Delivering Total Coverage:

MPI - China's Most Comprehensive Outdoor Media Network

媒體伯樂 全覆蓋 全網絡

Third Quarterly Report 2002

二零零二年第三季度業績報告

Media Partners International Holdings Inc.

媒體伯樂集團有限公司

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

HIGHLIGHTS

- PRC operations achieved 27% turnover growth compared with the first nine months in 2001.
- PRC metro advertising joint ventures achieved 9% turnover growth and the Group's share of profits achieved 23% growth compared with the first nine months in 2001.
- Turnover from the Hong Kong operations decreased by 13% compared with the first nine months in 2001. With continued efforts, turnover achieved 11% growth in the third quarter compared with the second quarter of 2002 with operating losses reduced to HK$5.8 million in the third quarter of 2002.
- Profit from the PRC operations amounted to HK$10.2 million, loss from Hong Kong operations amounted to HK$16.2 million together with the unallocated corporate expenses of HK$4.0 million, the loss attributable to shareholders for the nine months ended 30th September, 2002 was HK$10.0 million. The principal reason for the change in profitability of the Group is due to the poor performance of the Hong Kong operations resulting from the general downturn in the Hong Kong economy.
- Maintained strong cash inflow of HK$28.6 million from operations representing 120% of EBITDA. Adjusted EBITDA was HK$34.2 million for the first nine months of 2002.
- Successfully secured long-term exclusive advertising rights to media within the Beijing Light Rail System and is the only company having exclusive advertising rights to metro and light rail systems in Beijing, Shanghai, Guangzhou and Hong Kong.
- In conjunction with POAD, successfully secured exclusive advertising rights to the entire Cross Harbour Tunnel.
- To strengthen presence in Shanghai by acquiring advertising rights to a further 142 buses in the city.
- Established a PRC joint venture to centralize all production works for bus body advertising.
- Partnered with a technology company to introduce a multi-city in-mall advertising network.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Developments

Expansion of the Media Network

The third quarter of the year saw significant development in the Group's media network. In the PRC[1], the Group established a strong foothold in Beijing by securing exclusive advertising rights to media within the Beijing Light Rail System. The Group is the only company which has secured long-term exclusive metro and light rail advertising rights in the major metropolitan cities of Beijing, Shanghai, Guangzhou and Hong Kong. In Hong Kong, the Group, in conjunction with POAD, reinforced its leading position in outdoor advertising by securing the exclusive advertising rights to the entire Cross Harbour Tunnel, one of the prime locations for outdoor advertising.

In July, the Group secured the exclusive advertising rights to the Beijing Light Rail System for a term of 18 years commencing from 1st January, 2003. The railway passes through areas of high passenger flows, including residential areas, universities and research institutions as well as the Olympic Village for the 2008 Beijing Olympic Games. The first phase of operations, with nine out of a total of sixteen stations, commenced operations on 28th September, 2002. Full operation is scheduled for January 2003. The Group has already secured nine international and nationwide domestic advertising customers for this railway.

In view of the rapid economic growth and expanding outdoor advertising market in Shanghai, the Group continued to expand its advertising media network on bus bodies in the city. In August and September, the Group acquired advertising rights to a further 142 air-conditioned buses running along prime routes in Shanghai.

Note:

1 For the purpose of this report "the PRC" comprises the People's Republic of China excluding Hong Kong.

In September, the Group together with its associate POAD secured the exclusive advertising rights to the entire Cross Harbour Tunnel for a term of four years. Cross Harbour Tunnel is one of the sites with highest traffic flows in Hong Kong. The success in winning this exclusive project marks a leap forward for the Hong Kong operations. At the same time, the Group has strengthened its sales force and is actively pursuing other opportunities to further enhance its leading position in the Hong Kong outdoor advertising market.

Types of media	**Location**	**Advertising spaces At 30th September, 2002**
Transport		
Bus bodies	The PRC	Over 13,300
Metro lines	The PRC & Hong Kong	Over 33,900
Taxis	Hong Kong	200
Billboards		
Tunnels, carparks & unipoles	The PRC & Hong Kong	293
Neon signs, roof tops & wall signs	Hong Kong	25
Street furniture		
Bus shelters & signage	The PRC	1,318
Lightboxes, LEDs & panels	Hong Kong	1,434
		***Total:* over 50,400**

Establishment of New Joint Ventures

During the third quarter, the Group has established two new joint ventures, in the PRC and Hong Kong, to capture business opportunities in advertising production and in-mall advertising.

