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

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UNSWERVING COMMITMENT DRIVEN TO EXCEL

First Quarterly Report 2005 第一季度業績報告

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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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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

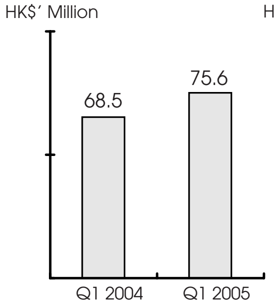
For the first quarter of 2005, the Group's turnover was HK$75.6 million and net profit was HK$2.4 million, increased by 10% and 70% respectively, compared with the same quarter last year.

- Mainland China operations
  - Turnover was HK$59.7 million, increased by 6% compared with the same quarter last year.
  - The Group's share of profit from the two metro joint ventures was HK$7.1 million, an increase of 34% compared with the same quarter last year.
  - Overall, the Group achieved net profit of HK$2.5 million for the first quarter of 2005, increased by 4% compared with the same quarter last year.
- Hong Kong operations
  - Turnover was HK$15.9 million and net profit was 1.6 million, increased by 31% and 121% respectively, compared with the same quarter last year.
- Corporate expenses maintained at HK$1.7 million, and overall the Group's net profit was HK$2.4 million, increased by 70% compared with the same quarter last year.
- The Group was in a healthy financial position with cash and cash equivalents of HK$208.9 million as at 31 March 2005.
- In the first quarter of 2005, the Group established the Donghu MPI joint venture for a term of 10 years to operate the advertising concession of Shanghai Metro Line 4 which is expected to be operational by the end of 2005.

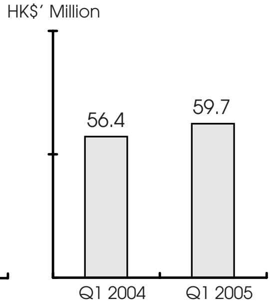
Financial Highlights

Turnover

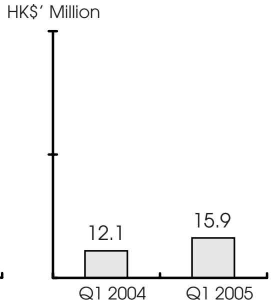
Group Total



Mainland China

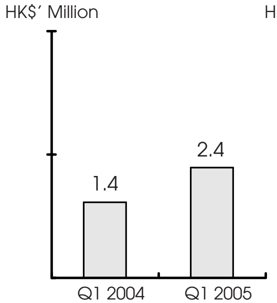


Hong Kong

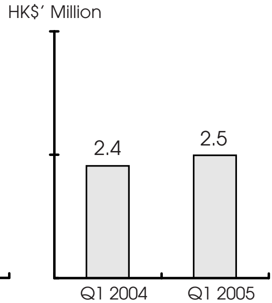


Net Profit

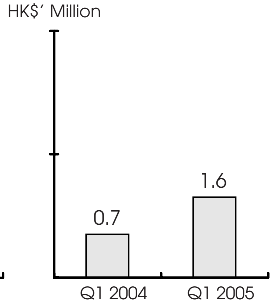
Group Total*



Mainland China

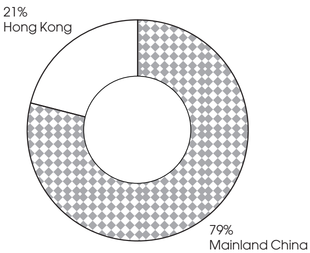


Hong Kong



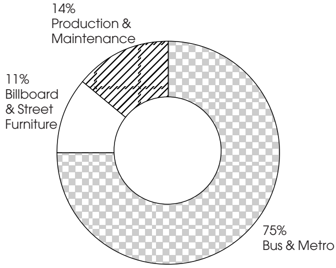
* The Group's net profit includes net profit generated from Mainland China and Hong Kong operations and after deduction of the corporate expenses

