Nationwide Coverage and Comprehensive Network
全覆蓋 全網絡

First Quarterly Report 2003
二零零三年第一季度業績報告

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

With the outbreak of SARS in Mainland China and Hong Kong, the Group's performance in the first quarter of 2003 was adversely affected.

- *The Group's turnover amounted to HK$63.5 million with the loss attributable to shareholders amounted to HK$15.9 million, EBITDA amounted to negative HK$2.3 million and adjusted EBITDA amounted to negative HK$0.6 million.*

- *The Group's financial position remains healthy with cash balance, net of bank loans, amounted to HK$102.5 million. Net assets amounted to HK$434.2 million and net assets per share amounted to HK$0.5 per share.*

- *The Group has taken cautious approach in media development and will further implement cost control measures.*

- *Mainland China operations*
  - *Turnover accounted for 73% of the Group's turnover*
  - *3% growth in turnover compared with the first quarter of 2002*
  - *Turnover from Shanghai and Guangzhou Metro JVs increased by 12% compared with the first quarter of 2002*
  - *Allied with STA to strengthen the Group's billboard media portfolio*
  - *Initial losses incurred for new media concessions commencing in 2003 including Beijing Light Rail system and buses in Beijing and Guangzhou*
  - *Loss amounted to HK$10.5 million with positive EBITDA and positive adjusted EBITDA of HK$2.5 million and HK$4.0 million respectively*

- *Hong Kong operations*
  - *Turnover dropped by 4% compared with the last quarter of 2002*
  - *Staff costs and other operating expenses decreased by 29% and 48% respectively compared with the last quarter of 2002*
  - *Loss was 37% less than the loss (before one-off provision for onerous contracts) for the last quarter of 2002*

MANAGEMENT DISCUSSION AND ANALYSIS

Market Environment

The first quarter of every year is historically the weakest for the outdoor advertising market in Greater China. This seasonal weakness was compounded by the uncertainties resulting from the Iraq War and the outbreak of Severe Acute Respiratory Syndrome (SARS) globally, the adverse effect of which is expected to extend beyond the second quarter of 2003. The anticipated rebound of the Hong Kong economy has, therefore, been further hampered and economic growth in Mainland China has also slowed down. These unfavourable conditions inevitably have had an adverse impact on the advertising industry as advertisers have reduced their spending in both Hong Kong and Mainland China. This has had a consequential effect on the overall financial performance of the Group for the first quarter of 2003 and the adverse implications are likely to persist beyond the second quarter of 2003. However, it is difficult to predict the possible financial ramifications for the Group due to the inherent uncertainties surrounding the duration and effects of these factors.

Major New Media Developments

Billboard Media Development in Mainland China

The Group, while continuing to focus on transport media, also expanded its billboard media by entering into a strategic alliance with Shanghai Tulip Advertising Co., Ltd. ("STA"), one of the major outdoor advertising media players in Shanghai, for co-operation in the planning, development, management and marketing of outdoor advertising media including billboards, neon signs, unipoles and large scale display screens in Shanghai. Due to the Group's well-established leading position in the outdoor advertising industry in Mainland China, the Group has managed to negotiate favourable terms in this deal with guaranteed pay back of its investment cost within the first three years.

The Group, now equipped with diversified outdoor media formats beyond the transport sector, is able to further maximise the synergies of the two companies by enhancing capabilities to provide comprehensive outdoor advertising media packages to satisfy clients' needs. The move marks a further step to enhance the Group's outdoor advertising media network portfolio and strengthen its foothold in the Mainland China market.

Beijing Light Rail System

In the first quarter of 2003, the Beijing Light Rail System commenced operation and the first phase construction of lightboxes has been completed. By the end of the first quarter of 2003, the Group had spent about RMB25 million for the construction of the lightboxes within the light rail system.

The Group, having secured the exclusive advertising rights within the light rail system for 18 years, has started selling advertising spaces within the light rail system. Since it takes time to promote the media and to build up passenger flow, an initial loss was incurred in the first quarter of 2003. The Group expects improvement in advertising sales in the second quarter as the operations of the light rail system become smoother and passenger flows increase. However, with the presence of SARS in Beijing, business growth is likely to be dragged down in the following quarters.