In August, Shanghai Chong Le Vehicle Painting Co. Ltd. was set up in Shanghai to provide production related services for the transport advertising media of the Group as well as for other companies. The establishment of this joint venture aims to provide more comprehensive advertising service package to customers and to enhance the Group's profitability.

In the same month, the Group set up a joint venture in Hong Kong, Livebrand Networks Limited, to introduce dynamic in-mall advertising across cities in Hong Kong and the PRC, aiming to develop and apply new technologies to form a network linking a series of shopping malls to target captive shoppers. The innovative signage system is to be set up in shopping malls, such as the Hang Lung Centre, as a pilot trial.

To further strengthen the Group's presence in the southern PRC, the Group is in the process of setting up two advertising joint ventures, in Shenzhen and Guangzhou.

Financial Review

	For the nine months ended 30th September, 2002			
	The PRC	**Hong Kong**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	157,030	53,922	—	210,952
EBITDA[1]	42,551	(16,224)	(2,505)	23,822
Adjusted EBITDA[2]	51,706	(15,015)	(2,505)	34,186
Profit/(loss) attributable to shareholders	10,236	(16,227)	(4,048)	(10,039)

	For the nine months ended 30th September, 2001			
	The PRC	Hong Kong	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	123,793	62,053	—	185,846
EBITDA	44,578	3,034	—	47,612
Adjusted EBITDA	51,615	6,657	—	58,272
Profit attributable to shareholders	11,478	5,412	—	16,890

Notes:

1. EBITDA is defined as earnings before interest expenses, tax, depreciation and amortization.

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

Turnover

Turnover of the Group amounted to approximately HK$211.0 million for the nine months ended 30th September, 2002, representing an increase of 14% compared with the corresponding period in 2001. Combined turnover of the Group, including the turnover of the two jointly controlled entities (Shanghai Metro JV and Guangzhou Metro JV) and the associate (POAD) of the Group, increased from HK$303.4 million to HK$332.8 million, representing a 10% increase compared with the same period in the previous year.

Out of the combined turnover for the nine months ended 30th September, 2002, advertising on bus bodies accounted for 33%, advertising in metro systems accounted for 25%, advertising on billboards and street furniture accounted for 31%, and income from production and others accounted for 11%.

Advertising on bus bodies and in metro systems together represented 58% of the combined turnover compared with 53% in the same period in 2001, indicating that advertising in the transport sector continues to be the major focus of the Group.

Operating Expenses

Site rentals, being the largest component of the Group's operating expenses, amounted to HK$68.7 million, 72% of which related to the Hong Kong operations. Other direct costs were mainly variable and comprised media buying, business tax and production costs.

Staff costs amounted to HK$24.4 million (nine months ended 30th September, 2001: HK$18.9 million) representing 12% of turnover (nine months ended 30th September, 2001: 10%). The increase was due to salary increments in the PRC entities and the addition of 89 employees. Of the new recruits, 30 employees and 14 employees were recruited for the newly established Chengdu Joint Venture and for the development of metro advertising on the Beijing Light Rail System respectively, whilst others were recruited mainly for the sales and marketing team to meet the growing business in the PRC.

Other operating expenses amounted to HK$18.3 million (nine months ended 30th September, 2001: HK$10.2 million) representing 9% of turnover (nine months ended 30th September, 2001: 6%). Higher operating expenses were mainly due to HK$2.7 million incurred as a result of the Company being listed, an increase in office rental of HK$0.6 million for the newly set up joint ventures and an increase in marketing expenses of HK$2.6 million.

EBITDA and Loss Attributable to Shareholders

EBITDA and Adjusted EBITDA for the Group were HK$23.8 million and HK$34.2 million respectively. Loss attributable to shareholders was HK$10.0 million. If the corporate expenses together with the interest expenses on the Convertible Bond incurred as a result of the Company being listed on the GEM, which in aggregate total HK$4.0 million, were excluded, the loss attributable to shareholders would have been HK$6.0 million compared with a profit of HK$16.9 million for the same period in 2001. The loss was due to the poor performance of Hong Kong operations resulting from the general downturn in the Hong Kong economy and the sluggish demand for outdoor advertising in Hong Kong.