Turnover for Q1 2005



Focus on Mainland China

Mainland China Combined Turnover for Q1 2005



Focus on Transport Sector

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

	For the three months ended 31 March 2005			
	Mainland China	Hong Kong	Corporate	Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	59,665	15,899	–	75,564
Profit/(loss) attributable to shareholders	2,519	1,603	(1,722)	2,400

	For the three months ended 31 March 2004			
	Mainland China	Hong Kong	Corporate	Group Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	56,407	12,095	–	68,502
Profit/(loss) attributable to shareholders	2,421	726	(1,732)	1,415

For the first quarter of 2005, the Group's turnover was HK$75.6 million (first quarter of 2004: HK$68.5 million) representing an increase of 10% compared with the same quarter last year. The Group recorded a loss from operations for the first quarter of 2005 of HK$0.2 million compared with a profit of HK$2.8 million for the same quarter last year. The principal reason for the Group's decline in operating results was the negative contribution from the Group's bus media in Shanghai which is relatively new and the increase in revenue therefrom during the first quarter of 2005 did not match the increase in the related site rental costs. However, the Group has managed to reduce its finance costs by HK$0.8 million for the first quarter of 2005, representing a decrease of 21% compared with the same quarter last year. The Group's share of profit before tax of its metro joint ventures for the first quarter of 2005 increased to HK$7.1 million, representing an increase of 34% compared with the same quarter last year. The Group's net profit from its Mainland China operations overall increased to HK$2.5 million for the first quarter of 2005. The Group's Hong Kong operations continued to improve and its net profit increased to HK$1.6 million for the first quarter of 2005. Taking into account the above factors and corporate expenses of HK$1.7 million, which were maintained at a similar level as the same quarter last year, the Group's net profit attributable to shareholders for the first quarter of 2005 was HK$2.4 million, representing an increase of 70% compared with the same quarter last year.

The first quarter is traditionally a slack period for the outdoor advertising market. In 2004, the Group's net profit for the first quarter accounted for only about 7% of the full year net profit.

The Mainland China market continued to be the focus of the Group and 79% of the Group's turnover in the first quarter of 2005 was generated from its Mainland China operations and 21% was generated from its Hong Kong operations. In Mainland China, the Group continued its focus on bus and metro advertising media. In Hong Kong, the Group's focus is on billboard advertising media.

Turnover

The Group's turnover for the first quarter of 2005 amounted to HK$75.6 million, representing an increase of 10% compared with the first quarter of 2004. Turnover from the Mainland China operations amounted to HK$59.7 million and turnover from the Hong Kong operations amounted to HK$15.9 million, representing an increase of 6% and 31% respectively compared with the first quarter of 2004.

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), for the first quarter of 2005 amounted to HK$146.1 million, representing an increase of 8% compared with the same quarter last year.

Operating expenses

Site rentals, being the single largest component of the Group's operating expenses, amounted to HK$33.4 million, of which two thirds was for the Mainland China operations and one third was for the Hong Kong operations, representing an increase of HK$10.5 million. Compared with the first quarter of 2004, site rentals for the Mainland China operations increased by HK$8.3 million to HK$22.6 million. Such increase was mainly due to the increase in number of bus bodies in Shanghai. Site rentals for the Hong Kong operations increased by HK$2.2 million to HK$10.7 million. Such increase was mainly due to the increase in variable site rentals for media, such as the Airport Express Line.

Other direct costs are mainly variable costs and comprise media buying, business tax and production costs. Other direct costs for the first quarter of 2005 were HK$20.4 million, a similar level to that for the first quarter of 2004. As a percentage of turnover, other direct costs were 27% of turnover for the first quarter of 2005 which was lower than the 30% for the first quarter of 2004.

Staff costs, including directors' fees, of the Group for the first quarter of 2005 amounted to HK$8.0 million, representing an increase of 7% compared with the same quarter last year. The increase comprises pay rises of 7% and 3% in Mainland China and Hong Kong respectively and an addition of 20 employees.