With the addition of the above new advertising media from the Beijing Light Rail System and from the alliance with STA and from newly acquired advertising rights on buses in Guangzhou and Beijing, the Group's media network has become more comprehensive. In view of the presence of SARS within Mainland China and Hong Kong, the Group is cautious in expansion of its media network and will put more focus on increasing the value and return from its media network.

At present, the Group has secured exclusive advertising rights to over 54,600 advertising spaces in Mainland China and Hong Kong. The following summarizes the number of advertising spaces of the Group as at 31st March, 2003:

Types of media	**Location**	**Advertising spaces at 31st March, 2003**
Transport		
Bus bodies	Mainland China	Over 15,600
Metro lines	Mainland China and Hong Kong	Over 35,300
Taxis	Hong Kong	Over 200
Billboards and Street furniture	Mainland China and Hong Kong	Over 3,500
		***Total:* over 54,600**

Financial Review

	For the three months ended 31st March, 2003			
	Mainland China	**Hong Kong**	***Unallocated***	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	46,314	17,227	–	63,541
EBITDA[1]	2,457	(3,983)	(809)	(2,335)
Adjusted EBITDA[2]	4,037	(3,850)	(809)	(622)
Loss attributable to shareholders	(10,531)	(4,281)	(1,071)	(15,883)

	For the three months ended 31st March, 2002			
	Mainland China	Hong Kong	*Unallocated*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	44,958	18,872	–	63,830
EBITDA	15,295	(4,129)	(616)	10,550
Adjusted EBITDA	17,136	(3,876)	(616)	12,644
Profit/(loss) attributable to shareholders	3,612	(4,359)	(1,102)	(1,849)

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 jointly controlled entities, Shanghai Metro JV and Shanghai Production JV and, the associate, POAD.

Turnover

The Group's turnover amounted to HK$63.5 million for the first quarter of 2003 and was about the same level as in the corresponding quarter of last year (first quarter 2002: HK$63.8 million). Turnover from the Mainland China operations increased by 3% to HK$46.3 million whilst turnover from the Hong Kong operations decreased by 9% to HK$17.2 million. The Mainland China operations continued to be the focus of the Group and the turnover from the Mainland China operations accounted for 73% of the Group's turnover (first quarter 2002: 70%).

Combined turnover of the Group, including the turnover of the three jointly controlled entities (Shanghai Metro JV, Guangzhou Metro JV and Shanghai Production JV) and the associate (POAD), increased by 13% to HK$110.7 million in first quarter of 2003 compared with the corresponding quarter of last year.

Advertising on bus bodies and in metro systems together represented 52% of the combined turnover, which is slightly less than the 58% for the full year of 2002. This is because the Group has increased its revenue from billboard media to 33% (full year 2002: 24%).

Operating expenses

Site rentals, being the largest component of the Group's operating expenses, amounted to HK$28.1 million, increased by 10% compared with the last quarter of 2002. Site rentals for the Hong Kong operations decreased by 12% compared with the last quarter of 2002 as a result of expiry of some site rental contracts during the current quarter. Site rentals for the Mainland China operations increased by HK$4.6 million compared with the last quarter of 2002. The increase was due to certain advertising concessions from new media, including the Beijing Light Rail System and some buses secured last year, which have commenced operations this year.

Other direct costs are mainly variable ones and comprised media buying, business tax and production costs. Other direct costs for the first quarter of 2003 amounted to HK$23.3 million (first quarter 2002: HK$24.5 million), representing a decrease of 5%.

Staff costs, including directors' fees, of the Group for the first quarter of 2003 amounted to HK$9.9 million, representing an increase of 7% compared with HK$9.3 million for the last quarter of 2002 and 24% compared with HK$8.0 million for the first quarter of 2002. Staff costs for the Hong Kong operations decreased by 29% compared with the last quarter of 2002 and also by 29% compared with the first quarter of 2002. The decrease was due to cost control measures implemented in Hong Kong. Staff costs for the Mainland China operations increased by HK$1.5 million compared with the last quarter of 2002 and HK$2.6 million compared with the first quarter of 2002. The increase was due to annual salary increments of 8% on average in Mainland China and an increase in the number of employees. Total employees increased to 280 (first quarter 2002: 244), of which 253 (first quarter 2002: 216) are in Mainland China and 27 (first quarter 2002: 28) are in Hong Kong. The additional employees employed in Mainland China were mainly for the marketing development of the outdoor media within Beijing Light Rail System, the development of key accounts and the newly established Shenzhen office.

