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

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UNSWERVING COMMITMENT
DRIVEN TO EXCEL

Interim Report 2005 中期業績報告

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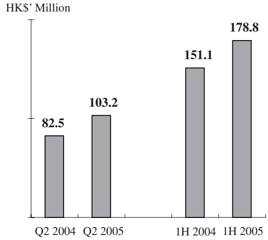
This report, for which the directors (the "Directors") of Media Partners International Holdings Inc. ("MPI" or the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise 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.

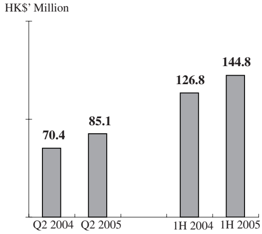
FINANCIAL HIGHLIGHTS

Turnover

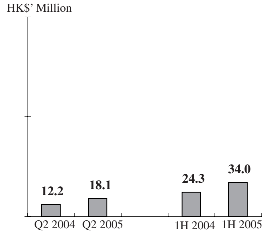
Group Total



Mainland China

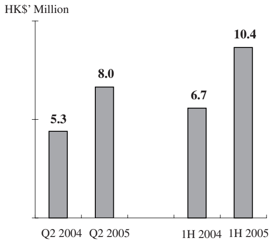


Hong Kong

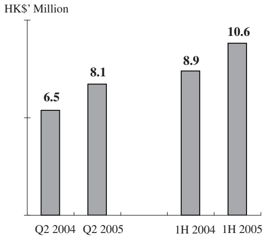


Net Profit

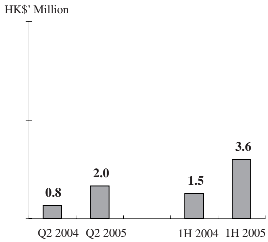
Group Total*



Mainland China

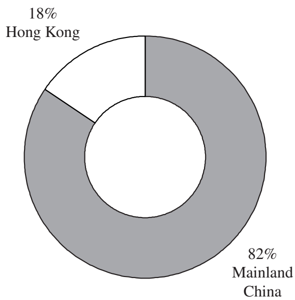


Hong Kong



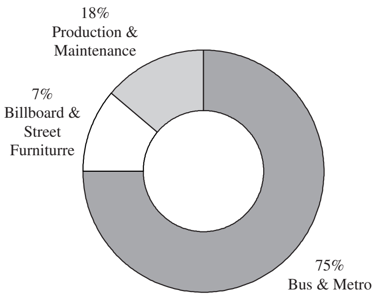
* The Group's net profit includes net profit generated from Mainland China and Hong Kong operations and after deduction of the corporate expenses.

Turnover for Q2 2005



Focus on Mainland China

Mainland China Combined Turnover for Q2 2005



Focus on Transport Sector

HIGHLIGHTS ON SECOND QUARTER RESULTS

The Group's turnover amounted to HK$103.2 million, increased by 37% compared with the last quarter and increased by 25% compared with the same quarter last year. Net profit was HK$8.0 million, a more than three-fold increase compared with the last quarter and increased by 51% compared with the same quarter last year.

- Mainland China operations
  - Turnover was HK$85.1 million, increased by 43% compared with the last quarter and increased by 21% compared with the same quarter last year.
  - Share of profit from the two metro joint ventures was HK$12.9 million, increased by 81% compared with the last quarter and increased by 30% compared with the same quarter last year.
  - Net profit was HK$8.1 million, a more than three-fold increase compared with the last quarter and increased by 25% compared with the same quarter last year.
- Hong Kong operations
  - Turnover was HK$18.1 million, increased by 14% compared with the last quarter and increased by 49% compared with the same quarter last year.
  - Net profit was HK$2.0 million, increased by 24% compared the last quarter and more than double that for the same quarter last year.
- The Group was in a healthy financial position with cash and cash equivalents of HK$211.5 million as at 30 June 2005.
- The Group established Nanjing Metro Joint Venture for a term of 18 years to operate the advertising concession of Nanjing Metro.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

	For the three months ended		
	30-Jun-05	31-Mar-05	30-Jun-04
	HK$'000	*HK$'000*	*HK$'000*
Mainland China			
Turnover	**85,102**	59,665	70,370
Adjusted EBITDA[1]	**31,580**	19,264	27,728
Profit attributable to equity holders of the company	**8,065**	2,519	6,456
Hong Kong			
Turnover	**18,098**	15,899	12,179
Adjusted EBITDA[1]	**2,721**	2,304	1,477
Profit attributable to equity holders of the company	**1,990**	1,603	802
Corporate			
Turnover	**–**	–	–
Adjusted EBITDA[1]	**(1,211)**	(1,136)	(1,454)
Loss attributable to equity holders of the company	**(2,076)**	(1,722)	(1,983)
Total			
Turnover	**103,200**	75,564	82,549
Adjusted EBITDA[1]	**33,090**	20,432	27,751
Profit attributable to equity holders of the company	**7,979**	2,400	5,275

Notes:

1. Adjusted EBITDA is defined as earnings before interest expenses, tax, depreciation and amortisation, minority interests and including the Group's share of EBITDA of jointly controlled entities and associates.

COMMENTARY ON SECOND QUARTER RESULTS

Turnover

The Group's turnover for the second quarter of 2005 amounted to HK$103.2 million, representing an increase of 37% compared with the first quarter of 2005 and 25% compared with the second quarter of 2004.

Combined turnover, including the turnover of the jointly controlled entities and an associate, was HK$204.5 million; an increase of 40% compared with the first quarter of 2005 and 21% compared with the second quarter of 2004. The increase in turnover over the first quarter of 2005 was partly a result of the seasonality of the Group's business whereby the turnover generated in the first quarter of each year is traditionally lower than in the other quarters.

