MEDIANATION INC.

Incorporated in the Cayman Islands with limited liability

ANNUAL REPORT 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors of MediaNation Inc. collectively and individually accept 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 (the "GEM Listing Rules") for the purpose of giving information with regard to MediaNation Inc.. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.

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BOARD OF DIRECTORS

Executive Directors
Kam Ling
Chan Sim Ngor, Summerine

Non-Executive Directors
Sun Qiang, Chang
Cheung Leung Hong, Cliff
Hui Yick Hun, Patrick
Andersen, Dee Allen
Li Chun, Daniel

Independent Non-Executive Directors
Heung Shu Fai
Liu Hong Ru

COMPANY SECRETARY
Yuen Kam Sun, Joe *(CPA (Aust))*

QUALIFIED ACCOUNTANT
Cheng Ka Chung, Michael *(AHKSA)*

COMPLIANCE OFFICER
Chan Sim Ngor, Summerine

AUDIT COMMITTEE
Heung Shu Fai
Liu Hong Ru
Andersen, Dee Allen

AUTHORISED REPRESENTATIVES
Chan Sim Ngor, Summerine
Yuen Kam Sun, Joe

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2 Queen's Road Central
Hong Kong

AUDITORS
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21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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99 Queen's Road Central
Hong Kong

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George Town
Grand Cayman
Cayman Islands

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Grand Cayman
Cayman Islands

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Hong Kong

PRINCIPAL BANKERS
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Citic Ka Wah Bank Limited
Bank of China

WEBSITE ADDRESS
www.medianationinc.com

STOCK CODE
8160

MediaNation Inc. (the "Company") is a leading outdoor advertising company that offers advertisers access to one of the largest networks of outdoor advertising displays in the People's Republic of China (the "PRC") and Hong Kong. The network operated by the Company and its subsidiaries (the "Group") includes the exclusive rights to advertising displays on more than 17,000 buses in 17 major cities in the PRC, more than 4,500 buses operated by two of the three largest bus operators in Hong Kong and five out of the seven metro lines currently operating in the PRC. With a leading position in bus and metro system advertising, the Group is well positioned to expand into new outdoor advertising formats, such as newspaper kiosks and other forms of "street furniture". As the Group has grown its network of outdoor advertising media, the Group has built a diversified client base covering a wide variety of domestic and international advertisers. In addition, the Group has developed, through its subsidiary, i-Result Media Limited ("i-Result"), a database of outdoor advertising information that it uses to offer integrated outdoor media planning and buying services. The Group has enjoyed rapid and consistent growth, driven mainly by increases in its inventory of outdoor media displays and its expanding client base in the PRC and Hong Kong.

The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on January 24, 2002.

MARKET OF THE GROUP

Outdoor advertising offers several important advantages over other forms of advertising. It is relatively cost effective, generates repetitive viewing and reaches potential customers close to points of sale. The diverse range of outdoor advertising media available allows advertisers to deploy single or multiple forms of outdoor media to reach a select or mass audience. Outdoor advertising also benefits from increasing media fragmentation in the "in-home" advertising market. Outdoor advertising is expected to remain an effective medium in both the PRC and Hong Kong for a number of reasons, including the increasing sophistication of industry operators, the increasing availability of research data about the effectiveness of outdoor advertising to encourage advertisers to use this medium, and the increasing availability of new technologies which help improve the effectiveness as well as operational efficiency of outdoor advertising.

Outdoor advertising media can generally be categorized into transit media, street furniture and billboards. Transit media advertising encompasses displays on buses, trains, airports and train stations. The bus and metro systems in the PRC and Hong Kong have become important modes of urban transportation, especially in major cities. Many cities in the PRC are expanding their bus fleets and building or planning new metro systems, presenting additional opportunities for the growth of transit media advertising. Unlike the relatively developed Hong Kong billboard market, it is generally believed that the billboard market in the PRC is highly fragmented, and represents opportunities for consolidation. While certain street furniture displays, such as bus shelters, are well developed in Hong Kong and the PRC, other forms of street furniture in the PRC often lack uniformity and a practical function. As PRC cities modernise, demand for street furniture with practical functions and which upgrade urban appearance will likely increase, creating more opportunities for street furniture as an outdoor media format.

STRATEGY OF THE GROUP

Maintain and strengthen market leadership position. The Group intends to maximize revenues from its bus and metro advertising network.

- The Group plans to optimize the occupancy levels of advertising displays in its network through enhanced inventory management systems.
- The Group aims to improve its market share by increasing penetration in its existing markets, in order to achieve better operating efficiencies.
- The Group will enter into other large PRC cities with high growth rates in personal consumption to further diversify its market coverage.

Introduce new media formats and media products. To continue the Group's rapid growth and leverage its existing media portfolio, it plans to introduce new outdoor media by utilizing new technology.

- The Group plans to introduce new mobile broadcasting display units into buses and trains within its existing network in the PRC.
- The Group plans to build other outdoor advertising products, including high quality street furniture and billboard networks, in selective locations to provide advertisers with a greater variety of outdoor advertising alternatives.