Other operating expenses of the Group decreased by HK$3.1 million compared with the last quarter of 2002 as a result of reduction in provision for bad debts and effective control of overheads. Compared with the first quarter of 2002, other operating expenses increased by HK$2.5 million. Higher operating expenses were principally due to an increase in office rental expenses for the newly established Shenzhen office and for other joint ventures and offices established after the first quarter of last year and an increase in marketing expenses for acquiring marketing information, such as metro advertising surveys, media placement and advertising spending reports for enhancing the Group's forward planning of the outdoor advertising market in Mainland China.

Finance costs

Finance costs increased by HK$0.7 million from HK$2.4 million in the first quarter of 2002 to HK$3.1 million in the first quarter this year. The increase was mainly due to the payment of interest in respect of a bank loan of HK$74.8 million for the Beijing Light Rail System advertising concessions. This bank loan was a temporary arrangement and upon the increase of registered capital of Shanghai MPI, the bank loan will be replaced by a capital contribution.

Loss attributable to shareholders

The loss attributable to shareholders for the first quarter of 2003 was HK$15.9 million (first quarter 2002: HK$1.8 million). The increase in loss was due to the business being generally affected by SARS and initial losses incurred for the newly acquired media, including the Beijing Light Rail System and 300 buses in Guangzhou, and an increase in overheads. Both Beijing and Guangzhou have been seriously affected by SARS.

Segment Analysis

Mainland China operations

Turnover from the Group's Mainland China operations increased by 3% to HK$46.3 million and combined turnover, including the turnover of the two metro joint ventures and the production joint venture, increased by 10% to HK$74.6 million, compared with the first quarter of 2002. Out of the combined turnover, advertising on bus bodies and metro systems, in aggregate, accounted for 74% (full year 2002: 79%) and advertising on billboards accounted for 11% (full year 2002: 3%).

By securing exclusive advertising rights within the Beijing Light Rail System, the sales teams of the Group have been re-structured and a designated sales team has been assigned to develop and promote metro advertising across the Group's three metro media systems in Beijing, Shanghai and Guangzhou. In the initial stage of operations of the Beijing Light Rail System, it takes time to promote the media and to build up passenger flow and, as a result, there was an initial loss incurred in the first quarter of 2003. The Group expects improvement in advertising sales as the operations of the light rail system become smoother and passenger flows increase. However, with the presence of SARS in Beijing, business growth is likely to be dragged down in the following quarters.

Shanghai Metro JV and Guangzhou Metro JV achieved continuous growth in turnover. Turnover from the two metro joint ventures increased by 12% to HK$25.4 million, compared with HK$22.7 million in the first quarter of 2002 and share of profits from the two metro joint ventures for the first quarter of 2003 were $1.2 million (first quarter 2002: HK$1.6 million).

Turnover from billboards amounted to HK$8.2 million (first quarter 2002: HK$2.7 million), an increase of HK$5.5 million. The increase was principally the result of the Group's alliance with STA, a major outdoor advertising media player in Shanghai, to develop, manage and market outdoor advertising media including billboards, neon signs, unipoles and large scale display screens in Shanghai.

Site rentals, being the largest operating cost component of the Mainland China operations, increased by HK$4.6 million compared with the last quarter of 2002. The increase was due to certain advertising concessions from new media, including the Beijing Light Rail System and some buses secured last year, which have commenced operations this year.

Staff costs for the Mainland China operations increased by HK$1.5 million compared with the last quarter of 2002 and HK$2.6 million compared with the first quarter of 2002. The increase was due to annual salary increments of 8% on average in Mainland China and an increase in the number of employees. Additional employees employed in Mainland China were mainly for the marketing development of the outdoor media within Beijing Light Rail System, the development of the key accounts and the newly established Shenzhen office.

Other operating expenses of the Mainland China operations decreased by HK$1.8 million compared with the last quarter of 2002 as a result of a reduction in provision for bad debts and effective cost control actions which have reduced overheads. Compared with the first quarter of 2002, other operating expenses increased by HK$2.7 million. Higher operating expenses were principally due to an increase in office rental for the newly established Shenzhen office and for other joint ventures and offices established after first quarter of last year and an increase in marketing expenses for acquiring marketing information, such as metro advertising surveys, media placement and advertising spending reports for enhancing the Group's forward planning of the outdoor advertising market in Mainland China.