The Mainland China operations continued to be the focus of the Group. Turnover from the Mainland China operations accounted for 82% of the Group's turnover.

Gross profit

Gross profit, being turnover less site rentals, amortisation of advertising rights and other direct costs, amounted to HK$19.1 million, representing a growth of 52% compared with the first quarter of 2005. The gross margin improved by 2 percentage points to 19% from 17% in the first quarter of 2005 mainly as a result of overall revenue growth. The Shanghai bus media turned around to a profit in the second quarter of 2005 from a loss in the first quarter of 2005.

Operating expenses

Site rentals, being the single largest component of the Group's operating expenses, amounted to HK$37.8 million, an increase of HK$11.7 million compared with the second quarter of 2004. The increase of HK$9.1 million for the Mainland China operations reflected the full charge for the additional Shanghai bus media this year. The increase of HK$2.6 million for Hong Kong operations was mainly due to the increase in variable site rentals for media, such as the Airport Express Line, in line with revenue growth.

Other direct costs are mainly variable costs and are made up of media buying, business tax and production costs. Other direct costs for the second quarter of 2005 were HK$36.9 million (second quarter of 2004: HK$28.2 million). The increase was basically in line with the revenue growth. The percentage to turnover was 36% (second quarter of 2004: 34%).

Staff costs, including directors' fees, amounted to HK$8.9 million, an increase of 5% compared with the second quarter of 2004. The increase was mainly due to salary increments in 2005.

The total number of employees at 30 June 2005 was 313 (30 June 2004: 289), of which 294 (30 June 2004: 268) were in Mainland China and 19 (30 June 2004: 21) were in Hong Kong. The additional employees recruited in Mainland China were mainly for the two newly established metro advertising joint ventures set up to manage advertising on Shanghai Metro Line 4 and the Nanjing Metro. Staff costs, for the second quarter of 2005, were approximately 9% of turnover (the second quarter of 2004: 10%).

Depreciation and amortisation amounted to HK$10.7 million, maintained at the same level as the second quarter of 2004.

Other operating expenses were HK$7.1 million, a decrease of 6% compared with the second quarter of 2004. As a percentage of turnover, other operating expenses reduced from 9% to 7% correspondingly.

Finance costs

Finance costs for the second quarter of 2005 decreased by 16% compared with the second quarter of 2004, to HK$3.3 million. The decrease was mainly due to a reduction in bank loans.

Profit attributable to equity holders of the Company

The net profit for the second quarter of 2005 amounted to approximately HK$8.0 million, representing a more than three-fold increase compared with the first quarter of 2005 and an increase of 51% compared with the second quarter of 2004. Adjusted EBITDA of the Group for the second quarter of 2005 was HK$33.1 million, representing an increase of 62% and 19% compared with the first quarter of 2005 and the second quarter of 2004 respectively.

SEGMENT ANALYSIS

Mainland China operations

Turnover from the Mainland China operations for the second quarter of 2005 was HK$85.1 million, an increase of 43% compared with the first quarter of 2005 and 21% compared with the second quarter of 2004.

Combined turnover, including the turnover of the two metro joint ventures and the production joint venture, was HK$153.5 million, representing an increase of 53% compared with the first quarter of 2005 and 21% compared with the second quarter of 2004. The Group continued its focus on the transport advertising media, which accounted for 75% of combined turnover of the Mainland China operations in the second quarter of 2005 (second quarter of 2004: 74%).

Bus advertising

Turnover from bus advertising and related production was HK$66.7 million for the second quarter of 2005, representing an increase of 44% compared with the first quarter of 2005 and 20% compared with the second quarter of 2004.

The Group's gross profit, mainly from the bus advertising business, was HK$16.7 million, an increase of 57% compared with the first quarter of 2005. Correspondingly, the gross margin improved to 20% in the second quarter of 2005 from the 18% in the first quarter of 2005. This increase was a result of the overall improvement in turnover.

Although the Shanghai bus media turned from a loss in the first quarter of 2005 to a profit in the second quarter of 2005, its lower profitability diluted the gross margin of the overall bus advertising business. Excluding the Shanghai bus media, the gross margin for the second quarter of 2005 would have been 25%, maintained at the same level as the second quarter of 2004.

Metro advertising

Turnover from the two metro joint ventures amounted to HK$58.9 million for the second quarter of 2005, representing an increase of 63% compared with the first quarter of 2005 and 22% compared with the second quarter of 2004.

The Group's share of profits from these two metro joint ventures was HK$12.9 million, representing an increase of 81% compared with the first quarter of 2005 and 30% compared with the second quarter of 2004.

Profit attributable to equity holders of the Company

The net profit from the Mainland China operations for the second quarter was HK$8.1 million, representing more than three-fold growth compared with the first quarter of 2005 and an increase of 25% compared with the second quarter of 2004. Adjusted EBITDA for the second quarter of 2005 was HK$31.6 million, representing an increase of 64% compared with the first quarter of 2005 and 14% compared with the second quarter of 2004.

Hong Kong operations

Turnover and gross profit from the Hong Kong operations for the second quarter of 2005 amounted to HK$18.1 million and HK$2.4 million respectively, representing increases of 14% and 28% respectively compared with the first quarter of 2005. Compared to the second quarter of 2004, turnover and gross profit increased by 49% and 81% respectively. The gross margin of the Hong Kong operations for the second quarter was 13% (second quarter of 2004: 11%). The Hong Kong operations achieved continued improvement, in particular, in respect of the media revenue from the Airport Express Line.