Develop into a leading provider of integrated media planning and buying services. Through i-Result the Group has begun to offer integrated media planning and buying services.

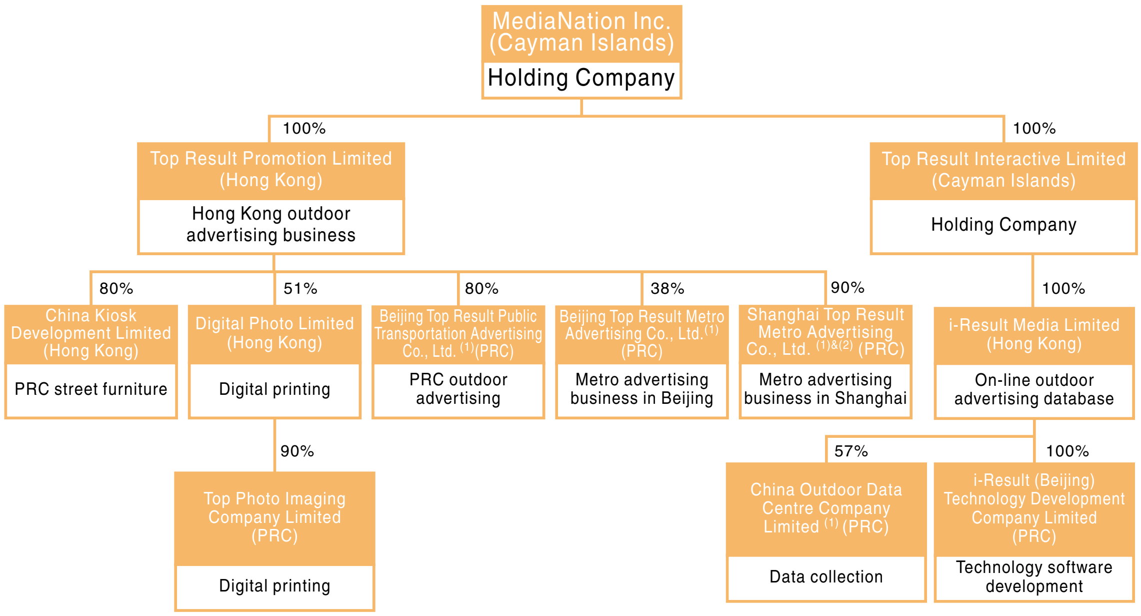
- The Group provides information to advertisers to help them formulate their outdoor advertising strategy.
- The Group has introduced digital mapping, planning, and searching software to assist advertisers in achieving more targeted media planning and buying.
- The Group provides monitoring services and other value added services to outdoor advertising agencies and direct advertisers.

Selectively pursue acquisitions. The Group believes the outdoor advertising markets in the PRC and Hong Kong offer attractive consolidation opportunities.

- The Group intends to selectively pursue acquisitions of advertising related companies to expand into additional high growth markets within the PRC.
- Through acquisitions, the Group aims to acquire expertise in other outdoor advertising sectors.