The PRC

For the nine months ended 30th September, 2002, turnover from the PRC operations, which accounted for 74% (nine months ended 30th September 2001: 67%) of the Group's turnover, increased to HK$157.0 million representing growth of 27% over the same period in 2001.

PRC combined turnover, including the turnover of the two metro joint ventures, amounted to HK$233.7 million. Out of the combined turnover, advertising on bus bodies accounted for 47% and advertising in metro systems accounted for 33%.

The Group has been actively developing long-term relationship with its national key accounts by providing one-stop service to satisfy their needs in outdoor advertising across cities. As a result, income from agency sales has increased to 27% (2001: 24%) of PRC turnover.

The Group's core advertising business in the PRC remains strong and the profit after site rentals, direct costs and amortization increased by 48% to HK$40.0 million in the first nine months of 2002. With other revenue decreased by HK$6.6 million, staff cost increased by HK$2.2 million and other operating expenses increased by HK$5.2 million, the net profit for the nine months ended 30th September, 2002 was HK$10.2 million, at about the same level as 2001. The decrease in other revenue was mainly due to a decrease in receipt of incentives from the Nanjing government from HK$6.2 million in 2001 to HK$2.3 million in 2002 and other non-recurring income of HK$2.5 million in 2001. Excluding the effect of the government incentives and non-recurring income, the profit after tax generated from the PRC operations for the nine months ended 30th September, 2002 would be HK$9.0 million, representing 42% growth over the same period in 2001. On a similar basis, the net profit margin would be 6% (nine months ended 30th September, 2001: 5%).

Metro Advertising

Turnover for the nine months ended 30th September 2002 from the two metro joint ventures in Shanghai and Guangzhou amounted to HK$76.7 million, representing growth of 9% compared with HK$70.2 million for the same period in 2001. The Group's share of profits of the two metro joint ventures amounted to HK$11.0 million, representing growth of 23% compared with HK$8.9 million for the same period in 2001. Continuous growth in return from the two metro joint ventures indicates the cost effectiveness and popularity of metro advertising.

Hong Kong

Turnover for the nine months ended 30th September, 2002 from the Hong Kong operations was HK$53.9 million, a decrease of 13% compared with HK$62.1 million in the same period in 2001. Turnover for the third quarter of 2002 amounted to HK$18.4 million, representing an increase of 11% over the second quarter. Turnover picked up in the third quarter since the Group together with its associate POAD took over the billboard advertising of the entire Cross Harbour Tunnel from September 2002. Additionally, with the end of the FIFA World Cup, some advertising spending has shifted back to the outdoor advertising media from TV media. With the ongoing efforts of the joint sales forces in the PRC and Hong Kong, there is an increasing trend of PRC conglomerates placing advertisements in Hong Kong and turnover from the Airport Express Line has also shown improvement compared with the second quarter. POAD's turnover also improved by 13% in the third quarter as it secured advertising revenues from new sites including exclusive advertising media within the Cross Harbour Tunnel area and neon signage at Revenue Tower.

Loss attributable to shareholders for the nine months ended 30th September, 2002 amounted to HK$16.2 million compared with a profit of HK$5.4 million for the same period in 2001. The loss for the third quarter of 2002 was HK$5.8 million, a decrease of 4% compared with the loss of HK$6.0 million in the second quarter. The slight improvement was mainly due to turnover recovery in the third quarter, a slight reduction in the fixed portion of site rentals upon expiration of some site rental contracts and an improved performance of POAD.

Liquidity and Financial Resources

For the period under review, net cash inflow generated from operating activities amounted to approximately HK$28.6 million representing 120% of EBITDA. As at 30th September, 2002, the Group had a healthy and solid financial position with cash balances (net of bank loans) of HK$114.1 million and jointly controlled cash of HK$74.8 million which represents an amount set aside for the Beijing Light Rail Project. Subsequent to 30th September, 2002, the Group received a cash dividend of HK$3.9 million from POAD, its associate in October 2002.

Outlook

The PRC

Moving forward, the Group will keep focusing on expansion of its existing media presence in the PRC market, especially in metro systems and bus bodies. In view of the steady economic growth in the PRC market, benefiting from the PRC's entry to WTO and Beijing's hosting of the 2008 Olympic Games, the Group will continue to adopt its unique business strategy, to secure long-term and exclusive media advertising rights in prime locations in the PRC and along the prime transport routes in major cities.