Staff costs and other operating expenses amounted to HK$1.6 million for the second quarter of 2005, an increase of HK$0.3 million compared with the first quarter of 2005 and at about the same level as the second quarter of 2004.

As a result of the improvement in revenue, the Hong Kong operations, together with the Group's share of profit from POAD, achieved a net profit of HK$2.0 million for the second quarter of 2005, representing an increase of 24% compared with the first quarter of 2005 and more than double that for the second quarter of 2004.

OUTLOOK

For the bus advertising business, the Group will concentrate on improving the return on its existing bus media. The focus will be on the Shanghai bus business.

For the metro advertising business, the Group will increase its resources in the business development and marketing of the two new metro media on Shanghai Metro Line 4 and the Nanjing Metro.

Financial Position

The Group continues to be in a healthy and stable financial position. Net cash generated from operating activities (after payment of tax) for the six months ended 30 June 2005 amounted to HK$24.4 million. Cash and bank balances at 30 June 2005 amounted to HK$211.5 million (31 December 2004: HK$208.7 million). Pledged deposits with banks for banking facilities made available to the Group as at 30 June 2005 amounted to HK$119.9 million (31 December 2004: HK$130.6 million). As at 30 June 2005, the Group had short term and long term bank loans totalling HK$222.4 million (31 December 2004: HK$220.5 million). At 30 June 2005, the Group's net cash balance being cash and cash equivalents plus pledged bank deposits less bank loans amounted to HK$109.0 million (31 December 2004: HK$118.8 million).

As at 30 June 2005, the current ratio was 168% with HK$514.8 million of current assets against HK$306.5 million of current liabilities. The consolidated net asset value (after deducting minority interests) of the Group as at 30 June 2005 was HK$461.5 million or HK$0.54 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 daily operations.

The debt maturity profile of the Group as at 30 June 2005 is analysed as follows:

Type of debt	**Debt maturity**	*HK$ Million*	*%*
Short term bank loans	Repayable within 1 year	172.4	55
Loan from the major shareholder	Repayable within 1 year	6.6	2
Convertible Bond	Repayable after 1 year but within 3 years	83.4	27
Long term bank loans	Repayable after 1 year but within 3 years	50.0	16
Total		312.4	100

Out of the total borrowings of HK$312.4 million, HK$172.4 million was denominated in Renminbi, HK$6.6 million was denominated in United States dollars and HK$133.4 million was denominated in Hong Kong dollars. Bank loans of HK$222.4 million as at 30 June 2005, were secured by cash deposits of HK$117.7 million. Interest rates for bank borrowings denominated in Hong Kong dollars were at 1% over the Hong Kong Interbank Offered 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. The average outstanding days of the Group's accounts receivable was maintained at below 60 days. To manage liquidity risk, the Group 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 principally denominated in Renminbi with certain other assets, liabilities, revenues and expenses denominated in Hong Kong dollars and United States dollars. The Group has been using 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. Management is aware of the recent appreciation of Renminbi and has assessed the effect of such appreciation to be positive to the Group. Management will continue to monitor the relevant circumstances and will take such measures, such as currency hedging, as it deems prudent.

Contingent Liabilities

At 30 June 2005, the Group had contingent liabilities totalling HK$12.9 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 the observance of the obligations of a subsidiary and a jointly controlled entity to certain agreements.

At 30 June 2005, corporate guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries amounted to HK$339.3 million (31 December 2004: HK$229.3 million).

Employee Information

At 30 June 2005, the Group had a total of 313 (30 June 2004: 289) employees, of which 294 (30 June 2004: 268) were located in Mainland China and 19 (30 June 2004: 21) in Hong Kong. Total salaries and related costs incurred in the first half year of 2005, including directors' emoluments, amounted to HK$16.9 million (first half year of 2004: HK$16.0 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.

The Group has adopted a share option scheme whereby selected employees of the Group may be granted share options to subscribe for shares in 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.

Changes of Directors and the Chief Executive Officer

Subsequent to 30 June 2005, the Company made the following changes with effect from 1 July 2005:

a. Mr. Leo Wing Fat Lui was appointed as the Company's new chief executive officer to succeed Ms. Winnie Pik Shan To;

b. Ms. Winnie Pik Shan To was appointed to the senior office of vice chairman (whilst continuing to serve the Company as an executive director); and

c. Mr. Francis Wen-hou Chen was appointed as an independent non-executive director of the Company.

Significant Investments and Acquisitions

On 17 January 2005, the Group established a 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 local 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 on Shanghai Metro Line 4 which is expected to be operational by the end of 2005.

In June 2005, the Group established a joint venture namely "南京梅迪派勒地鐵廣告有限公司" ("Nanjing Metro JV"), with 南京城市地鐵實業有限公司, the metro operator, for a term of 18 years. Nanjing Metro JV will operate the advertising concession on the Nanjing Metro which is expected to be operational by end of 2005. Nanjing Metro JV's total investment is RMB120 million and the registered capital is RMB60 million. The Group will contribute 70% (i.e. RMB42 million) of the registered capital, of which RMB29.4 million will be injected to the joint venture around September 2005 and the remaining will be injected within the next two years.