The total number of employees at 31 March 2005 was 296 (31 March 2004: 276), of which 277 (31 March 2004: 255) were in Mainland China and 19 (31 March 2004: 21) were in Hong Kong. Staff costs were approximately 11% of turnover (first quarter of 2004: 11%).

Depreciation and amortisation for the first quarter of 2005 totalled HK$10.8 million, maintained at the same level as the first quarter of 2004.

Other operating expenses of the Group for the first quarter of 2005 amounted to HK$7.2 million, maintained at the same level as the first quarter of 2004. Other operating expenses were 10% of turnover for the first quarter of 2005 (first quarter of 2004: 11%).

Finance costs

Finance costs for the first quarter of 2005 amounted to HK$2.9 million, representing a decrease of HK$0.8 million compared with the same quarter last year. Finance costs comprised interest costs of HK$2.5 million in respect of bank loans and HK$0.4 million in respect of a convertible bond.

As a result of a reduction of bank loans as compared with the first quarter last year, bank loan interest decreased by HK$0.7 million compared with the first quarter last year.

A new convertible bond was issued to the major shareholder on 31 December 2004 to replace the existing convertible bond. The new convertible bond is for a term of three years at zero coupon with a conversion price of HK$0.5 per ordinary share. A redemption premium of 3% of the principal amount shall be payable if the bond is repaid on 31 December 2007.

Finance costs for the new convertible bond for the first quarter of 2005 were calculated according to the newly issued accounting standards (Hong Kong Accounting Standard No.32 and No.39) which became effective from 1 January 2005. By applying the new accounting standards, the finance cost relating to the new convertible bond for the first quarter of 2005 was approximately HK$0.2 million higher than that would have been calculated under the previous accounting principles adopted by the Group.

Profit attributable to shareholders

The profit attributable to shareholders for the first quarter of 2005 amounted to HK$2.4 million, representing an increase of 70% compared with the net profit of HK$1.4 million for the first quarter of 2004. The net profit would have been HK$2.6 million if the finance costs for the new convertible bond had been calculated under the previous accounting principles adopted by the Group.

Segment Analysis

Mainland China operations

The Group's Mainland China operations generated a net profit of HK$2.5 million, representing an increase of 4% compared with the first quarter of 2004. In the first quarter of 2005, the Group achieved improvement in returns from its bus media (other than in Shanghai) and from its metro media. However, these improvements were off-set by a decline in returns from bus media in Shanghai and an increase in the overheads. The returns from the Shanghai bus media declined because these media are relatively new and the increase in revenue was less than the increase in site rental costs.

Bus advertising

Turnover from the Mainland China operations for the first quarter of 2005 was HK$59.7 million, representing an increase of 6% compared with the same quarter last year.

The gross profit from the Mainland China operations for the first quarter of 2005 was HK$10.7 million, a decrease of HK$3.6 million compared with the first quarter of 2004 and the gross margin decreased to 18% compared with 25% in the first quarter of 2004. Such decrease was principally due to the negative contribution from bus media in Shanghai which is relatively new and the increase in revenue therefrom during the first quarter of 2005 did not match the increase in the related site rental costs.

Metro advertising

Turnover from the two metro joint ventures for the first quarter of 2005 amounted to HK$36.0 million, maintained at the same level as the first quarter of 2004. In the first quarter of 2005, turnover from the Shanghai metro, from which the Group shared a majority of its results, continued to improve. However, the turnover from the Guangzhou metro, from which the Group shared a minority of its results, declined partly due to the expiry of an exclusive agency contract for Guangzhou Line 2. The Group's share of profit from the two metro joint ventures for the first quarter of 2005 amounted to HK$7.1 million, an increase of 34% compared with the same quarter last year.

