair value of the net tangible assets acquired by the Group at the date of acquisition.

33 RESERVES *(continued)*

Merger reserves represent the amount of reserves of subsidiaries that have been capitalized as a result of share-for-share exchanges.

	2001	2000
	$'000	$'000
Profit for the year is retained by:		
— The company and its subsidiaries	**12,835**	7,002
— Associate	**4,390**	—
— Jointly controlled entities	**6,162**	2,666
Total	**23,387**	9,668

Included in the figure for revenue reserves at 31st December, 2001 are reserves of $4,390,000 (2000: $Nil) attributable to an associate and reserves of $8,828,000 (2000: $2,666,000) attributable to the jointly controlled entities.

34 COMMITMENTS AND CONTINGENCIES

(i) Commitments under operating leases

At 31st December, 2001, the Group had total future minimum lease payments under non-cancellable operating leases in respect of properties, site rentals and others payable as follows:

	2001			2000		
	Property	**Site rentals**	**Others**	Property	Site rentals	Others
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Within one year	**2,823**	**69,079**	**—**	1,052	9,043	—
After one year but within five years	**1,134**	**91,064**	**—**	1,183	36,734	—
After five years	**—**	**29,006**	**—**	—	12,986	—
	3,957	**189,149**	**—**	2,235	58,763	—

34 COMMITMENTS AND CONTINGENCIES *(continued)*

(ii) Other commitments

As at 31st December, 2001, CQMPI, one of the subsidiaries of the Group was a party to an agreement with its PRC joint venture partner to pay an annual fee in respect of the granting of certain bus media rights of $7,850,000 (RMB8,400,000). The agreement is for the period from 1st November, 1999 to 22nd September, 2029. $7,850,000 (RMB8,400,000) is due within the next twelve months, $31,402,000 (RMB33,600,000) is due after one year but within five years and $23,552,000 (RMB25,200,000) is due after five years. The aggregate amount payable by the Group to the PRC joint venture partner up to 31st December, 2009 is $62,804,000 (RMB67,200,000). For the years from 2010 and onwards, the annual fee will be determined through commercial negotiation between CQMPI and its PRC joint venture partner. In view of the above, the commitments mentioned above have not taken into account the annual fee to be payable by CQMPI to its PRC joint venture partner during the years from 2010 to 2029 as the amounts payable cannot be reasonably estimated.

(iii) Capital commitments

At 31st December, 2001, the Group had capital commitments in respect of fixed assets not provided for as follows:

	2001	2000
	$'000	$'000
Contracted for	**—**	19,432
Authorized but not contracted for	**—**	—
	—	19,432

(Expressed in Hong Kong dollars)

34 COMMITMENTS AND CONTINGENCIES *(continued)*

(iii) Capital commitments *(continued)*

In addition, Media Partners International Limited, one of the subsidiaries of the Group entered into an agreement dated 18th April, 2000 (the "Agreement") with the minority shareholders of Metrolink Investments Ltd. ("Metrolink"), to acquire the remaining 5% interest in Metrolink from the minority shareholders for a consideration of $3,500,000. The capital commitment is contingent upon the fulfilment of certain conditions laid out in the agreement. The conditions include a requirement that the dividends declared by Shanghai Metro-ads for 1999 and 2000 be remitted out of the PRC. At 31st December, 2001 these conditions had yet to be fulfilled.

On 30th April, 1999, MPIL, one of the subsidiaries of the Group entered into a co-operative joint venture agreement with Chengdu Public Transport Group Company to establish Chengdu MPI Public Transport Advertising Co., Ltd ("Chengdu Advertising MPI") whereby the Group shall contribute 50% to the total paid-up capital of Chengdu Advertising MPI. The 50% agreed contribution amounts to US$250,000 which has to be made within 30 days after the establishment of Chengdu Advertising MPI. The application to establish Chengdu Advertising MPI was submitted to the Chengdu Municipal Administration for Industry and Commerce (AIC) in January 2001. As at 31st December, 2001, Chengdu Advertising MPI has not yet been established.