INTERIM RESULTS FOR THE PERIOD ENDED 30TH JUNE 2005 – UNAUDITED

The Board of Directors (the "Board") of Media Partners International Holdings Inc. (the "Company") presents herewith the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "period") together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months and six months ended 30 June 2005 – UNAUDITED

	Note	For the three months ended 30 June 2005 HK$'000	2004 HK$'000	For the six months ended 30 June 2005 HK$'000	2004 HK$'000
Operating revenue					
Turnover	2	**103,200**	82,549	**178,764**	151,051
Other revenue		**5,556**	3,153	**9,507**	6,276
Operating expenses					
Site rental		**(37,846)**	(26,114)	**(71,206)**	(48,945)
Other direct costs		**(36,938)**	(28,154)	**(57,295)**	(48,715)
Staff costs		**(8,940)**	(8,536)	**(16,910)**	(15,954)
Depreciation and amortisation		**(10,748)**	(10,824)	**(21,552)**	(21,568)
Other operating expenses		**(7,092)**	(7,666)	**(14,294)**	(14,902)
Profit from operations		**7,192**	4,408	**7,014**	7,243
Finance costs	3(a)	**(3,302)**	(3,930)	**(6,214)**	(7,594)
Share of profits less losses of an associate		**1,222**	1,436	**2,586**	2,758
Share of profits less losses of jointly controlled entities		**12,901**	9,971	**20,016**	15,129
Profit from ordinary activities before taxation	3	**18,013**	11,885	**23,402**	17,536
Income tax	4	**(7,705)**	(5,692)	**(10,389)**	(9,446)
Profit for the period		**10,308**	6,193	**13,013**	8,090
Attributable to:					
Equity holders of the Company		**7,979**	5,275	**10,379**	6,690
Minority interests		**2,329**	918	**2,634**	1,400
Profit for the period		**10,308**	6,193	**13,013**	8,090
Earnings per share – Basic	5	**0.93 cents**	0.62 cents	**1.22 cents**	0.78 cents
Earnings per share – Diluted	5	**0.82 cents**	N/A	**1.09 cents**	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005 – UNAUDITED

	Share Capital HK$'000	Share premium HK$'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	85,380	233,715	255,366	(61,518)	-	1,064	(85,713)	428,294	20,992	449,286
Movement during the period						(58)		(58)	1,033	975
Profit for the period							6,690	6,690	1,400	8,090
At 30 June 2004	85,380	233,715	255,366	(61,518)	-	1,006	(79,023)	434,926	23,425	458,351
At 1 January 2005										
- as previously reported	85,380	233,715	255,366	(61,518)	-	1,007	(65,478)	448,472	25,229	473,701
- 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	85,380	233,715	255,366	(74,045)	2,433	1,007	(52,951)	450,905	25,229	476,134
Movement in respect of share options during the period				263				263		263
Movement during the period									4,065	4,065
Dividends paid to minority interests by a subsidiary								-	(2,489)	(2,489)
Profit for the period							10,379	10,379	2,634	13,013
At 30 June 2005	85,380	233,715	255,366	(73,782)	2,433	1,007	(42,572)	461,547	29,439	490,986

CONSOLIDATED BALANCE SHEET
At 30 June 2005 – UNAUDITED

	Note	30 June 2005 HK$'000	31 December 2004 (Audited & restated) HK$'000
Non-current assets			
Fixed assets	7	21,186	14,210
Interest in an associate		5,566	9,365
Interest in jointly controlled entities		81,512	68,206
Amount due from a jointly controlled entity		18,868	18,868
Advertising rights	8	233,383	249,339
Other investments	9	49,528	49,528
Goodwill		2,235	2,235
Deferred tax assets		3,840	4,256
		416,118	416,007
Current assets			
Accounts receivable	10	46,885	43,675
Other receivables, deposits and prepayments		109,933	81,457
Amounts due from associates		240	–
Amounts due from jointly controlled entities		24,405	25,348
Amounts due from minority shareholders		1,930	2,514
Amounts due from related companies		9	9
Pledged bank deposits		119,896	130,594
Cash and cash equivalents		211,522	208,677
		514,820	492,274
Current liabilities			
Bank loans		172,358	220,472
Entrusted loan		19,387	19,387
Loan from shareholder		6,581	–
Accounts payable	11	16,673	20,532
Other payables, deposits and accruals		58,928	61,896
Amounts due to jointly controlled entities		20,641	18,416
Amounts due to related companies		9,057	6,401
Taxation payable		2,901	2,431
		306,526	349,535
Net current assets		208,294	142,739
Total assets less current liabilities		624,412	558,746
Non-current liabilities			
Bank loans		50,000	–
Convertible Bond	12	83,381	82,567
Deferred taxation		45	45
		133,426	82,612
NET ASSETS		490,986	476,134
CAPITAL AND RESERVES			
Share capital	13	85,380	85,380
Reserves	14	376,167	365,525
Total equity attributable to equity holders of the Company		461,547	450,905
Minority interests	14	29,439	25,229
TOTAL EQUITY	14	490,986	476,134

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005 – UNAUDITED

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Net cash generated from operating activities	**24,375**	36,709
Net cash (used in)/generated from investing activities	**(22,079)**	2,550
Net cash generated from financing activities	**549**	6,681
Net increase in cash and cash equivalents	**2,845**	45,940
Cash and cash equivalents at 1 January	**208,677**	140,288
Cash and cash equivalents at 30 June	**211,522**	186,228

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT:

1. Principal accounting policies and basis of presentation

The interim financial report has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

The interim financial report has been prepared in accordance with the requirements of the Growth Enterprise Market Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Hong Kong Accounting Standards 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

The same accounting policies adopted in the consolidated financial statements of the Group for the year ended 31 December 2004 have been applied to the interim financial report except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are described below.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information, 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 year ended 31 December 2004 are available from the Company's principal place of business in Hong Kong. The auditors have expressed an unqualified audit opinion on those financial statements in their report dated 15 March 2005.