In the first quarter of 2003, the Group's Mainland China operations incurred a loss of HK$10.5 million (first quarter 2002: profit of HK$3.6 million). The loss was mainly due to initial losses incurred by new advertising concessions, higher staff costs and higher marketing expenses. The newly acquired media included the Beijing Light Rail System, 300 buses in Guangzhou and 2,000 buses in Beijing. For new media, it usually takes time to market the sites to increase familiarity and acceptance by the advertisers and initial losses are normally expected. With the SARS effect, particularly in the cities such as Beijing and Guangzhou, where the new media are located, sales efforts are facing an even bigger challenge.

To minimize the impact of SARS, the Group has implemented certain measures including more cost control to reduce overheads, employment of high quality sales professionals to strengthen the sales force, slowing down the media network expansion and focusing on increasing value and return from existing advertising media. The Group expects these measures will minimize the impact of SARS on the Group's results.

Hong Kong operations

Confronted with the static market and dampened consumer sentiment, the SARS outbreak in Hong Kong has devastated the entire outdoor advertising industry as well as the Group's business. As most people choose to stay at home, advertisers have shifted large portions of their advertising expenditure to the Internet and television media and, understandably, reducing spending on outdoor advertising.

Despite the tougher environment, the Group has broadened its customer portfolio. New customers include Intel, Canon, Darlie Toothpaste, Cyber Port, Shun Hing, Wing On Travel and New York Life. There were also improvements in certain sites. For example, advertising revenue from the Airport Express Line ("AEL") achieved growth of 57% compared with the first quarter of 2002. However, due to the impact of SARS , air traffic has dropped by over 50% since late March 2003 and the Group anticipates that the growing revenue trend of AEL will be inevitably hampered.

With some loss-making site rental contracts expiring in the first quarter of 2003 and the effort to reduce overheads, the loss of the Hong Kong operations was reduced. The turnover of the Hong Kong operations dropped by 4% compared with the last quarter of 2002 and dropped by 9% compared with the first quarter of 2002 due to less media available for advertising sales upon expiry of some site rental contracts. The Group also managed to reduce staff costs and other operating expenses in the first quarter of 2003 by 29% and 48% respectively compared with the last quarter of 2002. As a result, the loss for the first quarter of 2003 was 37% less than the loss, before one-off provisions, for the last quarter of 2002, and was 2% less than that for the first quarter of 2002.

More than half of the existing site rental contracts, including most of the loss-making site rental contracts, will expire in 2003. The Group has taken the opportunity to review and identify those outdoor advertising media which are more cost-effective and less risky so as to reduce fixed costs. The Group believes the lowering of guarantee payments for advertising sites and overheads will be effective in helping it to maintain its strong competitive edge in Hong Kong, as well as improving the returns in future when SARS is under control.

Going forward, the Group will avoid entering into site rental contracts requiring high fixed guarantee payments. The Group has been very cautious in renewal of expiring contracts and will continue to implement its overheads reduction plan.

Corporate

Corporate overheads for the first quarter of 2003 amounted to HK$1.1 million, a decrease of HK$1.1 million compared with HK$2.2 million for the last quarter of 2002. During the first quarter of 2003, the majority shareholder waived 50% of the interest payable on the Convertible Bond for 2003 and, similarly the chairman and two executive directors also waived all their directors' fees for 2003. Such waivers demonstrate the majority shareholder's continuous support of the Group under the SARS crisis.

Liquidity and Financial Position

As at 31st March, 2003 the Group had an aggregate cash balance, net of bank loans, of HK$102.5 million. The only other debt is the Convertible Bond issued to the majority shareholder. The current ratio was 146% and net assets per share amounted to HK$0.5 per share.

Outlook

The global economic outlook remains gloomy and worried due, to a certain extent, to the uncertain outcome of the Iraq War and, to a larger extent, to SARS. Consumer confidence and spending have yet to turn around. Though the Iraq War has now ended, its resulting effect on the economy of Hong Kong is still uncertain. SARS is still spreading within the Greater China region. The adverse effects caused by SARS which have already hampered the first quarter's results, are likely extend to the second quarter and beyond, although it is not possible to predict the financial implications for the Group due to the inherent uncertainty surrounding the duration and effect of SARS.

Although SARS will have an effect on the economic growth in Hong Kong and Mainland China, we believe that the long-term structural growth will not be affected.