Operating expenses

Staff costs for the Mainland China operations for the first quarter of 2005 amounted to HK$6.7 million, representing an increase of 14% compared with HK$5.9 million for the first quarter of 2004. The increase was due to an average of 7% salary increment and an increase in number of employees from 255 at 31 March 2004 to 277 at 31 March 2005. Staff costs were 11% of turnover (the first quarter of 2004: 10%).

Other operating expenses for the first quarter of 2005 amounted to HK$5.9 million, maintained at a similar level as the first quarter of 2004. Other operating expenses were 10% of turnover (the first quarter of 2004: 11%).

Profit attributable to shareholders

The profit attributable to shareholders for the Mainland China operations was HK$2.5 million for the first quarter of 2005, representing an increase of 4% compared with the same quarter last year.

Hong Kong operations

The continued growth of the tourism industry and the rebound of property prices have helped to boost advertising spending. Benefiting from the economic recovery, the Group's turnover from its Hong Kong operations increased by 31% to HK$15.9 million compared with the first quarter of 2004.

Staff costs, depreciation and other operating expenses for the first quarter of 2005 amounted to HK$1.4 million, representing a decrease of 19% compared with the first quarter of 2004. The decrease was mainly due to a decrease in staff costs. Despite an average salary increment of 3% in the first quarter of 2005, total staff cost decreased compared with the same quarter last year due to a further decrease in the number of employees.

As a result of the improvement in revenue and further cost reductions, the Hong Kong operations, including the Group's share of results of POAD, achieved a profit attributable to shareholders of HK$1.6 million in the first quarter of 2005, double that for the first quarter of 2004.

Outlook

In 2005, for the bus advertising business, the Group will focus its resources in marketing its relatively new bus media in Shanghai.

For the metro advertising business, whilst continuing its efforts to increase revenue generated from the existing metro media, the Group will expand its metro network with the addition of the Nanjing Metro and the Shanghai Metro Line 4 advertising concessions, both of which are expected to commence operations by the end of this year.

Metro advertising media has been proven to be an effective advertising channel and one of the more appealing outdoor advertising media to advertisers. The Group will continue to evaluate and secure further exclusive advertising rights in metro media in major cities as and when such opportunities arise from time to time, provided they create synergies with the Group's existing metro media and meet the Group's prevailing investment criteria.

Liquidity and Financial Position

The Group continues to be in a healthy financial position. Cash and bank balances at 31 March 2005 amounted to HK$208.9 million. Pledged deposits with banks for banking facilities made available to the Group as at 31 March 2005 amounted to HK$122.8 million. As at 31 March 2005, the Group had bank loans of HK$219.5 million, a term loan of HK$6.6 million from the major shareholder and a convertible bond of HK$83.0 million (the liability component) issued to the major shareholder. At 31 March 2005, the Group's net cash balance being cash and cash equivalents plus pledged bank deposits less bank loans amounted to HK$112.2 million.

As at 31 March 2005, the current ratio was 141% with HK$504.4 million of current assets against HK$357.0 million of current liabilities. The consolidated net asset value (after deducting minority interests) of the Group as at 31 March 2005 was HK$453.3 million or HK$0.53 per share.

The Group expects that internal reserves and cash flows from future operating activities and its available banking facilities will be sufficient to cover its future business operations.

The debt maturity profile of the Group as at 31 March 2005 is analysed as follows:

Type of debt	**Debt maturity**	*HK$ Million*	*%*
Short term bank loans	Repayable within 1 year	219.5	71
A term loan from the major shareholder	Repayable within 1 year	6.6	2
Convertible Bond – liability component	Repayable after 1 year but within 3 years	83.0	27
Total		309.1	100

Out of the total borrowings of HK$309.1 million, HK$169.5 million was denominated in Renminbi, HK$6.6 million was denominated in United States dollars and HK$133.0 million was denominated in Hong Kong dollars. Bank loans of HK$219.5 million as at 31 March 2005, were secured by cash deposits of HK$120.4 million. Interest rates for bank borrowings denominated in Hong Kong dollars were at 0.75% over the bank's funding rate. The interest rate for the term loan from the major shareholder denominated in United States dollars was at 1% over the three-month London Interbank Offered Rate and interest rates for bank borrowings denominated in Renminbi ranged from 90% to 105% of the lending rate of the People's Bank of China.