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

(i) Amortisation of goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

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.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the consolidated profit and loss account for the six months ended 30 June 2005. This has increased the Group's profit after tax for the six months ended 30 June 2005 by HK$160,000.

In addition, the carrying amount of negative goodwill as at 1 January 2004 in respect of the amounts previously credited to the capital reserve, has been credited to the opening balance of revenue reserves at 1 January 2005. As a result, the Group's opening revenue reserves as at 1 January 2005 increased by HK$12,527,000 with a corresponding decrease in the other capital reserves of HK$12,527,000 at that date.

(ii) Convertible bond (HKAS 32, Financial instruments: disclosure and presentation and 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 are convertible to share capital at the option of the holder, where the number of shares which may be 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 six months ended 30 June 2005 by HK$389,000 (2004: Nil) and increased the net assets of the Group by HK$2,044,000 (31 December 2004: HK$2,433,000).

(iii) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the consolidated profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to revenue reserves.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has followed the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the options granted to employees on or before 7 November 2002.

The amount charged to the consolidated profit and loss account as a result of the share options granted in 2005 increased staff costs for the six months ended 30 June 2005 by HK$263,000, with the corresponding amounts credited to the to other capital reserves.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004 and note 13 on this interim financial report.

(iv) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated profit and loss account as a deduction before arriving at the profit attributable to equity holders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and statement of changes in equity for the comparative period has been restated accordingly.

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 of the Group since the 2004 annual report.

2. Turnover

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

3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(a) Finance costs:				
Interest on bank advances and other borrowings repayable within five years	**2,878**	3,386	**5,367**	6,534
Interest on the Convertible Bond	**407**	529	**814**	1,034
Other borrowing costs	**17**	15	**33**	26
	3,302	3,930	**6,214**	7,594
(b) Other items:				
Staff retirement scheme contributions	**769**	620	**1,402**	970
Exchange loss	**22**	22	**49**	63
Auditors' remuneration	**317**	337	**709**	659
Operating lease charges				
– properties	**1,613**	1,310	**3,126**	2,622
– site rentals	**37,846**	26,114	**71,206**	48,945
Provision for bad debts	**474**	–	**474**	–
Depreciation of fixed assets	**1,441**	1,249	**2,936**	2,428
Amortisation of advertising rights	**9,307**	9,495	**18,616**	18,980
Amortisation of goodwill	**-**	80	**-**	160

4. Income tax

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC taxation	**2,565**	2,158	**3,579**	3,600
Deferred taxation	**416**	–	**416**	–
Share of taxation of jointly controlled entities	**4,480**	3,247	**5,889**	5,310
Share of taxation of associates	**244**	287	**505**	536
	7,705	5,692	**10,389**	9,446

The provision for Hong Kong profits tax has been calculated separately at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 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 had tax losses brought forward from previous years which exceeded the estimated assessable profits for the six months ended 30 June 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 six months ended 30 June 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.

5. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately HK$10,379,000 for the six months ended 30 June 2005 (30 June 2004: HK$6,690,000) and the weighted average of 853,800,000 ordinary shares (30 June 2004: 853,800,000 ordinary shares) outstanding.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2005 is based on the adjusted profit attributable to equity holders of the Company of HK$11,193,000, 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 six months ended 30 June 2004 has been presented, as there were no dilutive potential ordinary shares during that period.

6. Segmental information

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

The Group's geographical segments are classified according to the location of the advertisements placed by customers and the location of the provision of advertising and related services rendered to customers.

	For the six months ended 30 June							
	Hong Kong		Mainland China		Corporate		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**33,997**	24,274	**144,767**	126,777	**-**	–	**178,764**	151,051
Other revenue	**345**	1	**8,515**	6,124	**647**	151	**9,507**	6,276
Total revenue	**34,342**	24,275	**153,282**	132,901	**647**	151	**188,271**	157,327
Segment result and profit/(loss) from operations	**1,596**	(657)	**7,765**	10,581	**(2,347)**	(2,681)	**7,014**	7,243
Finance costs	**(101)**	(54)	**(4,662)**	(6,506)	**(1,451)**	(1,034)	**(6,214)**	(7,594)
Share of profits less losses of an associate	**2,586**	2,758	**-**	–	**-**	–	**2,586**	2,758
Share of profits less losses of jointly controlled entities	**-**	–	**20,016**	15,129	**-**	–	**20,016**	15,129
Profit/(loss) from ordinary activities before taxation	**4,081**	2,047	**23,119**	19,204	**(3,798)**	(3,715)	**23,402**	17,536
Income tax	**(505)**	(536)	**(9,884)**	(8,910)	**-**	–	**(10,389)**	(9,446)
Profit/(loss) for the period	**3,576**	1,511	**13,235**	10,294	**(3,798)**	(3,715)	**13,013**	8,090
Attributable:								
Equity holders of the Company	**3,593**	1,528	**10,584**	8,877	**(3,798)**	(3,715)	**10,379**	6,690
Minority interests	**(17)**	(17)	**2,651**	1,417	**-**	–	**2,634**	1,400
	3,576	1,511	**13,235**	10,294	**(3,798)**	(3,715)	**13,013**	8,090

7. Fixed assets

During the six months ended 30 June 2005, additions to computer equipment and other fixed assets amounted to HK$1,436,000 and HK$8,599,000 respectively. The depreciation charge amounted to HK$2,936,000 for the six months ended 30 June 2005.

8. Advertising rights

During the six months ended 30 June 2005, additions to advertising rights amounted to HK$2,660,000. The amortisation charge amounted to HK$18,616,000 for the six months ended 30 June 2005.