(iv) Contingent liabilities

At 31st December, 2001, the Group had contingent liabilities amounting to $7,333,000 (2000: $3,714,000) in respect of bank guarantees given to independent third parties in the ordinary course of business to ensure the due performance of a subsidiary and observance of the obligations of the subsidiary to certain agreements.

35 MATERIAL RELATED PARTY TRANSACTIONS

The following transactions represent material and significant related party transactions between the Group and related parties identified by management:

In the directors' opinion, the transactions noted below were entered into in the ordinary course of business and on normal commercial terms.

	Notes	2001 $'000	2000 $'000
Income			
Management fees for accounting, administration and other related service fees from	(a)		
— Guangzhou Yong Tong Metro Advertising Company Limited	(i)	4,114	2,189
— Shanghai Metro-ads Advertising Co., Ltd.	(i)	3,960	2,310
— Market Catalyst International (Shanghai) Ltd.	(ii)	449	—
		8,523	4,499
Advertising and other related service fees from	(b)		
— Chinese Domain Name Corporation Limited	(ii & vi)	220	40
— Hang Lung Real Estate Agency Limited	(iv)	—	39
— Market Catalyst International (Hong Kong) Limited	(ii)	2,400	—
— Morningside Technologies Inc.	(ii & vi)	—	682
		2,620	761
Agency commission income effectively received from	(c)		
— Chengdu MPI Yunxing Public Transportation Ltd.	(iii)	437	397
Loan interest income received from:			
— Minority shareholder	(d)	108	119

35 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

	Notes	2001 $'000	2000 $'000
Expenses			
Office rentals paid to	**(e)**		
— Hang Lung Real Estate Agency Limited	**(iv)**	**695**	695
— Noble State Company Limited	**(ii)**	**463**	—
		1,158	695
Loan interest paid to	**5(a)**		
— Morningside Technologies Inc.	**(ii & v)**	**—**	319

Notes:

Nature and the basis of the related party transactions are set out below:

(a) Management fees for accounting, administration and other related service fees are calculated based on the pre-determined rates specified in the underlying management fee agreements signed between the Group and the jointly controlled entities.

(b) Advertising and other related service fees are charged based on the amounts agreed between the Group and the related parties by reference to similar transactions with outside customers.

(c) Agency commission income is computed based on 15% of the advertising fee income earned from customers introduced/referred by the Group to Chengdu MPI Yunxing Public Transportation Ltd. ("Chengdu MPI Yunxing").

(d) Loan interest income received from the minority shareholder of Best Reward Venture Limited is calculated at a rate of 2% per annum on the outstanding loan advanced to the minority shareholder.

(e) Office rentals are payable at a pre-determined amounts per month by reference to market rates in accordance with the terms of the tenancy agreements signed by the Group and the related parties.

35 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

Notes *(continued)*:

Details of the relationship between the related parties and the Group are set out below:

(i) Jointly controlled entities.

(ii) Part of the Morningside group, companies controlled by various trusts established by Madam CHAN Tan Ching Fen, the mother of Mr. Gerald Lokchung CHAN (the non-executive director of the Company) for the benefit of certain members of her family and other charitable objects, excluding Hang Lung Group Limited ("Hang Lung") and its subsidiaries.

(iii) Chengdu MPI Yunxing, a PRC sino-foreign co-operative joint venture where the foreign partner, MPI Transportation Company Limited, is part of the Morningside group and contributed 64% of the registered capital.

(iv) A member of Hang Lung which is controlled by the trustees of trusts established by Madam CHAN Tan Ching Fen, the discretionary objects of one of which includes an Associate (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) of Mr. Gerald Lokchung CHAN, (the non-executive director of the Company).