The Company issued a convertible bond to the major shareholder of the Company on 31 December 2004 with a term of three years to 31 December 2007 at zero coupon rate. The Company shall repay, unless previously converted or repaid, the outstanding principal amount under the convertible bond plus a redemption premium of 3% of the principal amount on 31 December 2007.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial condition of its customers. To manage liquidity risk, the Finance Committee closely monitors the Group's liquidity position to ensure the liquidity structure of the Group's assets, liabilities and commitments and to ensure that the Group can meet its funding requirements.

The Group's assets, liabilities, revenues and expenses are mainly denominated in Hong Kong dollars, United States dollars and Renminbi. The exchange rate between Hong Kong dollars and United States dollars is pegged and the exchange rate between Renminbi and Hong Kong dollars has been steady in the past few years. During the period ended 31 March 2005, the 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 and joint ventures operate. The Group does not currently engage in hedging to manage possible exchange risk as the Group considers the cost associated with such hedging arrangements would exceed the benefits. However, the management will continue to monitor the relevant circumstances and will take such measures as it deems prudent.

The average outstanding days of the Group's accounts receivable was maintained at below 60 days.

Contingent Liabilities

At 31 March 2005, the Group had contingent liabilities totalling HK$13.3 million (31 December 2004: HK$13.3 million) in respect of bank guarantees given to independent third parties in the ordinary course of business to ensure the due performance and observance of the obligations of a subsidiary and a jointly controlled entity to certain agreements.

At 31 March 2005, corporate guarantees given by the Company to banks to secure banking facilities made available to certain subsidiaries amounted to HK$289.3 million (31 December 2004: HK$229.3 million).

Employee Information

At 31 March 2005, the Group had a total of 296 (31 March 2004: 276) employees, of which 277 (31 March 2004: 255) were located in Mainland China and 19 (31 March 2004: 21) in Hong Kong. Total salaries and related costs incurred in the first quarter of 2005, including directors' emoluments, amounted to HK$8.0 million (the first quarter of 2004: HK$7.4 million).

The salary and benefit levels of the Group's employees are kept at a market competitive level and employees are rewarded on a performance related basis. Staff benefits, including medical coverage and provident funds are also provided to employees. In addition, training and development programmes are provided on an ongoing basis. Social, sporting and recreational activities were arranged during the year for employees.

The Group has adopted a share option scheme whereby selected employees of the Group may be granted share options to subscribe for shares of the Company for the purpose of recognising the contribution made by such employees and retaining the services of the employees who will continue to make a valuable contribution to the Group.

Significant Investments and Acquisitions

On 17 January 2005, the Group established a co-operative joint venture namely 上海東湖伯樂廣告有限公司 ("Donghu MPI"), with 上海東湖廣告裝飾有限公司, an independent company, for a term of 10 years. Donghu MPI's total investment is US$1.7 million and the registered capital is US$1.2 million. In February 2005, the Group injected capital of US$0.84 million, being 70% of the registered capital of Donghu MPI. The Group is entitled to 70% of Donghu MPI's profit throughout the joint venture period. Donghu MPI will operate the advertising concession of Shanghai Metro Line 4 which is expected to be operational by the end of 2005.