9. Other investments

Other investments represent an amount of approximately HK$49,528,000 (RMB52,500,000) paid to an independent third party in respect of a commercial arrangement for the planning, development and marketing of certain existing and future advertising media in Shanghai. Barring unanticipated developments, it is the present intention of the Group to replace the current commercial arrangement by establishing a joint venture in the foreseeable future subject to and in compliance with prevailing PRC legislation and government policies.

10. Accounts receivable

At 30 June 2005, accounts receivable amounted to HK$46,885,000 (31 December 2004: HK$43,675,000). The ageing analysis of accounts receivable is as follows:

	30 June 2005	31 December 2004 (Audited)
	HK$'000	*HK$'000*
Current	**28,926**	25,363
One to three months	**13,937**	17,490
More than three months	**4,022**	822
	46,885	43,675

11. Accounts payable

At 30 June 2005, accounts payable amounted to HK$16,673,000 (31 December 2004: HK$20,532,000). The ageing analysis of accounts payable is as follows:

	30 June 2005	31 December 2004 (Audited)
	HK$'000	*HK$'000*
Current	**530**	2,479
One to three months	**1,711**	6,343
More than three months	**14,432**	11,710
	16,673	20,532

12. Convertible Bond

	30 June 2005	31 December 2004 (Audited & restated)
	HK$'000	*HK$'000*
Convertible Bond	**83,381**	82,567

The term of the Convertible Bond is for the period from 31 December 2004 to 31 December 2007. No interest is payable by the Company to Morningside CyberVentures Holdings Limited ("Bond Holder") for the period from 31 December 2004 to 31 December 2007.

The Bond Holder has the right to convert part or all of the Convertible Bond into shares of the Company at a price of HK$0.50 per share (subject to adjustments), at the option of the Bond Holder during the period commencing from 31 December 2004 to 31 December 2007.

Unless previously repurchased, cancelled, redeemed or converted, the Convertible Bond will be redeemed by the Company on the maturity date at a redemption amount equal to 103% of the principal amount, which implies a yield to maturity of approximately 0.99% per annum to the Bond Holder.

13. Share capital

There were no movements in the share capital of the Company during the six months ended 30 June 2005.

Two lots of share options were granted during the second quarter of 2005 to employees of the Group including its jointly controlled entities and certain other participants to subscribe for shares in Company. The first lot of 13,050,000 share options was granted on 25 May 2005 with an exercise price of HK$0.59 per share. The second lot of 5,000,000 share options was granted on 13 June 2005 with an exercise price of HK$0.55 per share.

14. Reserves

	Share Capital	Share premium	Merger reserves	Other capital reserves	Option reserves	Exchange reserves	Revenue reserves	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	85,380	233,715	255,366	(61,518)	-	1,064	(85,713)	428,294	20,992	449,286
Movement during the period						(58)		(58)	1,033	975
Profit for the period							6,690	6,690	1,400	8,090
At 30 June 2004	85,380	233,715	255,366	(61,518)	-	1,006	(79,023)	434,926	23,425	458,351
At 1 January 2005										
- as previously reported	85,380	233,715	255,366	(61,518)	-	1,007	(65,478)	448,472	25,229	473,701
- 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	85,380	233,715	255,366	(74,045)	2,433	1,007	(52,951)	450,905	25,229	476,134
Movement in respect of share options during the period				263				263		263
Movement during the period									4,065	4,065
Dividends paid to minority interests by a subsidiary								-	(2,489)	(2,489)
Profit for the period							10,379	10,379	2,634	13,013
At 30 June 2005	85,380	233,715	255,366	(73,782)	2,433	1,007	(42,572)	461,547	29,439	490,986

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

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

Included in the figure for revenue reserves at 30 June 2005 are reserves of HK$5,197,000 (31 December 2004: HK$8,995,000) attributable to associates and reserves of HK$30,318,000 (31 December 2004: HK$16,191,000) attributable to the jointly controlled entities.

15. Commitments and contingencies

(i) Commitments under operating leases

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases in respect of properties and site rentals payable as follows:

	30 June 2005					
	Property		Site rentals		Total	
	Hong Kong	Mainland China	Hong Kong	Mainland China	Hong Kong	Mainland China
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	513	2,684	15,209	72,459	15,722	75,143
After one year but within five years	103	3,163	3,467	280,761	3,570	283,924
After five years	–	1,274	–	460,125	–	461,399
	616	7,121	18,676	813,345	19,292	820,466

	31 December 2004					
	Property		Site rentals		Total	
	Hong Kong	Mainland China	Hong Kong	Mainland China	Hong Kong	Mainland China
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	471	3,623	16,303	68,343	16,774	71,966
After one year but within five years	307	3,921	8,034	277,675	8,341	281,596
After five years	–	1,792	–	495,886	–	497,678
	778	9,336	24,337	841,904	25,115	851,240

(ii) Other commitments

At 30 June 2005, Chongqing MPI Public Transportation Advertising Co., Ltd. ("CQMPI"), one of the subsidiaries of the Group was a party to an agreement with its PRC joint venture partner to pay annual fee in respect of the granting of certain bus media rights. The agreement is for the period from 1 November 1999 to 22 September 2029. HK$7,642,000 (RMB8,100,000) (31 December 2004: HK$7,642,000) is due within the next twelve months, HK$38,349,000 (RMB40,650,000) (31 December 2004: HK$36,792,000) is due after one year but within five years and HK$5,377,000 (RMB5,700,000) (31 December 2004: HK$10,755,000) is due after five years. The aggregate amount payable by the Group to the PRC joint venture partner up to 31 December 2010 is HK$51,368,000 (RMB54,450,000) (31 December 2004: HK$55,189,000). For the years from 2011 and onwards, the annual fee will be determined through commercial negotiation between CQMPI and its PRC joint venture partner. In view of the above, the commitments mentioned above have not taken into account the annual fee to be payable by CQMPI to its PRC joint venture partner during the years from 2011 to 2029 as the amounts payable cannot be reasonably estimated.

