

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (the “HKSA”). KPMG’s independent review report to the board of Directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the Stock Exchange, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the financial year ended 31 December 2001, on which auditors have expressed an unqualified opinion in their report dated 8 March 2002, are available from the Company’s registered office.

This interim financial report is prepared on a basis consistent with the accounting policy adopted in the 2001 annual financial statements, except the Group has adopted SSAP 10 “Accounting for investments in associates” and SSAP 30 “Business combination” which became applicable during the period.

The notes on the interim financial 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 financial statements.

2. Segmental information

The Company acts as an investment holding company and the Group is principally engaged in the provision of media sales services and media sales management and administrative services for advertising spaces on the exterior of transit vehicles.

Segment information is presented in respect of the Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group’s internal financial reporting.

The Group comprises the following main business segments:

Media sales services: The provision of audio-video programming through a MMOB system on transit vehicles and the marketing of advertising spaces on the exterior of transit vehicles and transit vehicle shelters.

Media sales management and administrative services: The management and administration of the exterior advertising spaces on transit vehicles.

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period are as follows:

	Group turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Media sales services	104,072	79,268	63,876	50,687
Media sales management and administrative services	8,603	11,089	7,466	9,646
	<u>112,675</u>	<u>90,357</u>	<u>71,342</u>	<u>60,333</u>
Other group income			4,450	4,213
			<u>75,792</u>	<u>64,546</u>

The Group's turnover and operating profit are almost entirely derived from Hong Kong. Accordingly, no analysis by geographical segment is provided.

3. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
	Production cost	5,362
Retirement costs included in staff costs	817	540
Auditors' remuneration	188	168
Operating lease charges	617	636
Provision for doubtful debts	1,200	—
	<u>11,184</u>	<u>6,084</u>

4. Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
	Provision for Hong Kong Profits Tax	9,427
China taxation	1,199	—
	<u>10,626</u>	<u>5,290</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 16% (2001: 16%) on the estimated assessable profits for each period. The provision for China taxation for the period is calculated at the rate of 33% (2001: Nil) on the estimated assessable profits for the period.

Deferred tax has not been provided as timing differences are not likely to reverse in the foreseeable future.

5. Dividend

- (a) Same as in the previous period, the Board does not recommend the payment of an interim dividend for the period ended 30 June 2002 (January to June 2001: HK\$Nil).
- (b) Dividend attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2002	2001
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous year approved and paid during the interim period, of HK3.8 cents per share (2001: HK\$Nil)	37,392	—

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of HK\$60,033,000 for the six months ended 30 June 2002 (2001: HK\$55,730,000) and the weighted average of 983,043,768 ordinary shares (2001: 960,000,000 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of HK\$60,033,000 for the six months ended 30 June 2002 (2001: HK\$55,730,000) and the weighted average of 989,148,921 ordinary shares (2001: 960,790,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares.

7. Fixed assets

	At 30 June 2002			At 31 December 2001		
	<i>(Unaudited)</i>			<i>(Audited)</i>		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Audio and visual equipment	140,519	28,046	112,473	140,149	18,833	121,316
Hardware and software	116	23	93	116	11	105
Furniture and fixtures	661	273	388	383	54	329
Motor vehicles	705	116	589	—	—	—
	142,001	28,458	113,543	140,648	18,898	121,750

During the period, there is a change in accounting estimate in respect of the expected useful lives of certain fixed assets and as a result depreciation of certain fixed assets for the period has been decreased by HK\$4.4 million.

8. Inventories

Included in finished goods are inventories of HK\$1,035,000 (31 December 2001: HK\$931,000), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

All of the inventories are expected to be recovered within one year.

9. Amount due from/(to) ultimate holding company

The amount is unsecured, interest-free, repayable on demand and represent normal trade receivables and payables.

10. Accounts receivable

Details of the aging analysis of accounts receivable are as follows:

	<u>At 30 June 2002</u>	<u>At 31 December 2001</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	19,129	80,045
One to two months	13,026	42,304
Two to three months	12,027	39,836
More than three months	138,848	28,495
	<u>183,030</u>	<u>190,680</u>
Less: Provision for doubtful debts	(8,700)	(7,500)
	<u>174,330</u>	<u>183,180</u>

Customers of the media sales business are generally granted credit terms of 90 days. Customers of the merchandising business either pay cash or are generally granted credit terms of 30-90 days.