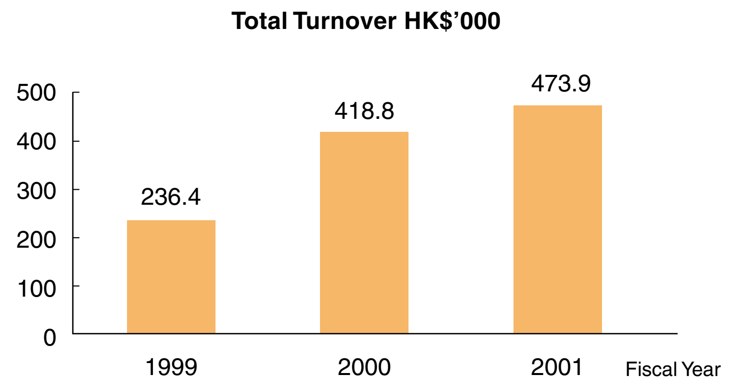
CORPORATE STRUCTURE

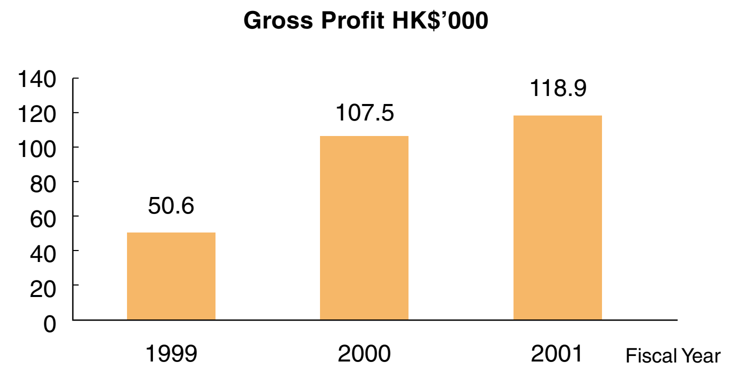
Company Structure

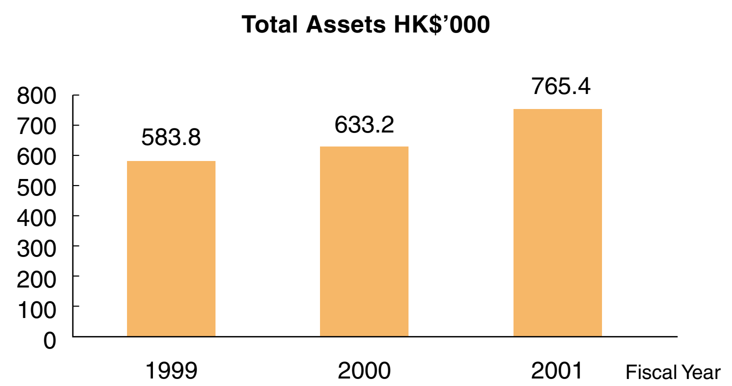


(1) These entities are established as cooperative joint ventures in the PRC and are officially approved by the PRC State Administration for Industry and Commerce ("SAIC") and Ministry of Foreign Trade and Economic Corporation of the PRC ("MOFTEC"). All these entities are registered at their respective local SAIC branches. The corresponding percentages represent the percentages of the entities' net profits the Group is entitled to receive under the relevant joint venture contracts. A sino-foreign cooperative joint venture (also known as contractual joint venture) is a form of cooperation whereby the Chinese and the foreign parties cooperate on the basis of a joint venture contract, under which the parties set out their "terms of cooperation" including their rights, liabilities and risks in the joint venture. Profit distribution in a cooperative joint venture is not necessarily proportional to the value of the contributions of the parties.

(2) Shanghai Top Result Metro Advertising Co., Ltd. obtained the certificate of MOFTEC approval on December 26, 2001 and is in the process of obtaining its business license.







- Successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on January 24, 2002
- Turnover for 2001 was approximately HK$473.9 million, representing an increase of 13.2% over the level in year 2000
- Gross profit for 2001 was approximately HK$118.9 million, an increase of 10.6% over the level in year 2000
- The total assets as at December 31, 2001 increased by 20.9% to HK$765.4 million, comparing to HK$633.2 million as at December 31, 2000

On behalf of the Board of Directors, I am pleased to present the annual report of MediaNation Inc. (the "Company") and its subsidiaries (collectively the "Group") for the year ended December 31, 2001.

The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on January 24, 2002 (the "Listing"). The Listing not only provided ample funding for the Group's growth, but also showcased the Group's pre-eminent position in China's outdoor advertising market.

RESULTS OF OPERATION

Despite a worldwide economic slow-down, we increased our turnover by 13.2%, from HK$418.8 million in 2000 to HK$473.9 million in 2001, a record high for the Group. Net profit attributable to shareholders was HK$3.5 million for the year, in line with the estimated profit of not less than HK$3.1 million as set out in the prospectus of the Company dated January 14, 2002 (the "Prospectus").

BUSINESS REVIEW

Although the long-term prospect of China's advertising and media market is one of the brightest in the world, reduced advertising spending in the short run as a result of the worldwide recession negatively affected the outdoor advertising market in 2001. Faced with tough market conditions, the Group mobilized its entire staff to work harder, and still managed to grow its revenue and maintain a positive bottom line.

During 2001, we continued to expand our advertising bus fleet, signing up more than 1,800 new buses in the PRC. Currently, we have exclusive advertising rights on over 22,000 buses in the PRC and Hong Kong. Apart from expanding our bus fleet, we also expanded our metro advertising network from Beijing to Shanghai, where we started its first trial year of advertising operation on Line 2 of Shanghai metro system.

In April 2001, another major new business initiative was undertaken when we launched an integrated outdoor media planning and buying service provided by the Group subsidiary, i-Result under the brand name "outdoormachine". This is backed up by an extensive outdoor media database collected by a team of trained researchers. Professional media planners can access the database via Internet to plan outdoor campaign for advertisers. Advertising agencies and high-volume advertisers have reacted positively, with many agencies agreeing to outsource their outdoor media buying requirements to i-Result. Despite incurring start-up cost and negatively impacting the bottom line in the short run, we believe this service will boost confidence among advertisers in the effectiveness of outdoor advertising and eventually lead to a bigger allocation of their advertising budget into outdoor media.

Building on our strong base in transit media and leveraging its nationwide sales infrastructure, we took a strategic move into street furniture by securing exclusive advertising rights on 2,000 newspaper kiosks in Shanghai. Currently, over 700 kiosks have been installed on the streets of Shanghai and the balance will be installed over the next two years. We have also entered into an agreement with China General Chamber of Commerce to build a nationwide network of in-mall first aid stands with advertising panels. Currently, there are over 200 first aid stands installed in shopping malls in Beijing and Shanghai and the plan is to build 4,000 units in five major cities in China over the next two years.

FUTURE PROSPECT

Following the successful operation of Line 2 in 2001, Shanghai Metro Line 3 (the "Pearl Line") will start its formal operation in 2002. With these two lines, the Group's dominant position in the metro advertising market is secure. We will actively seek other opportunities to further expand our metro advertising network into new cities.