As at 30 June 2005, Media Partners International Holdings Limited, a subsidiary of the Group had entered into an agreement with an independent third party in respect of the provision of advertising agency services and the enhancement of the Group's metro advertising management system. The terms of the agreement are for the period from 5 September 2003 to 4 September 2008. HK$529,000 (JPY7,000,000) (31 December 2004: HK$529,000) is due payable within one year and Nil (31 December 2004: Nil) is due payable after one year but within five years.

The above commitments are not included in the operating lease commitments disclosed in note 15(i) above.

(iii) Capital commitments

In July 2004, the Group entered into a joint venture agreement with an independent third party to establish a joint venture company, namely Nanjing Metro Media Partners Advertising Co., Ltd (南京梅迪派勒地鐵廣告有限公司) ("Nanjing Metro MPI") in the PRC which engages in the design, production, dissemination and publishing and act as an agent for the placement of all kinds of advertisements in or outside Mainland China. The Group and the independent third party own 70% and 30% of Nanjing Metro MPI respectively.

The total investment is RMB120 million (HK$113.2 million) and the registered capital is RMB60 million (HK$56.6 million), whereby the Group will contribute cash of RMB42.0 million (HK$39.6 million) and the independent third party RMB18.0 million (HK$17.0 million).

The term of Nanjing Metro MPI is for 18 years starting from the date of commencement of official operations of the Nanjing Metro Line 1 (Phase 1). Nanjing Metro MPI has been established and obtained its business licence on 23 June 2005.

Capital commitments in respect of Nanjing Metro MPI which have been contracted for by the Group as at 30 June 2005 are as follows:

	RMB'000	*HK$'000*
Capital commitments contracted for:		
– Within 90 days from the date of issue of the business licence	29,400	27,736
– Within two years from the date of issue of the business licence	12,600	11,887

(iv) Contingent liabilities

(a) At 30 June 2005, the Group had contingent liabilities amounting to HK$12,895,000 (31 December 2004: HK$13,315,000) in respect of bank guarantees given to independent third parties in the ordinary course of business to ensure the due performance and the observance of the obligations of a subsidiary and a jointly controlled entity to certain agreements.

(b) At 30 June 2005, guarantees given by the Company to banks to secure banking facilities made available to the subsidiaries amounted to HK$339,340,000 (31 December 2004: HK$229,340,000).

16. Material related party transactions

Details of material related party transactions between the Group and related parties were set out in note 37 of the annual report of the Group for the year ended 31 December 2004 and these transactions continued during the interim period. In addition, the Group entered into a loan agreement with Morningside CyberVentures Holdings Limited where the loan interest expenses were exempt from disclosure as continuing connected transactions under the GEM Listing Rules. The details of the transaction were disclosed in the Company's 2004 annual report under section "Post Balance Sheet Event". There was no other significant new material related party transactions entered into by the Group with related parties during the six months ended 30 June 2005.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (30 June 2004: Nil).

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 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 Rule 5.46 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					Approximate percentage
Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Others interests	Total	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 and the Chief Executive of the Company under the Company's Share Option Scheme, details of which are as follows:–

Name of Director/ Chief Executive	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 *(Note 1)*	1.00%
Leo Wing Fat Lui	13 June 2005 *(Note 2)*	HK$0.55	5,000,000 *(Note 3)*	0.59%

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

As at 1 January 2005 (being the beginning of the Company's current financial year) and 30 June 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.

Note 2: Mr. Leo Wing Fat Lui was appointed as chief executive officer of the Company on 1 July 2005. Options were accepted by him on 6 July 2005 and were deemed to be have been granted on 13 June 2005 in accordance with the provisions of the Company's Share Option Scheme.

Note 3: The above interest constitutes a long position of the Chief Executive in a physically settled equity derivatives for the purposes of the SFO.

As at 1 January 2005 (being the beginning of the Company's current financial year) and 30 June 2005 (being the most recent period end), the outstanding options held by Mr. Leo Wing Fat Lui under the Company's Share Option Scheme represented options to subscribe for 5,000,000 shares in the Company. These options were deemed to have been granted on 13 June 2005 and, subject to the terms of the Company's Share Option Scheme, vest over four years and may be exercised from 13 June 2006 to 12 June 2015 at an exercise price of HK$0.55 per share.

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

Name of Director/ Chief Executive	Aggregate number in shares	Aggregate number in underlying shares	Total	Approximate percentage of shares in issue
Winnie Pik Shan To	12,800,000	8,538,000	21,338,000	2.50%
Leo Wing Fat Lui	–	5,000,000	5,000,000	0.59%

Save as disclosed herein and as at 30 June 2005, none of the Directors or the 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 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 Rule 5.46 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 30 June 2005, so far as is known to any Director or the Chief Executive of the Company, the following persons (other than a Director or the 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 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
Morningside CyberVebtures 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 and can be converted into shares on or before 31 December 2007 provided that immediately after conversion, the Company is able to meet the public float requirements under the GEM Listing Rules.