QUARTERLY RESULTS FOR THE PERIOD ENDED 31 MARCH 2005 – 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 31 March 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2005 – UNAUDITED

		For the three months ended 31 March	
		2005	2004
	Note	***HK$'000***	*HK$'000*
Operating revenue			
Turnover	*2*	**75,564**	68,502
Other revenue		**3,951**	3,123
Operating expenses			
Site rental		**(33,360)**	(22,831)
Other direct costs		**(20,357)**	(20,561)
Staff costs		**(7,970)**	(7,418)
Depreciation and amortisation		**(10,804)**	(10,744)
Other operating expenses		**(7,202)**	(7,236)
(Loss)/profit from operations		**(178)**	2,835
Finance costs		**(2,912)**	(3,664)
Share of profits less losses of associates		**1,364**	1,322
Share of profits less losses of jointly controlled entities		**7,115**	5,158
Profit before tax		**5,389**	5,651
Taxation	*3*	**(2,684)**	(3,754)
Profit for the period		**2,705**	1,897
Attributable to:			
Shareholders		**2,400**	1,415
Minority interests		**305**	482
		2,705	1,897
Earnings per share– Basic	*4*	**0.28 cents**	0.17 cents
Earnings per share– Diluted	*4*	**0.27 cents**	N/A

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS – UNAUDITED:

1. Principal accounting policies and basis of presentation

The consolidated profit and loss account for the three months ended 31 March 2005 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 Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

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 31 December 2004 except for the changes in accounting policies upon adoption of the new HKFRSs as described below.

(i) HKFRS 3 "Business combinations"

In prior years, positive goodwill was capitalised and amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life which did not exceed 20 years.

Following the adoption of HKFRS 3, the Group has ceased annual amortisation of positive goodwill which is now tested for impairment on an annual basis. Positive goodwill previously recognised as a deduction from equity will not be recognised in the consolidated profit and loss account when all or part of the business to which the positive goodwill relates is disposed of or when a cash-generating unit to which the positive goodwill relates becomes impaired. No retrospective adjustments have been made in respect of previously recognised positive goodwill.

The carrying amount of negative goodwill as at 1 January 2005 which had been previously credited to other capital reserves, has been transferred to retained earnings as the transitional provisions of HKFRS 3 require that previously recognised negative goodwill be derecognised upon adoption of HKFRS 3. As a result, the Group's opening retained earnings as at 1 January 2005 increased by HK$12,527,000 and the Group's opening other capital reserves as at 1 January 2005 decreased by the same amount.

The adoption of HKFRS3 has increased the Group's profit for the three months ended 31 March 2005 by HK$80,000 as positive goodwill is no longer amortised.

(ii) *HKAS 32 "Financial instruments: disclosure and presentation"*
HKAS 39 "Financial instruments: recognition and measurement"

In prior years, the convertible bond issued by the Company was stated at cost and interest on the convertible bond was charged to the consolidated profit and loss account on an accruals basis.

Following the adoption of HKAS 32 and HKAS 39, convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments with both a liability and an equity component.

- The liability component of a convertible bond is calculated as the present value of the future interest and principal payments, discounted at a market rate of interest applicable to similar liabilities that do not have a conversion option. The liability component is stated net of unamortised transaction costs and unamortised discounts on issue, if any.

- The equity component is calculated as the excess of the issue proceeds over the liability component.

- Transaction costs incurred on issuance of convertible bonds are allocated to the component parts in proportion to the allocation of proceeds.

- If the convertible bond is converted, the liability component, the accrued interest together with the equity component would constitute the consideration for the shares which are issued.

The adoption of HKAS 32 and HKAS 39 has decreased the Group's profit for the three months ended 31 March 2005 by HK$195,000 (2004: $Nil) and decreased the net assets of the Group by HK$2,238,000 (31 December 2004: HK$2,433,000).

(iii) *HKFRS 2 "Share-based payment"*

In prior years, when the Group granted options at nominal consideration to employees to acquire shares in the Company, no employee benefit cost or obligation was recognised at the date of grant. When such options were exercised, shareholders' equity was increased by the amount of the proceeds received.

HKFRS 2 requires recognition at fair value of all goods and services received, including employee services, where payment is made in the form of shares or options as well as cash-settled share-based payments.

The Directors consider that the share options granted to certain employees of the Group represent share-based payments. However as no options have been granted since 7 November 2002, the provisions of HKFRS 2 are not applicable to the Group's outstanding options.