We believe China's economic growth will continue to exceed that of the other parts of the world in the future. The consumer market in China will develop rapidly and the advertising sector will continue to grow faster than the GDP. China's accession to the World Trade Organization will speed up foreign investment in the service sector, causing increased competition among industry players, which will have to better utilize advertising to differentiate themselves in China. All these provide significant opportunities for the Group to grow its media portfolio and its revenues for years to come.

Looking forward, with a strong management team, a large national outdoor media network and close working relationship with local governments throughout China, the Group is extremely well-positioned to grow its i-Result, metro, bus and street furniture businesses. We will strive to deliver superior return to our shareholders as well as exceptional value to our advertisers.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to our customers for their continued support, and to extend my thanks to the Group's management and staff for their dedication and hard work which have made possible the success of the Group.

Sun Qiang, Chang
Chairman

Hong Kong, March 26, 2002

FINANCIAL REVIEW

Revenue

The Group's revenue is derived primarily from the rental of media displays on buses and in metro systems in major cities in the PRC including Hong Kong. The Group also derives revenue from production services it offers customers. In addition, the Group earns revenue from the provision of advertising agency and media consultancy services.

Total revenue increased 13.2% from HK$418.8 million in 2000 to HK$473.9 million in 2001. Media rental revenue increased from HK$337.9 million to HK$370.9 million, representing an increase of 9.8%. This increase was mainly generated from Shanghai metro system which the Group started trial operation in 2001. Bus advertising revenue was maintained at the levels in 2000 even though a large number of advertisers in the internet-related sector significantly reduced or totally eliminated their advertising budgets in 2001. The Group also saw reductions in spending by multinational corporations particularly in the first half of the year. These reductions were largely offset by increased spending from domestic advertisers. The Group also benefited from increased advertising spending in the PRC by Taiwanese companies. Compared with 2000, production revenue for 2001 increased 10.4% from HK$74.2 million to HK$81.9 million. Agency services commission increased from HK$6.4 million to HK$12.0 million, representing an increase of 87.5%. This increase was mainly due to the launch of outdoor media planning and buying services through the Group's subsidiary, i-Result Media Limited ("i-Result") in April 2001. The i-Result service also generated media consultancy service revenue amounting to HK$9.1 million in 2001.

Cost of Revenue

Cost of revenue increased 14.0% from HK$311.3 million in 2000 to HK$355.0 million in 2001. Concession fees, which are the major component of cost of revenue, increased from HK$145.5 million in 2000 to HK$184.0 million in 2001, representing an increase of 26.5%. This increase in concession fees resulted partly from increased advertising revenue in Hong Kong where the Group has revenue sharing arrangements under two agency bus contracts with The Kowloon Motor Bus Company (1933) Limited and New World First Bus Services Limited. The increase in concession fees was attributable to the trial operation of the Shanghai metro system and the addition of new agency bus contracts in Shanghai, Zhengzhou, Chengdu and Tianjin in the PRC in the later part of 2000 and in the year 2001. Amortization of advertising license rights also increased 5.7% from HK$59.2 million in 2000 to HK$62.6 million in 2001.

Gross profit increased 10.6% from HK$107.5 million in 2000 to HK$118.9 million in 2001. Gross margin decreased slightly from 25.7% in 2000 to 25.1% in 2001. Concession fees as a percentage of revenue increased from 34.7% in 2000 to 38.8% in 2001, but its negative impact on margin was partly offset by the decrease in amortization of advertising license rights as a percentage of revenue from 14.1% to 13.2%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 19.5% from HK$94.2 million in 2000 to HK$112.6 million in 2001. Selling, general and administrative expenses in 2001 were 23.8% of revenue, a minor increase compared with 22.5% a year earlier. The increase was mainly associated with the commencement of i-Result's operation in 2001 which resulting in increased staff costs and other overhead expenses of approximately HK$20.7 million.

Excluding i-Result, selling, general and administrative expenses were HK$91.9 million in 2001 compared to HK$82.5 million in 2000 and decreased as a percentage of revenue from 19.7% in 2000 to 19.4% in 2001.

Finance Costs

Interest expense increased from HK$5.1 million in 2000 to HK$14.4 million in 2001. This increase was the result of increased borrowings to fund the business growth in the PRC prior to the Listing.

Share of Profits or losses of Associated Companies

Share of profits or losses of associated companies declined 28.6% from HK$23.1 million in 2000 to HK$16.5 million in 2001. This decrease was primarily due to a 23.9% decline in the earnings of Beijing Top Result Metro Advertising Co., Ltd. ("BJ Metro"). BJ Metro was affected by international advertisers which reduced advertising spending and a reorganization of the management structure in the earlier part of 2001. Apart from the effect contributed by BJ Metro, share of profits or losses of associated companies for 2001 included the results of Digital Photo Limited ("Digital Photo") for a period of 4 months as Digital Photo has become a subsidiary of the Group since May 1, 2001. The result of Digital Photo for the remaining 8 months in 2001 was consolidated into the Group's consolidated income statements for 2001.