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 30 June 2005, so far as is known to any Director or the 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 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

As at 30 June 2005, the Directors, employees of the Group including its jointly controlled entities and certain other participants had been granted options to subscribe for shares of the Company (market value per share at 30 June 2005 was HK$0.59). Each option gives the holder the right to subscribe for one share in the Company. Details of options granted under the share option scheme as at 30 June 2005 were as follows:–

			Number of Share Options					
Type of Grantee	Date of grant	Subscription price per share	Outstanding as at 1 January 2005	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at 30 June 2005	Option period
Director	14/8/2002	HK$0.62	8,538,000	-	-	-	8,538,000	14/8/2002 to 13/8/2012 *(Note 1a)*
Employees	14/8/2002	HK$0.62	5,350,000	-	-	200,000 *(Note 4)*	5,150,000	14/8/2002 to 13/8/2012 *(Notes 1b & 1c)*
	25/5/2005	HK$0.59	-	11,900,000	-	_	11,900,000	25/5/2005 to 24/5/2015 *(Note 2b)*
	13/6/2005	HK$0.55	-	5,000,000	-	-	5,000,000 *(Note 5)*	13/6/2005 to 12/6/2015 *(Note 3)*
Other participants	14/8/2002	HK$0.62	1,560,000	-	-	-	1,560,000	14/08/2002 to 13/08/2012 *(Note 1a)*
	25/5/2005	HK$0.59	-	1,150,000	-	_	1,150,000	25/5/2005 to 24/5/2015 *(Note 2a)*
						Total:	33,298,000	

Notes:

1. The number of shares subject to the option shall vest in four equal annual instalments. The timing of vesting of options at HK$0.62 per share is as follows:–

   (a) the options will vest in four equal annual instalments commencing on the first anniversary date from 14 August 2002 i.e. one-fourth of the shares subject to the option will vest on 14 August 2003 with an additional one-fourth of the shares subject to the option respectively vest on each of the next succeeding anniversary dates.

   (b) for those grantees who have worked for the Group including its jointly controlled entities for over one year at 14 August 2002, one-fourth of the shares subject to the option shall vest on the first anniversary date from 14 August 2002. An additional one-fourth of the shares subject to the option will respectively vest on each of the next three succeeding anniversary dates.

   (c) for those grantees who have worked for the Group including its jointly controlled entities for less than one year at 14 August 2002, one-fourth of the shares subject to the option will vest on the second anniversary date of their respective commencement dates of employment with the Group or its jointly controlled entities. An additional one-fourth of the shares subject to the option will respectively vest on each of the next three succeeding anniversary dates.

2. The number of shares subject to the option shall vest in four equal annual instalments. The timing of vesting of options at HK$0.59 per share is as follows:–

   (a) the options will vest in four equal annual instalments commencing on the first anniversary date from 25 May 2005 i.e. one-fourth of the shares subject to the option will vest on 25 May 2006 with an additional one-fourth of the shares subject to the option respectively vest on each of the next succeeding anniversary dates.

   (b) for those grantees who have worked for the Group including its jointly controlled entities for over one year at 25 May 2005, one-fourth of the shares subject to the option shall vest on the first anniversary date from 25 May 2005. An additional one-fourth of the shares subject to the option will respectively vest on each of the next three succeeding anniversary dates.

3. The number of shares subject to the option shall vest in four equal annual instalments. The options at HK$0.55 per share will vest in four equal annual instalments commencing on the first anniversary date from 13 June 2005 i.e. one-fourth of the shares subject to the option will vest on 13 June 2006 with an additional one-fourth of the shares subject to the option respectively vest on each of the next succeeding anniversary dates.

4. During the period ended 30 June 2005, an aggregate of 200,000 options lapsed upon the termination of the relevant employee's employment with the Group.

5. Options accepted on 6 July 2005 and deemed to have been granted on 13 June 2005 in accordance with the provisions of Share Option Scheme.

6. The Company has used the Black Scholes Model for estimating the fair value of options issued under the Share Option Scheme. The Black Scholes Model is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The assumptions used in the calculation are:

   (a) Risk-free rate of return – the yield of 10-year Exchange Fund Notes

   (b) Expected volatility of share price – annualised volatility for 1 year immediately preceding the grant date

   (c) Expected life of share options – 10 years

   The amount written off in the profit and loss account for the six months ended 30 June 2005 was HK$263,000. (30 June 2004: Nil)

   According to the Black Scholes Model, the value of the options granted on 25 May 2005 was HK$3,947,000 and the value of the options granted on 13 June 2005 was HK$2,022,000.

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 six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2005, the Company has implemented the following:

a. The terms of reference of the Audit Committee were amended and adopted by the members of the Audit Committee on 5 May 2005 to conform with the Code on Corporate Governance Practices ("CG Code").

b. The Compensation Committee of the Company was renamed as the Remuneration Committee on 12 May 2005.

c. A majority of the members of the Remuneration Committee are independent non-executive directors. Its current members comprise:

Gerald Lokchung Chan	Non-executive director
Tony Cheung Kin Au-Yeung	Executive director
Philip Tit Hon Hung*	Independent non executive director
Meocre Kwok Wing Li*	Independent non executive director
Paul Laurence Saffo	Independent non-executive director

* *Philip Tit Hon Hung and Meocre Kwok Wing Li were appointed as the members of the Remuneration Committee on 15 March 2005.*

d. The terms of reference of the Remuneration Committee were amended and adopted by the members of the Remuneration Committee on 12 May 2005 to conform with the CG Code.

The Company is in compliance with the code provisions set out in the CG Code of GEM Listing Rules, except that when the chairman of the Board was unable to attend the annual general meeting, the vice chairman of the Company took on the chairmanship of the meeting.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the review period.

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 interim report for the period ended 30 June 2005.

By Order of the Board
Stephen Cheuk Kin Law
Company Secretary

Hong Kong, 11th August, 2005