Sales Strategies

As the Group expands, the Group will extend its recruitment and training programme, so that the Group can continue to recruit and retain the best sales and marketing professionals. In conjunction with the success in securing the Beijing Light Rail System, a VP-Metro Sales & Marketing has been newly appointed to coordinate all the sales for the Group's metro network with a view to increasing sales across all the Group's metro and light rail media in Beijing, Shanghai and Guangzhou.

To further align the Group's sales with its leading customers and leverage its sizable networks in metro systems and buses, the Group is actively building up national key accounts which require advertising across cities. This will greatly enhance its revenue from exclusive media as well as further improve the Group's agency sales.

The Group's sales force will also further strengthen its focus on serving the needs of various types of advertisers by offering more flexible and tactical packages at national, regional and municipal levels to maximize the values of its media network. The Group's sales teams will target larger and more cost-efficient sales deals, which will increase occupancy rates and overall yield.

To respond quickly to the fast changing advertising market and to better serve its customers, a team of sales professionals is developing accounts in industries with high advertising spending growth and the Group has also redesigned sales packages to optimize yield and customize service offerings to serve new-sprung industries.

Media Development

The full Beijing Light Rail System is scheduled for completion in January 2003, with passenger flows expected to reach as many as 1.1 million people a day. In addition to traditional lightboxes, the Group is planning to market innovative outdoor advertising products backed by advanced technology at a later stage. These media innovations will create attractive visual impact with higher media value apart from also sharpening the Group's competitive edge.

In the PRC, many exciting prospects lie ahead, with approximately 20 new metro lines undergoing planning and construction in major cities. Leveraging the Group's extensive experience in Shanghai's and Guangzhou's metro lines, as well as its recent success in securing the exclusive advertising rights to the Beijing Light Rail System, the Group is aiming to capture these opportunities. The Group is actively pursuing metro advertising rights in South China and Shanghai with a view to enlarging its nationwide coverage and offering highly attractive advertising media packages to key accounts. The Group will also aggressively seek opportunities to expand its media network into other forms of outdoor media.

The Group is actively strengthening its media coverage in northern and southern China, and is expanding the bus route media network in the large cities where the Group already has a presence, including Shanghai, Shenzhen, Guangzhou. By expanding the bus route media network, the Group hopes to dominate bus body advertising in cities with high growth potential.

Furthermore, the Group will continue to explore opportunities for mergers and acquisitions, as well as potential alliances with media owners, to expand its outdoor network beyond the transport sector in the PRC and to diversify its business portfolio. The Group believes it is in a highly advantageous position to expand its market presence with the provision of a comprehensive outdoor media solution for its customers.

Hong Kong

The recovery of the Hong Kong economy is not expected to occur overnight and it is likely that the Hong Kong economy will remain sluggish for the following months. Nevertheless, the Group believes that the results of the Hong Kong operations will improve over the forthcoming year as positive steps are being taken to reduce the level of fixed costs suffered, which comprise principally site rental costs and the strengthening of the Hong Kong sales team is expected to generate more income and greater occupancy of sites, notwithstanding the general economic conditions prevailing in Hong Kong.

Through its joint venture, Livebrand Networks Limited, the Group is planning to introduce a network linking a series of shopping malls, to allow advertisers to reach heavy customer flows. Several shopping malls have been identified as pilot trial sites. This leading technology will also be applied to advertising media in the PRC's major cities once the operation matures.

At the same time, the Group considers that the lowering of guarantee payments for advertising sites in Hong Kong is highly beneficial in maintaining its strong competitive edge. The Group is moving cautiously, selectively reviewing its soon-to-expire site contracts and where appropriate will shift resources to other more cost-effective and lower risk outdoor advertising media.

Leveraging the Group's substantial PRC customer base, the Group is actively expanding its customer portfolio into new categories, and encouraging PRC customers to place advertisements in Hong Kong.