Taxation

The Group's income tax expenses declined 23.1% from HK$13.4 million in 2000 to HK$10.3 million in 2001. The Group's income tax expenses consist primarily of taxes levied on profits from its operations in the PRC where the combined national and local enterprise income tax rate is 33%. The Group did not pay any significant profits tax in Hong Kong in 2001 due to the utilization of a tax loss brought forward in prior year which the Group generated through headquarters expenses in Hong Kong.

The effective tax rate in 2000 was 46.0% and the effective tax rate in 2001 was 73.6%. The increase in the effective rate was primarily due to a reversal of Hong Kong profits tax amounting to HK$3.3 million in 2000 as a result of the agreement reached with the Inland Revenue Department to treat certain income as being generated offshore, and therefore not taxable, for Hong Kong profits tax purposes. Certain companies within the Group were incurring losses during 2000 and 2001 which increased the effective tax rate for both 2000 and 2001.

Minority Interests

Minority interests in the Group's profit decreased 90.0% from HK$3.0 million in 2000 to HK$0.3 million in 2001. This decrease was a result of the decrease in the net profit of Beijing Top Result Public Transportation Advertising Co., Ltd and Digital Photo, both of which are non wholly-owned subsidiaries of the Company.

Net Profit Attributable to Shareholders

The Group's net profit decreased from HK$12.7 million in 2000 to HK$3.5 million in 2001, primarily due to an increase of finance costs and the higher start-up losses of i-Result as compared to 2000.

Adjusted EBITDA

Adjusted EBITDA represents profit (loss) excluding (i) depreciation of fixed assets (ii) amortization of intangible assets (iii) interest income and expenses and (iv) tax but including the Group's proportional share of EBITDA (with the same definition) from its associated companies. The Group uses Adjusted EBITDA to measure its operating performance. Adjusted EBITDA was HK$109.7 million in 2000 if excluding approximately HK$5.0 million of non-recurring professional fees from a fund raising exercise in that year.

Adjusted EBITDA for the Group decreased 3.9% from HK$109.7 million in 2000 to HK$105.4 million in 2001. This primarily resulted from the higher start-up losses of i-Result.

Assets

The total assets of the Group increased by 20.9% from HK$633.2 million in 2000 to HK$765.4 million in 2001. The increase was mainly attributable to: (i) addition of fixed assets by HK$33.3 million due to expansion of business; (ii) increase in deposit for intangible assets by HK$30.0 million for the Street Furniture project in Shanghai; (iii) increase in prepayments, deposits and other receivables by HK$39.2 million which is mainly represented by the capitalization of the Listing expenses amounting to HK$18.0 million; and (iv) increase in accounts receivable by HK$26.4 million due to expansion of business.

The Group's accounts receivable was outstanding for an average period of 79 days as of December 31, 2001.

Treasury Policies

All transactions of the Group are denominated in Hong Kong dollars, Renminbi or United States dollars. As the exchange rates of these currencies were stable during the year under review, no hedging or other alternatives had been implemented. It is considered that the Group has no significant currency exposure.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not engage in foreign currency speculate activities.

Foreign Currency Translation

All amounts referred to in this section which are denominated in foreign currencies have been translated into Hong Kong dollars at the relevant exchange rates prevailing at the close of business on December 31, 2001.

Financial Resources, Security and Liquidity

Prior to the Listing, the Group's operations and investments have been financed principally by its shareholders, credit facilities and cash generated from its business operations. The directors believe that the Group will continue to fund its current working capital and capital expenditure requirements through cash inflow from operations, net proceeds from the Listing and its cash and bank deposits. The directors believe that on a long term basis, the Group's liquidity will be funded from operations, and if necessary, from additional equity financing or bank lending.

The Group had net assets of approximately HK$323.9 million (2000: HK$320.6 million), including cash and bank balances of approximately HK$18.9 million and pledged bank deposit of approximately HK$19.5 million.

As at December 31, 2001, the Group had total outstanding borrowings of approximately HK$221.0 million (2000: HK$51.5 million), comprising of outstanding obligations under finance leases of HK$0.9 million (2000: nil), which are repayable before October 2002, short-term bank borrowings of approximately HK$56.6 million (2000: HK$47.2 million), short-term loans from financial institutions of approximately HK$27.0 million (2000: HK$4.3 million), short-term loan from a third party of approximately HK$19.5 million (2000: nil) and convertible loan notes of approximately HK$117.0 million (2000: nil).

Short-term bank borrowings of approximately HK$56.6 million was represented by: (i) loans denominated in Renminbi of approximately HK$37.7 million granted to a subsidiary in the PRC, which was secured by corporate guarantees from Beijing Metro and the Chinese joint venture partner of the subsidiary, interest bearing at 6.435% to 7.02% per annum and are repayable within one year from the date of drawdown; and (ii) loan denominated in Renminbi of approximately HK$18.9 million granted to a subsidiary in the PRC, which was secured by a fixed deposit of US$2.5 million (HK$19.5 million) in cash, interest bearing at 5.58% per annum and was repayable by the end of February 2002.