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 31 March	
	2005	2004
	HK$'000	*HK$'000*
PRC taxation	**1,014**	1,442
Share of taxation of jointly controlled entities	**1,409**	2,063
Share of taxation of associates	**261**	249
	2,684	3,754

The provision for Hong Kong profits tax has been calculated separately at 17.5% (2004: 17.5%) of the estimated assessable profits for the three months ended 31 March 2005 of each subsidiary and associate of the Group with operations subject to Hong Kong profits tax.

No provision for Hong Kong profits tax has been made as the subsidiaries with operations in Hong Kong have tax losses brought forward from previous years which exceeded the estimated assessable profits for the three months ended 31 March 2005.

Taxation for subsidiaries and jointly controlled entities operating in the People's Republic of China ("the PRC"), except noted hereinafter, is calculated at 33% (2004: 33%) of the estimated assessable profits of these entities for the three months ended 31 March 2005.

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 Foreign Enterprises Income Tax from 33% to 31.5% for the three years from the year ended 31 December 2003.

4. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$2,400,000 (31 March 2004: HK$1,415,000) and the weighted average of 853,800,000 ordinary shares (31 March 2004: 853,800,000) outstanding.

Diluted earnings per share

The calculation of diluted earnings per share for the period ended 31 March 2005 is based on the adjusted profit attributable to shareholders of HK$2,807,000, after adding back the finance costs of the convertible bond, and the weighted average of 1,023,800,000 ordinary shares, after adjusting for the effects of all dilutive potential ordinary shares, as if the convertible bond had been converted into ordinary shares at the date of issuance.

No diluted earnings per share for the period ended 31 March 2004 has been presented, as there were no dilutive potential ordinary shares during that period.

5. Reserves

	Share premium HK$'000	Merger reserves HK$'000	Other capital reserves HK$'000	Option reserves HK$'000	Exchange reserves HK$'000	Revenue reserves HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004	233,715	255,366	(61,518)	–	1,064	(85,713)	342,914	20,992	363,906
Movement during the period							–	(1,115)	(1,115)
Profit for the period						1,415	1,415	482	1,897
At 31 March 2004	233,715	255,366	(61,518)	–	1,064	(84,298)	344,329	20,359	364,688
At 1 January 2005									
– as previously reported	233,715	255,366	(61,518)	–	1,007	(65,478)	363,092	25,229	388,321
– prior period adjustment in respect of convertible bond				2,433			2,433		2,433
– transfer to revenue reserves from other capital reserves in respect of negative goodwill			(12,527)			12,527	–		–
– as restated	233,715	255,366	(74,045)	2,433	1,007	(52,951)	365,525	25,229	390,754
Movement during the period							–	3,427	3,427
Dividends paid to minority interests by a subsidiary							–	(2,489)	(2,489)
Profit for the period						2,400	2,400	305	2,705
At 31 March 2005	233,715	255,366	(74,045)	2,433	1,007	(50,551)	367,925	26,472	394,397

Other capital reserves represent the excess 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.

	For the three months ended 31 March	
	2005	2004
	HK$'000	*HK$'000*
Profit/(loss) for the period attributable to shareholders is retained by:		
– The Company and its subsidiaries	**(4,409)**	(2,753)
– Associates	**1,103**	1,073
– Jointly controlled entities	**5,706**	3,095
Total	**2,400**	1,415

Included in the figure for revenue reserves at 31 March 2005 are reserves of HK$10,098,000 (31 December 2004: HK$8,995,000) attributable to associates and reserves of HK$21,897,000 (31 December 2004: HK$16,191,000) attributable to the jointly controlled entities.

DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2005 (31 March 2004: Nil).