QUARTERLY RESULTS FOR THE PERIOD ENDED 30TH SEPTEMBER, 2002 - UNAUDITED

The Board of Directors (the "Board") of Media Partners International Holdings Inc. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the three and nine months ended 30th September, 2002 together with the comparative figures for the corresponding period in 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three and nine months ended 30th September, 2002 - UNAUDITED

		For the three months ended 30th September,		For the nine months ended 30th September,	
		2002	2001	**2002**	2001
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Operating revenue					
Turnover	*2*	**70,909**	67,093	**210,952**	185,846
Other revenue		**2,789**	5,400	**12,737**	18,530
Other net (loss)/income		**—**	(13)	**205**	1,684
Operating expenses					
Site rental and other direct costs		**(56,744)**	(46,941)	**(157,375)**	(129,294)
Staff costs		**(8,000)**	(6,406)	**(24,396)**	(18,920)
Depreciation and amortization		**(7,413)**	(8,725)	**(26,253)**	(26,619)
Other operating expenses		**(6,984)**	(4,009)	**(18,301)**	(10,234)
(Loss)/profit from operations		**(5,443)**	6,399	**(2,431)**	20,993
Finance costs		**(2,866)**	(1,919)	**(7,672)**	(5,612)
Share of profits less losses of associates		**908**	1,487	**1,559**	4,307
Share of profits less losses of jointly controlled entities		**5,536**	6,211	**10,970**	8,885
(Loss)/profit from ordinary activities before taxation		**(1,865)**	12,178	**2,426**	28,573
Taxation	*3*	**(3,778)**	(3,635)	**(10,097)**	(9,222)
(Loss)/profit from ordinary activities after taxation		**(5,643)**	8,543	**(7,671)**	19,351
Minority interests		**(535)**	(1,116)	**(2,368)**	(2,461)
(Loss)/profit attributable to shareholders		**(6,178)**	7,427	**(10,039)**	16,890
(Loss)/earnings per share — Basic	*4*	**(0.8 cents)**	1.2 cents	**(1.2 cents)**	2.6 cents

NOTES:

1. Group reorganization and basis of presentation

(a) The Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands on 14th May, 2001 under the name of MPI Holdings Inc. It changed its name 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 did not carry 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.

(b) Group reorganization

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. This 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 Company's prospectus dated 15th January, 2002.

(c) Basis of presentation

The consolidated profit and loss accounts for the nine months ended 30th September, 2002 and 2001 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The financial information presented has been prepared in accordance with accounting policies which conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the GEM Listing Rules of the Hong Kong Stock Exchange as applicable to quarterly reports.

The unaudited consolidated results of the Group have been prepared using the merger basis of accounting as if the Company had always been the holding company of the subsidiaries now comprising the Group.

All significant intra-group transactions and balances have been eliminated on consolidation.

The same accounting policies adopted in the proforma financial information of the Group for the year ended 31st December, 2001 have been applied in the preparation of the third quarterly report. The Group has adopted the new and revised Statement of Standard Accounting Practice ("SSAPs") which became effective on 1st January, 2002. The adoption of these new and revised SSAPs has no material effect on the Group's financial results for the nine months ended 30th September, 2002.

The notes on the third quarterly report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual report.

2. Turnover

Turnover represents income from advertising and other advertising-related services rendered to customers during the period, net of returns and discounts allowed, after eliminating intra-group transactions.

3. Taxation

	For the three months ended 30th September,		**For the nine months ended 30th September,**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision for Hong Kong profits tax	**—**	—	**—**	21
Overprovision for Hong Kong profits tax relating to prior periods	**—**	(15)	**—**	—
PRC taxation	**1,839**	1,907	**5,560**	5,150
Deferred taxation	**—**	—	**—**	207
Share of taxation of jointly controlled entities	**1,730**	1,504	**4,187**	3,160
Share of taxation of associates	**209**	239	**350**	684
	3,778	3,635	**10,097**	9,222

The provision for Hong Kong profits tax has been calculated separately at 16% (2001: 16%) of the estimated assessable profits for the nine months ended 30th September, 2002 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 People's Republic of China ("the PRC") except noted hereinafter is calculated at 33% (2001: 33%) of the estimated assessable profits of these entities for the nine months ended 30th September, 2002.

Pursuant to the relevant laws and regulations in the PRC, Chongqing MPI Public Transportation Advertising Co., Ltd., 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 2001 (being 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.

4. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK$10,039,000 (30th September, 2001: profit of HK$16,890,000) and the weighted average of 811,580,220 ordinary shares (30th September, 2001: 640,000,000) outstanding after the Group Reorganization and Loan Capitalization as if those shares had been outstanding from 1st January, 2001.