Short-term loans from financial institutions of approximately HK$27.0 million consisted of: (i) facilities of approximately HK$7.0 million, which was secured by a first fixed charge on certain of the Group's factored accounts receivable of approximately HK$12.7 million and by a floating charge on certain of the Group's present and future accounts receivable; and (ii) facilities of approxiately HK$20.0 million granted to a subsidiary in Hong Kong, which was secured by guarantee from the Company and certain Company's directors, interest bearing at 8% per annum and has been repaid in January 2002 before the due date.

Short-term loan from a third party of approximately HK$19.5 million was granted to a subsidiary in Hong Kong, which was unsecured, interest bearing at 8% per annum and has been repaid in January 2002 before the due date.

The convertible loan notes of approximately HK$117.0 million are (i) unsecured, (ii)(a) interest bearing at 9.5% per annum for the period up to and including May 28, 2002 and (b) at 3-month London Inter-Bank Offered Rate for deposits in USD plus 400 basis points after May 28, 2002, and (iii) redeemable anytime nine months after the Listing provided that at least 10 banking days' notice is given to the Company.

As at December 31, 2001, the Group had aggregate credit facilities of approximately HK$111.1 million (2000: HK$51.5 million) of which approximately HK$8.0 million (2000: nil) had not been utilized.

The gearing ratio, defined as the ratio of total liabilities to total assets, was 56.7% as compared to 48.5% as at previous financial year end date. The increase was mainly due to the increase in short-term loans from financial institutions of approximately HK$39.5 million and the issuance of convertible loan notes of approximately HK$117.0 million as mentioned above.

Material Investments/Acquistions/Disposals

On May 1, 2001, the Group acquired an additional 1.0% equity interest in Digital Photo at a consideration of HK$2,000 in cash. Consequently, the Group's equity interests in Digital Photo and its 90.0% owned subsidiary, Top Photo Imaging Company Limited ("Top Photo"), increased from 50.0% and 45.0% to 51.0% and 45.9%, respectively. Digital Photo and Top Photo became subsidiaries of the Group thereafter.

On October 29, 2001, the Group entered into an agreement with business partners to establish a company in Hong Kong, China Kiosk Development Limited ("China Kiosk"), in which the Group has 80% equity interest. Under the agreement, China Kiosk will establish a wholly-foreign-owned enterprise (the "WFOE") in Shanghai, to expand the street furniture (newspaper kiosk) business in the PRC. The total investment for the WFOE will be USD12,500,000 (HK$97,500,000). The Group will be required to provide the entire amount of the total investment. The WFOE obtained the certificate of approval on March 4, 2002 and is in the process of obtaining its business license.

Save as disclosed above and other than in connection with the Reorganization in preparation for the listing of the Company's shares on the GEM, there were no material acquisitions or disposals of subsidiaries and affiliated companies in the course of 2001.

Employees

As at December 31, 2001, the Group had 747 (2000: 420) employees. The substantial increase in staff from 2000 to 2001 was due to the acquisition of China Outdoor Data Centre Company Limited in the PRC and Digital Photo, which had 173 and 70 staff members, respectively. The total amount of employee remuneration including that of the directors for the year ended December 31, 2001 amounted to approximately HK$59.0 million (2000: HK$46.3 million). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Prior to the Company's Listing, the Company had adopted three Pre-IPO stock option plans.

Subsequent to the balance sheet date, on January 8 2002, the Company conditionally adopted a further share option scheme (the "Share Option Scheme") for a period of ten years from the date on which the Share Option Scheme was adopted. The Share Option Scheme became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on January 24, 2002.

Contingent Liabilities

As at December 31, 2001, the Company has issued a letter of guarantee of HK$0.2 million (2000: HK$0.2 million) to a landlord in relation to the lease of its office premise.

INTENDED USE OF PROCEEDS FROM LISTING

Subsequent to December 31, 2001, the Group obtained net proceeds of approximately HK$394.0 million from the Listing of the Company on the GEM on January 24, 2002. The Group currently intends to apply such net proceeds as follows:

- approximately HK$7.0 million to fund development of its printing and Media Inventory Management System;
- approximately HK$220.0 million of capital expenditure to develop its street furniture business, including approximately HK$120.0 million for newspaper kiosks and approximately HK$100.0 million for other new media formats, including "in-mall" advertising displays, such as first aid stands as well as other multimedia displays for bus and metro advertising;
- approximately HK$5.0 million to fund further expansion of the i-Result database;
- approximately HK$120.0 million will be reserved for the repayment of certain existing debts to Gavast Estates Limited;
- approximately HK$39.0 million will be reserved for the repayment of the short term loans from E-2 Capital Limited and Everpower Investment Limited; and
- the balance of approximately HK$3.0 million will be used as additional working capital.

CHAIRMAN

Mr. Sun Qiang, Chang, aged 45, became a non-executive Director of the Company in September 1996 and became the Chairman of the Company in July 2001. He is also a Managing Director of Warburg Pincus, Hong Kong. Mr. Sun has been with Warburg Pincus since 1995. He holds a master of business administration degree from the Wharton School of the University of Pennsylvania, a master of arts degree in international studies from the Joseph Lauder Institute of International Management at the University of Pennsylvania and a bachelor of arts degree in English literature from the Beijing Foreign Languages University. Prior to joining Warburg Pincus, he was an Executive Director in the Investment Banking Division and the Principal Investment Area of Goldman Sachs (Asia) LLC. Mr. Sun previously worked for Lepercq, de Neuflize and Co., an investment bank and leveraged buyout firm in New York.