With the introduction of additional advertising media in the Beijing Light Rail System, the Group expects occupancy rates to increase gradually when SARS is under control. Also, advertising on buses and metro lines in Mainland China continues to be the Group's strategic focus. The Group will selectively secure exclusive advertising rights to transport systems through co-operation with transit operators in prime cities. The Group is considering the exclusive advertising rights to the new Shanghai metro extension line which should have substantial synergy with the Group's present metro media in Shanghai.

Allied with STA, with expertise in billboard advertising and with extensive outdoor media coverage in the central business district of Shanghai, the Group, while still focusing on transport media, will carefully consider other outdoor media formats to satisfy customers as well as maintaining continuous growth of the Group.

Going forward, the Group will implement the necessary measures to control and reduce overheads. The Group will focus on increasing value and return from its media and strengthening its sales and marketing teams to improve occupancy of media and its profitability. The Group will be cautious in its media expansion, and will acquire new media only if they have definite synergy with its existing media portfolio.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH, 2003 – 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 months ended 31st March, 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31st March, 2003 – UNAUDITED

	Note	For the three months ended 31st March, 2003 HK$'000	2002 HK$'000
Operating revenue			
Turnover	2	**63,541**	63,830
Other revenue		**3,065**	3,512
Other net income		**–**	205
Operating expenses			
Site rental		**(28,075)**	(19,421)
Other direct costs		**(23,307)**	(24,507)
Staff costs		**(9,943)**	(7,989)
Depreciation and amortization		**(9,234)**	(9,471)
Other operating expenses		**(7,616)**	(5,079)
(Loss)/profit from operations		**(11,569)**	1,080
Finance costs		**(3,089)**	(2,385)
Share of profits less losses of associates		**170**	341
Share of profits less losses of jointly controlled entities		**1,252**	1,625
(Loss)/profit from ordinary activities before taxation		**(13,236)**	661
Taxation	3	**(1,918)**	(2,004)
Loss from ordinary activities after taxation		**(15,154)**	(1,343)
Minority interests		**(729)**	(506)
Loss attributable to shareholders		**(15,883)**	(1,849)
Loss per share – Basic	4	**(1.86 cents)**	(0.25 cents)

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS (UNAUDITED):

1. Basis of presentation

The consolidated profit and loss accounts for the three months ended 31st March, 2003 has not been audited by the Company's auditors but has 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.

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

The accounting policies adopted in the preparation of the quarterly report are consistent with those used in the consolidated financial statements of the Group for the year ended 31st December, 2002 except for the changes in accounting policy as described below.

SSAP12 (Revised) "Income taxes"

With effect from 1st January, 2003, the Group has adopted SSAP12 (Revised) "Income taxes", whereby deferred taxation is provided for using balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill (which is not deductible for tax purposes) and the initial recognition of assets or liabilities that affect neither accounting nor taxable profits. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

This is a change in accounting policy from prior periods where deferred taxation was 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 were expected with reasonable probability to crystallise in the foreseeable future.

SSAP12 (revised) has been adopted prospectively as the directors consider that the effect of this change in accounting policy on the results and net assets of the Group in respect of prior periods is not material.

Further details of the deferred taxation of the Group are set out in note 3(d) below.

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 31st March	
	2003	2002
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax	**–**	9
PRC taxation	**1,092**	964
Share of taxation of jointly controlled entities	**789**	943
Share of taxation of associates	**37**	88
	1,918	2,004

(a) The provision for Hong Kong profits tax has been calculated separately at 16% (2002: 16%) of the estimated assessable profits for the three months ended 31st March, 2003 of each subsidiary and associate of the Group with operations subject to Hong Kong profits tax.

No provision for Hong Kong profits tax was made as the subsidiaries in Hong Kong incurred taxable losses for the three months ended 31st March, 2003.

(b) Taxation for subsidiaries and jointly controlled entities operating in the People's Republic of China ("the PRC"), except noted hereinafter, is calculated at 33% (2002: 33%) of the estimated assessable profits of these entities for the three months ended 31st March, 2003.

(c) 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 a reduction in the applicable rate of PRC income tax from 33 % to 30% for two years commencing from its first profit making year of operations (i.e. for the years ended 31st December, 2001 and 2002) and thereafter, it is entitled to a reduction in the applicable rate of PRC income tax from 33 % to 31.5% for the following three years.