No diluted (loss)/earnings per share for the periods ended 30th September, 2001 and 2002 has been presented, as there were no dilutive potential ordinary shares during these periods.

5. Reserves

	Share premium	**Merger reserves**	**Other capital reserves**	**Revenue reserves**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2001	—	255,466	(61,518)	(57,385)	136,563
Profit for the period	—	—	—	16,890	16,890
At 30th September, 2001	—	255,466	(61,518)	(40,495)	153,453
At 1st January, 2002	—	255,466	(61,518)	(33,998)	159,950
Capitalization of shareholders' loans	42,078	—	—	—	42,078
Share premium arising on issue of Placing shares	213,800	—	—	—	213,800
Share issue expenses	(22,855)	—	—	—	(22,855)
Movements arising from the Reorganization	—	(100)	—	—	(100)
Loss for the period	—	—	—	(10,039)	(10,039)
At 30th September, 2002	233,023	255,366	(61,518)	(44,037)	382,834

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

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

	For the three months ended 30th September,		For the nine months ended 30th September,	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit/(loss) for the period is retained by:				
— The Company and its subsidiaries	**(10,683)**	1,472	**(18,031)**	7,542
— Associates	**699**	1,248	**1,209**	3,623
— Jointly controlled entities	**3,806**	4,707	**6,783**	5,725
Total	**(6,178)**	7,427	**(10,039)**	16,890

Included in the figure for revenue reserves at 30th September, 2002 are reserves of HK$5,599,000 (30th September, 2001: HK$3,623,000) attributable to associates and reserves of HK$15,611,000 (30th September, 2001: HK$8,391,000) attributable to the jointly controlled entities.

DIVIDEND

The Directors do not recommend the payment of a dividend for the nine months ended 30th September, 2002 (30th September, 2001: Nil).

DIRECTORS' INTERESTS IN SECURITIES

(1) Directors' interests in shares

As at 30th September, 2002, none of the Directors or their associates had any personal, family, corporate or other interest in the issued capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

(2) Directors' right to acquire shares

Pursuant to the Share Option Scheme adopted by the Company on 7th January, 2002, the following director was granted share options to subscribe for the shares in the Company as follows:

Name of Director	Date of grant	Number of options	Option period	Subscription price per share of the Company *HK$*
To Pik Shan, Winnie	14/8/2002	8,538,000	14/8/2002 to 13/8/2012	0.62

Saved as disclosed above, during the nine months ended 30th September, 2002, none of the Directors or their associates was granted options to subscribe for shares of the Company, nor had they exercised such rights.

SHARE OPTION SCHEME

As at 30th September, 2002, options to subscribe for an aggregate of 18,448,000 ordinary shares of the Company (which include the options granted to Ms. To Pik Shan, Winnie as disclosed above) had been granted by the Directors of the Company pursuant to the Share Option Scheme (adopted by way of written resolution of the Company on 7th January, 2002). Details of which are as follows:

No. of options	Subscription price per share of the Company *HK$*	Option period
18,448,000	0.62	14/8/2002 to 13/8/2012

Save as disclosed above, no share options under the Share Option Scheme had been granted, exercised, cancelled or lapsed during the nine months ended 30th September, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2002, 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	Number of shares held	Approximate percentage of issued share capital
Morningside CyberVentures Holdings Limited ("MSCV")[1]	640,000,000	75%
Verrall Limited[2] via MSCV	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 30th September, 2002.

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 30th September, 2002, an associate of BNP Paribas Peregrine Capital Limited (the "Sponsor") held 2,222,000 shares in the Company. Save as disclosed herein, neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules), as at 30th September, 2002, had any interest in the securities of the Company.

Pursuant to the 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.

COMPETING INTERESTS

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 SECURITIES

During the nine months ended 30th September, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly reports and quarterly reports and to provide advice and comments to the Board of Directors. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee has three members comprising three independent non-executive directors, Mr. Li Kwok Wing, Meocre, Professor Lau Juen Yee, Lawrence and Mr. Paul Laurence Saffo.

The audit committee has reviewed with management this unaudited quarterly report for the period ended 30th September, 2002.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 30th September, 2002, 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.

By order of the Board
Winnie Pik Shan To
Chief Executive Officer

Hong Kong, 13th November, 2002