EXECUTIVE DIRECTORS

Mr. Kam Ling, aged 39, became Chief Executive Officer of the Company in July 2000 and became an executive Director of the Company in July 2001. He is responsible for overseeing the Group's overall operations and strategic development, with a focus on new business development as well as the adoption of new technologies in the business. Mr. Kam was previously the head of the PRC Division of Dun & Bradstreet Technology and Memorex Telex China prior to joining MediaNation Inc. in March 1997 as Senior Vice President of Corporate Development. He has been instrumental in developing the Group. He has over 14 years of experience in business development in the PRC, particularly in the field of information technology and telecommunications and has contributed to the Group's growth and development since its inception. Mr. Kam is a graduate of the Chinese University of Hong Kong. He is the husband of Ms. Chan Sim Ngor, Summerine.

Ms. Chan Sim Ngor, Summerine, aged 37, is an executive Director of the Company. Ms. Chan is one of the founders of the Group. Since the incorporation of the Group, she has been responsible for overseeing the Group's overall operations and business development. Prior to founding the Group, Ms. Chan was the first representative of Ogilvy & Mather in Shanghai, who helped develop Ogilvy & Mather's joint venture in the PRC, as well as serving a diversified portfolio of clients including Johnson & Johnson, S.C. Johnson, Boeing, Mercedes-Benz, Squibb and Seagram. Ms. Chan has 15 years of PRC advertising experience and is a graduate of the University of Hong Kong. Ms. Chan is the wife of Mr. Kam Ling.

NON-EXECUTIVE DIRECTORS

Mr. Cheung Leung Hong, Cliff, aged 40, became a non-executive Director of the Company in March 1998. He is the Managing Director and Chief Investment Officer of PAMA Group and a member of its Investment Committee. PAMA Group, formerly named Prudential Asset Management Asia Limited, is one of the largest and longest established private equity firms in Asia. Since joining PAMA in 1986 at its inception, Mr. Cheung has held various investment and post investment responsibilities with PAMA in Asia and with the corporate finance and leverage buyout groups of Prudential Insurance Company of America in the United States. Prior to joining PAMA, Mr. Cheung worked with the Hong Kong branch of Hamburgische Landesbank and the investment team of American International Assurance Co., Ltd. in Hong Kong. Mr. Cheung is the former Chairman of the Hong Kong Venture Capital Association. He is currently a member of the Listing Committee of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and has served on the Financial Services Advisory Committee of the Hong Kong Trade Development Council. Mr. Cheung holds the Chartered Financial Analyst designation and is a member of the Asia-Pacific Advocacy Committee of the Association for Investment Management and Research. He is a graduate of the University of Hong Kong.

Mr. Hui Yick Hun, Patrick, aged 51, is a non-executive Director of the Company. Mr. Hui was one of the founders of the Group. He has 29 years of experience in media operations in Hong Kong. Early in his career he developed experience in the media industry with RTV, the predecessor of ATV. He provides guidance to the Group, particularly in operational and technical areas. Mr. Hui is also the founder and Managing Director of High Tech Company, which acted as one of the few advertising contractors for China Motor Bus Limited since 1989. High Tech Company continues to serve New World First Bus Services Limited after China Motor Bus Limited's operating franchise expired in 1998. He is a graduate of the Hong Kong Baptist University.

Mr. Andersen, Dee Allen, aged 50, became a non-executive Director of the Company in November 1998. He is a Managing Director and head of the post-investment team of PAMA. Prior to joining PAMA Group in 1998, he was a full time consultant to Chase Capital and Olympus Capital. He was previously the Executive Vice President of Richina, a Chase Capital-backed direct investment fund, where he was involved in the negotiation and post investment management of projects in the PRC, Hong Kong and New Zealand. Previously he was Senior Vice President and Managing Director of Continental Grain's Asia Agribusiness Division where he completed a range of new ventures for Continental Grain in Asia. Prior to Continental Grain, he was the head of production planning and Chief Financial Officer for General Mills' toy sourcing operations in Asia. He obtained his bachelor's degree from Brigham Young University and his master of business administration degree from Harvard Business School.

Mr. Li Chun, Daniel, aged 32, became a non-executive Director of the Company in July 2001. He is also a Director of Warburg Pincus, Hong Kong. Mr. Li has been with Warburg Pincus since 1996. He holds a bachelor of science degree from Columbia University. Prior to joining Warburg Pincus, he was an Associate in Merrill Lynch's Mergers & Acquisitions Department in New York and its Corporate Finance Group in Hong Kong. Mr. Li is a Director of A-Best Communications Corp., Global Lighting Technologies Ltd., Little Brenn Limited, Migosoft Corp. and NorthPole Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Hong Ru, aged 71, became an independent non-executive Director of the Company in July 2001. He is the Vice Chairman of the Sub-Committee of Economy National Committee of Chinese People's Political Consultative Conference. He is also the Vice Chairman of China Institute of Finance, the Vice Chairman of China Institute of Bonds and the Vice President of China Charity Federation. Mr. Liu is a professor in Beijing University and Qinghua University and a visiting professor in the City University of Hong Kong. He was formerly the Deputy Head of Agricultural Bank of China, the Deputy Executive Head of the People's Bank of China (in charge of finance system reform, finance regulation and international services), the Deputy Director of State Economy Restructuring Commission of the PRC and the Chairman of China Securities Regulatory Commission. Mr. Liu received his Doctor degree in Economics from Moscow University.