Details of continuing and non-continuing transactions:

The directors of the Company have confirmed that the related party transactions set out in the above table will continue except for the following:

(v) Such transactions were discontinued after the listing of the Company's shares on GEM. Loan interest paid to MTI was charged at the bank deposit rate during the year ended 31st December, 2001 (note 5).

(vi) These transactions have been discontinued following the expiry of the respective advertising contracts with Chinese Domain Name Corporation Limited and MTI.

In addition, the Group had rental deposits receivable amounting to approximately $157,000 in respect of the office rental arrangement with Hang Lung Real Estate Limited at 31st December, 2001. In connection with rental agreements with related parties, the Group had commitments to make payments to related parties under operating leases of $1,274,000 within the next twelve months and $874,000 after one year but within five years.

35 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

Notes *(continued)*:

Transfers of assets from the Group to Guangzhou Yong Tong

The Group holds the legal title of a property in Guangzhou, the PRC. The property was transferred to Guangzhou Yong Tong pursuant to the agreement signed between the Guangzhou Metro Corporation and MPIL on 26th August, 1999. The agreement was signed in respect of the establishment of Guangzhou Yong Tong. The property is currently occupied as an office by Guangzhou Metro Corporation, the PRC partner of Guangzhou Yong Tong and 廣州地鐵實業有限公司, a subsidiary of Guangzhou Metro Corporation, whereas Guangzhou Yong Tong currently occupies a property as an office being held by the PRC partner in the same building. Such occupancy arrangements were determined after arm's length negotiation. The property was transferred at a value of $27,830,000 (RMB29,998,000), being the original cost to MPIL and no profit or loss was incurred on disposal by MPIL. Of the $27,830,000, $9,138,000 was transferred to Guangzhou Yong Tong by way of an asset injection. As at 31st December, 2001, the remaining amount of $18,692,000 was due from Guangzhou Yong Tong in respect of the above transfer which amount is non-interest bearing, unsecured and has no fixed terms of repayment. This amount may not be settled by Guangzhou Yong Tong before 31st December, 2002.

In addition, MPIL transferred certain advertising display equipment with the net book value of $12,731,000 (RMB9,778,000) to Guangzhou Yong Tong during the year ended 31st December, 2001. No profit or loss was incurred on disposal of such advertising display equipment by MPIL.

Amounts due to and from related parties

Amounts due to and from related parties at 31st December, 2001 are set out in the proforma combined balance sheet of the Group.

36 SUBSIDIARIES

Immediately following the completion of the reorganization on 9th January, 2002, the Company had the following subsidiaries.

All of these are controlled subsidiaries as defined under note 2(b) and have been included in the proforma financial information of the Group for the years ended 31st December, 2000 and 2001 in accordance with the basis of preparation set out in note 1 on the proforma financial information.

Name of company	Place of incorporation/ establishment and operation	Proportion of attributable equity interest held directly	indirectly	Issued share capital/ registered capital	Principal activities
Polyland Holdings Limited	British Virgin Islands	100%	—	US$1	Investment holding
Chalkwell Limited	British Virgin Islands	—	100%	US$1	Investment holding
Sports and Outdoor Media (HK) Limited	Hong Kong	—	100%	HK$2	Dormant
Intercontinental Outdoor Advertising (H.K.) Limited (formerly Yeoford Limited)	Hong Kong	—	100%	HK$20	Outdoor advertising agent

36 SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Proportion of attributable equity interest held directly	Proportion of attributable equity interest held indirectly	Issued share capital/ registered capital	Principal activities
Media Partners International Limited	Hong Kong	—	100%	HK$647	Outdoor advertising agent and investment holding
Media Partners International (Hong Kong) Limited	Hong Kong	—	100%	HK$2	Outdoor advertising agent
Signmaker Company Limited (formerly Media Partners International (Korea) Limited)	Hong Kong	—	100%	HK$2	Signage production and maintenance
Shanghai Media Partners International Ltd. (Note 1)	People's Republic of China	—	91.5%	US$1,800,000	Advertising agent, advertising licensor and licensee, and advertising consultant