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2005, the interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:–

(1) Long positions in the shares of the Company

		Number of ordinary shares					
Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Others interests	Total	Approximate percentage of shares in issue
Winnie Pik Shan To	Beneficial owner	12,800,000	–	–	–	12,800,000	1.5%

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

The interests in the underlying shares of the Company arise from unlisted share options (physically settled equity derivatives) granted to the Directors of the Company under the Company's Share Option Scheme, details of which are as follows:–

Name of Director	Date of grant	Subscription price per share	Aggregate long position in underlying shares of the Company	Approximate percentage of shares in issue
Winnie Pik Shan To	14 Aug 2002	HK$0.62	8,538,000 *(Notes)*	1%

Notes:

1. The above interest constitutes a long position of the Director in a physically settled equity derivative for the purposes of the SFO.

2. As at 1 January 2005 (being the beginning of the Company's current financial year) and 31 March 2005 (being the most recent period end), the outstanding options held by Ms. Winnie Pik Shan To under the Company's Share Option Scheme represented options to subscribe for 8,538,000 shares in the Company. These options were granted on 14 August 2002 and, subject to the terms of the Company's Share Option Scheme, vest over four years and may be exercised from 14 August 2003 to 13 August 2012 at an exercise price of HK$0.62 per share.

(3) Aggregate long position in the shares and underlying shares of the Company

Name of Director	Aggregate number in shares	Aggregate number in underlying shares	Total	Percentage of shares in issue
Winnie Pik Shan To	12,800,000	8,538,000	21,338,000	2.5%

Save as disclosed herein and as at 31 March 2005, none of the Directors or Chief Executive or their respective associates of the Company had any other interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 or Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO) or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, so far as is known to any Director or Chief Executive of the Company, the following persons (other than a Director or Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and set out below are details of the amount of each such person's interest in such securities:–

Name	Types of interests held	Approximate percentage of shares in issue as at 31 March 2005
Morningside CyberVentures Holdings Limited ("MSCV") *(note a)*	1. 626,550,000 shares in the Company;	73.38%
	2. HK$85,000,000 convertible bond exercisable at HK$0.50 per share. When fully converted, a total of 170,000,000 shares in the Company will be issued.	19.91%
Verrall Limited via MSCV *(note b)*	same as MSCV	same as MSCV
Mdm Chan Tan Ching Fen *(note c)*	same as MSCV	same as MSCV

All of the above interests of MSCV, Verrall Limited and Mdm Chan Tan Ching Fen constitute long positions under the SFO. The abovementioned convertible bond represents an interest in physically settled equity derivatives.

Notes:

(a) MSCV is wholly-owned by Verrall Limited.

(b) Verrall Limited, is the trustee of a discretionary trust established by Mdm Chan Tan Ching Fen, the mother of Gerald Lokchung Chan. None of the discretionary objects of this trust are Directors nor are they otherwise involved in the management of the Group.

(c) Mdm Chan Tan Ching Fen is interested in the shares of the Company in her capacity as founder of the trust (as that term is defined in the SFO) referred to in note (b) above.

Save as disclosed above and as at 31 March 2005, so far as is known to any Director or Chief Executive of the Company, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEME

Options to subscribe for an aggregate of 15,448,000 ordinary shares of the Company (which include the options granted to Ms. Winnie Pik Shan To as disclosed above) were outstanding as at 31 March 2005, details of which are as follows:–

No. of options outstanding	Subscription price per share of the Company	Option period
15,448,000	HK$0.62	14/08/2002 to 13/08/2012

Save as disclosed above, no share options under the Share Option Scheme had been granted, exercised, cancelled or lapsed during the three months ended 31 March 2005.

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.

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 31 March 2005, 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 7 January 2002 which has written terms of reference in compliance with the relevant 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 the financial reporting and internal control procedures of the Group. The audit committee has three members comprising three independent non-executive directors, Mr. Philip Tit Hon Hung, Mr. Meocre Kwok Wing Li, and Mr. Paul Laurence Saffo.

The audit committee has reviewed with the management this unaudited quarterly report for the period ended 31 March 2005.

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

Hong Kong, 12 May 2005