(d) The Group has not accounted for the deferred taxation assets in respect of the Hong Kong operations as the availability of future taxable profits from the Hong Kong operations against which the asset can be utilised is uncertain at 31st March, 2003.

The Group has not accounted for the deferred taxation assets in respect of the Mainland China operations as it is not certain that the relevant Mainland China operations will generate future taxable profits before the accumulated tax losses expire.

4. Loss per share

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK$15,883,000 (31st March, 2002: loss of HK$1,849,000) and the weighted average of 853,800,000 ordinary shares (31st March, 2002: 726,644,435) outstanding.

No diluted loss per share for the periods ended 31st March, 2002 and 2003 has been presented, as there were no dilutive potential ordinary shares during these periods.

5. Reserves

	Share premium HK$'000	Merger reserves HK$'000	Other capital reserves HK$'000	Exchange reserves HK$'000	Revenue reserves HK$'000	Total HK$'000
At 1st January, 2002	–	255,466	(61,518)	–	(33,998)	159,950
Capitalisation of Shareholders' loans	42,078	–	–	–	–	42,078
Share premium arising on issue of placing shares	213,800	–	–	–	–	213,800
Share issue expenses	(22,040)	–	–	–	–	(22,040)
Movements arising from the Reorganisation	–	(100)	–	–	–	(100)
Loss for the period	–	–	–	–	(1,849)	(1,849)
At 31st March, 2002	233,838	255,366	(61,518)	–	(35,847)	391,839
At 1st January, 2003	233,715	255,366	(61,518)	–	(63,939)	363,624
Exchange difference on translation of the financial statements of PRC subsidiaries and jointly controlled entities	–	–	–	1,090	–	1,090
Loss for the period	–	–	–	–	(15,883)	(15,883)
At 31st March, 2003	233,715	255,366	(61,518)	1,090	(79,822)	348,831

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 capitalised as a result of share-for-share exchanges.

Exchange reserves of the Group arise on translation of the financial statements of PRC subsidiaries and jointly controlled entities.

	For the three months ended 31st March	
	2003	2002
	HK$'000	*HK$'000*
Profit/(loss) for the period is retained by:		
– The Company and its subsidiaries	**(16,479)**	(2,784)
– Associates	**133**	253
– Jointly controlled entities	**463**	682
Total	**(15,883)**	(1,849)

Included in the figure for revenue reserves at 31st March, 2003 are reserves of HK$2,549,000 (31st March, 2002: HK$4,643,000) attributable to associates and reserves of HK$9,835,000 (31st March, 2002: HK$9,510,000) attributable to the jointly controlled entities.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31st March, 2003 (31st March, 2002: Nil).

DIRECTORS' INTERESTS IN SECURITIES

(1) Directors' interests in shares

As at 31st March, 2003, 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 director denoted below was granted share options to subscribe for shares in the Company as follows:–

Name of Director	Date of options grant	Number of options outstanding	Options period	Subscription price per share of the Company *HK$*
To Pik Shan, Winnie	14/08/2002	8,538,000	14/08/2002 to 13/08/2012	0.62

Saved as disclosed above, during the three months ended 31st March, 2003, 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

Options to subscribe for an aggregate of 17,128,000 ordinary shares of the Company (which include the options granted to Ms. To Pik Shan, Winnie as disclosed above) were outstanding as at 31st March, 2003, details of which are as follows:–

Number of options outstanding	Subscription price per share of the Company *HK$*	Option period
17,128,000	0.62	14/08/2002 to 13/08/2012

Save as disclosed above, no Share Option under the Share Option Scheme have been granted, exercised, or cancelled during the three months ended 31st March, 2003. An aggregate of 200,000 options lapsed upon the termination of the relevant employee's employment with the Group during the three months ended 31st March, 2003.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, 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 wholly-owned by Verrall Limited.

2. Verrall Limited, is the trustee of a discretionary trust established by Mdm. Chan Tan Ching Fen, the mother of Mr. Gerald Lokchung Chan. None of the 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 31st March, 2003.

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 March, 2003, 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 31st March, 2003, 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 three months ended 31st March, 2003, 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 the management of the Company this unaudited quarterly report for the three months ended 31st March, 2003.

BOARD PRACTICES AND PROCEDURES

During the three months ended 31st March, 2003, 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, 14th May, 2003