36 SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Proportion of attributable equity interest held directly	Proportion of attributable equity interest held indirectly	Issued share capital/ registered capital	Principal activities
Best Reward Venture Limited	British Virgin Islands	—	75%	US$3,000	Advertising agent
Nanjing Media Partners International Public Transport Advertising Co., Ltd. (Note 2)	People's Republic of China	—	87.6%	RMB68,500,000	Advertising agent and advertising consultant
Chongqing MPI Public Transportation Advertising Co., Ltd. (Note 3)	People's Republic of China	—	60%	US$500,000	Advertising agent and advertising consultant
Metrolink Investments Ltd.	British Virgin Islands	—	95%	US$200	Investment holding

36 SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Proportion of attributable equity interest held directly	indirectly	Issued share capital/ registered capital	Principal activities
Metro-ads International Limited (formerly Easysheen International Limited)	Hong Kong	—	95%	HK$500,000	Investment holding
Shanghai Metroads Advertising Company Limited	Hong Kong	—	100%	HK$2	Dormant
Beron Limited	British Virgin Islands	—	100%	US$1	Investment holding
Mei Ti Bo Le Group Limited (formerly Wise Rich Resources Limited)	Hong Kong	100%	—	HK$2	Dormant
Media Partners International Holdings Limited	Hong Kong	100%	—	HK$2	Dormant

36 SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Proportion of attributable equity interest held directly	indirectly	Issued share capital/ registered capital	Principal activities
Media Partners International Production Limited	Hong Kong	—	100%	HK$2	Dormant
POAD China Limited (formerly China Max Development Limited)	Hong Kong	—	75%	HK$1,000	Dormant

Notes:

1 Shanghai Media Partners International Ltd ("SHMPI") was established in the People's Republic of China on 28th December, 1995 as a sino-foreign equity joint venture with a term of 15 years. In July, 2000, SHMPI changed its legal structure from a sino-foreign equity joint venture to a sino-foreign co-operative joint venture.

2 Nanjing Media Partners International Public Transport Advertising Co., Ltd. was established in the People's Republic of China on 22nd March, 1999 as a sino-foreign co-operative joint venture with a term of 15 years.

3 Chongqing MPI Public Transportation Advertising Co., Ltd. was established in the People's Republic of China on 23rd September, 1999 as a sino-foreign co-operative joint venture with a term of 30 years.

(Expressed in Hong Kong dollars)

37 POST BALANCE SHEET EVENTS

The following events took place subsequent to 31st December, 2001:

(a) On 9th January, 2002, the Company completed the Reorganization in preparation for the listing of the Company's shares on GEM. As a result of the Reorganization, the Company has become the holding company of the Group. Further details of the Reorganization are set out in the Prospectus of the Company dated 15th January, 2002.

(b) A share option scheme was established on 7th January, 2002, further details of which are set out in the Prospectus of the Company dated 15th January, 2002.

(c) On 9th January, 2002, all the outstanding loans from a fellow subsidiary at 30th November, 2001, which totalled $180,529,859 at that date were assigned to the ultimate holding company pursuant to the Reorganization.

37 POST BALANCE SHEET EVENTS *(continued)*

(d) On 9th January, 2002, the Company entered into an agreement with MSCV, the ultimate holding company, such that, prior to the Placing, an amount of $105,978,176 representing unsecured loans due to MSCV at 30th November, 2001 was capitalized and 639,000,000 shares were allotted and issued to MSCV. After considering the loan capitalization of $106.0 million as mentioned above, the remaining unsecured loans due to MSCV at 30th November, 2001 of $85 million were satisfied by the issue of the Convertible Bond.

The term of the Convertible Bond is for the period from the date on which the Company's shares commenced trading on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Listing Date"), to 31st December, 2004 ("term of the Convertible Bond"). Interest is payable at the rate of 2.5% per annum, semi-annually in arrears.