11. Cash and cash equivalents

	<u>At 30 June 2002</u>	<u>At 31 December 2001</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits with banks	556,855	557,382
Cash at bank and in hand	22,110	4,964
	<u>578,965</u>	<u>562,346</u>

12. Accounts payable

Details of the aging analysis of accounts payable are as follows:

	<u>At 30 June 2002</u>	<u>At 31 December 2001</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	<u>2,145</u>	<u>2,234</u>

13. Share capital

Issued and fully paid (Ordinary shares of HK\$0.10 each)

	Note	<u>No. of shares</u>	<u>(Unaudited)</u>
			<i>HK\$'000</i>
At 1 January 2002		981,694	98,169
Shares issued in lieu of dividend	(a)	11,322	1,133
Share issued under the Share Option Schemes	(b)	4,309	431
		<u>997,325</u>	<u>99,733</u>
At 30 June 2002		<u>997,325</u>	<u>99,733</u>

- (a) On 28 June 2002, 11,322,332 shares were issued as fully paid new shares in lieu of a final cash dividend for the year ended 31 December 2001, at a value of HK\$2.585 per share. The above fully paid new shares were issued under an optional scrip dividend scheme and HK\$1,132,233 was credited to share capital and the balance of HK\$28,135,995 was credited to the share premium account.
- (b) During the period, options were exercised to subscribe for 4,309,000 shares in the Company at subscription price of HK\$1.8 per share. The net consideration was HK\$7,748,016 of which HK\$430,900 was credited to share capital and the balance of HK\$7,317,116 was credited to the share premium account.

14. Reserves

	(Unaudited)			
	Share premium	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	535,088	(200)	232,144	767,032
Profit attributable to shareholders	—	—	60,033	60,033
Shares issued in lieu of cash dividend	28,136	—	—	28,136
Final dividend in respect of previous year	—	—	(37,392)	(37,392)
Adjustment on allotment of shares to KMB Resources in 2001 (Note c)	(38,789)	—	—	(38,789)
Net premium on shares issued under Share Option Schemes	7,318	—	—	7,318
At 30 June 2002	<u>531,753</u>	<u>(200)</u>	<u>254,785</u>	<u>786,338</u>

- (a) The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda.
- (b) At 30 June 2002, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK\$215,996,000 (31 December 2001: HK\$193,355,000).
- (c) During the year ended 31 December 2001, the Company received HK\$95,000,000 in settlement of HK\$38,789,000 due from the ultimate holding company and for the allotment of 95,000,000 shares of HK\$0.1 each to KMB Resources Limited. At the time of the allotment, HK\$9,500,000 and HK\$85,500,000 were recorded as share capital and share premium respectively. An adjustment has been made in the share premium account in the current period to reflect the net cash proceed of HK\$56,211,000 received for the allotment.

15. Commitments

Capital commitments of the Group outstanding at 30 June 2002 in relation to the purchase of fixed assets and investment not provided for in the interim financial report are as follows:

	At 30 June 2002	At 31 December 2001
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Contracted for	125,000	—
Authorised but not contracted for	<u>173,000</u>	<u>173,000</u>

16. Contingent liabilities

The Group did not have any significant contingent liabilities at 30 June 2002 and 31 December 2001.

17. Material related party transactions

The Group is part of a larger group of companies under The Kowloon Motor Bus Holdings Limited ("KMB") and has significant transactions and relationships with members of the KMB Group. Related parties refer to enterprises over which KMB is able to exercise significant influence.

The Group and the KMB Group entered into a number of agreements under which the Group provides media sales management services to the KMB Group, and the KMB Group grants exclusive rights to the Group to carry out certain businesses.

The principal recurring related party transactions with the KMB Group during the period, which were carried out in the ordinary course of business, are as follows:

	Note	Six months ended 30 June	
		2002	2001
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Management and administration fee income	(a)	8,603	11,089
Licence and royalty fees paid for the right to sell advertising spaces on transit vehicle exteriors and shelters	(b)	3,685	2,490
Rental expenses	(c)	617	636
Profit attributable to minority interests held by the KMB Group	(d)	1,174	908

Notes:

- (a) Fee income was earned for the provision of media sales management and administrative services to the KMB Group.
- (b) Licence and royalty fees were paid for selling advertising spaces on certain transit vehicle exteriors and certain transit vehicle shelters owned by the KMB Group.
- (c) The Group paid rental expense to the KMB Group for leasing properties, computer equipment and software system, furniture and fixtures.
- (d) The amount represents the KMB Group's share of equity interests in equity joint ventures of the Group.

The Directors are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

18. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

19. Post balance sheet event

On 5 September 2002, the Company entered into an agreement with Shun Tak Holdings Limited to form a joint venture company to expand the Group's media sales business in Macau.

20. Ultimate holding company

The Directors consider the ultimate holding company at 30 June 2002 to be The Kowloon Motor Bus Holdings Limited, which is incorporated in Bermuda and listed in Hong Kong.