The holders of the Convertible Bond will have, subject to certain conditions, the right at any time following the expiry of six months from the Listing Date to convert part or all of the Convertible Bond into shares of the Company at a price equivalent to 110% of the Issue Price of $1.10 per share.

Unless previously repurchased, cancelled, redeemed or converted, the Convertible Bond will be redeemed at its principal amount together with any accrued interest on maturity.

(e) Pursuant to the Listing of the shares of the Company on GEM on 31st January, 2002, 213,800,000 shares of the Company were issued by way of a Placing for cash of HK$1.10 per share.

(f) On 22nd February, 2002, certain banks had agreed that the deposits pledged by the ultimate holding company in respect of the Group's banking facilities of $54,084,000 be replaced by pledged deposits provided by a subsidiary of the Group and a corporate guarantee provided by MTI of $6,600,000 was replaced by a corporate guarantee provided by the Company. The terms of the banking facilities remain unchanged.

37 POST BALANCE SHEET EVENTS *(continued)*

Accordingly, all the financial assistance from the ultimate holding company and MTI which had previously existed was discontinued on 22nd February, 2002 and the relevant pledged deposits and guarantee have been released.

38 ULTIMATE HOLDING COMPANY

The directors of the Company consider MSCV, a company incorporated in the British Virgin Islands, to be the ultimate holding company at 31st December, 2001.

Additional Financial Information

(Expressed in Hong Kong dollars)

FINANCIAL SUMMARY

	2001	2000	1999
	$'000	$'000	$'000
Turnover	**258,976**	220,461	149,184
Profit attributable to shareholders	**23,387**	9,668	(28,114)
EBITDA (Note 3)	**62,208**	51,013	(522)
Adjusted EBITDA (Note 4)	**78,154**	56,154	(522)
Assets and liabilities			
Total assets	**583,713**	548,318	379,469
Total liabilities	**(401,325)**	(393,802)	(414,759)
Minority interests	**(22,438)**	(17,953)	(15,670)
Capital and reserves	**159,950**	136,563	(50,960)

Notes:

1. The results of the Group for each of the three years ended 31st December, 1999, 2000 and 2001 have been prepared on a proforma combined basis as if the Group structure immediately after the Group's Reorganization had been in existence throughout those years. The results of the Group for each of the two years ended 31st December, 1999 and 2000 were extracted from the Company's Prospectus dated 15th January, 2002.

2. The Company was incorporated in the Cayman Islands on 14th May, 2001 and became the holding company of the companies now comprising the Group as a result of the Group's Reorganization which was completed on 9th January, 2002.

3. EBITDA is defined as earnings before interest, tax, depreciation and amortization, minority interests and share of profit less losses of an associate and jointly controlled entities.

4. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization, minority interests and including the Group's share of profits of an associate, POAD, and a jointly controlled entity, Shanghai Metro-ads but excluding losses of a jointly controlled entity, Guangzhou Yong Tong.

(Expressed in Hong Kong dollars)

Adjusted net tangible assets

The following statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31st December, 2001 as set out in the Proforma Combined Balance Sheet on pages 64 and 65, adjusted as described below:

	$'000
Combined net assets of the Group as at 31st December, 2001	159,950
Capitalization of loans from ultimate holding company (Note 1)	105,978
Net proceeds from the Placing (Note 2)	213,180
Adjusted net assets	479,108
Less: Advertising rights as at 31st December, 2001	(260,796)
Adjusted net tangible assets	218,312

Notes:

1. As part of the corporate reorganization of the Group, and pursuant to an agreement dated 9th January, 2002 between, among other parties, the Company and MSCV, the parties thereto had agreed that, prior to the Placing, an amount of HK$105,978,176, representing unsecured, interest free loans due from the Company would be capitalized and 639,000,000 Shares would be allotted and issued to MSCV.

2. Net proceeds from the Placing is calculated based on an issue of 213,800,000 shares for cash at the Issue Price of HK$1.10 after deduction of underwriting and other related expenses.