Mr. Heung Shu Fai, aged 55, became an independent non-executive Director of the Company in July 2001. He graduated from the Chinese University of Hong Kong in 1971. In 1972, he earned a Rockefeller Foundation Scholarship to study economics at the Thammasat University in Bangkok, where he was awarded a Master degree in 1974. He then came back to Hong Kong to start his career, firstly in commercial banking, and then moved on to investment banking and venture capital. In 1990, he started his second career in publishing as a founding director of Next Media Ltd. and associate publisher of Next Magazine Ltd. Mr. Heung was qualified as an associate of the Institute of Bankers, London in 1977. He had also been at various times, a member of the American Economic Association, American Management Association, and Hong Kong Management Association.

SENIOR MANAGEMENT

Mr. Yuen Kam Sun, Joe, aged 38, is the Group's Chief Financial Officer and Company Secretary of the Company. He previously worked for three years in Shanghai as Financial Controller of Dongling Trading Corporation, the first Sino-foreign joint venture company approved by the State Council of the PRC in 1997 to conduct general import and export trading business. Prior to that, he worked for Asian Industries Division of Continental Grain Company for four years focused on the PRC operations. Mr. Yuen has a bachelor degree in social science from the Chinese University of Hong Kong and has a master degree in commerce from University of New South Wales, Australia. He is a full member of the Certified Practicing Accountants (Australia) since 1996.

Mr. An Ning, aged 44, is a Senior Vice President of the Group and is responsible for business development in the PRC and partner relationship. Before that, Mr. An was the Managing Director of the Group's bus joint venture, and has helped to build up its bus advertising network. Prior to joining the Group in January 1997, Mr. An was the Deputy Chief of the Public Transportation Division of the Urban Construction Department under the Ministry of Construction in the PRC for 10 years. This division was responsible for formulating government policies and giving guidance on the development of urban transportation across the PRC. Mr. An holds a master's degree in engineering from the University of Harbin in the PRC.

Mr. Lim Sheng Long, James, aged 33, is a Vice President of the Group as well as the General Manager of the Beijing Top Result Public Transportation Advertising Co., Ltd, responsible for the national sales and operation of the PRC bus business. Prior to joining the Group in September 1998, Mr. Lim was the sales and marketing General Manager of Balsam Manufacturing Limited, a PRC based beverage producer and distributor. Prior to that, Mr. Lim accumulated over seven years of PRC business experience in various sales and marketing positions held at International Distillers China Ltd. and the Swire Group. Mr. Lim is a graduate of the University of Hong Kong.

Mr. Lo Chun Chung, Johnny, aged 44, is the General Manager of i-Result and is responsible for the overall development and operation of outdoormachine.com. Mr. Lo has over 19 years advertising industry experience. Prior to joining i-Result in July 2000, Mr. Lo worked for three years as General Manager of the Media Service Department at Leo Burnett Ltd./Starcom, responsible for all the agency's media business in the PRC and Hong Kong region. Mr. Lo also worked at the Hong Kong Mass Transit Railway Corporation, from 1990 to mid 1996, responsible for managing relationships with the metro system advertising contractors and other commercial activities. Mr. Lo has a bachelor's degree in Mathematics from the Chinese University of Hong Kong, and a master degree in business from the University of Hong Kong.

Ms. Mo Li Yan, aged 50, is currently a Vice President of the Group, with a focus on business development for mall advertising franchise. Ms. Mo also plays an active role in government lobbying. Ms. Mo has been a government official for more than 20 years, and previously held senior positions in various government departments including: Central Commission of Discipline and Inspection of Chinese Communist Party; the Ministry of Domestic Trade; General Corporation of China Material Development Investment and General Corporation of China Storage and Transportation. Ms. Mo has solid experience in relation to government relationships and management. Ms. Mo is a diploma holder of psychics, as well as the recipient of a master of business administration degree from Beijing University.

Mr. Leung Lit Man, Paul, aged 37, is the General Manager of the Group's Hong Kong media business and is responsible for sales and operations. Mr. Leung has over 16 years of advertising experience, including three years working at an advertising agency. Mr. Leung started in sales in Hong Kong working for major newspapers and magazines such as Ming Pao Daily and Tin Tin Daily. He has also worked as a media professional with Ogilvy & Mather where he covered Asia including the PRC.

Ms. Leung Suk Fong, Carol, aged 38, is the Director of Professional Services in charge of research and media planning principles for all business units across the Group. Ms. Leung has 10 years of media experience with advertising agencies, accumulated through servicing at BSB Toronto and Leo Burnett Hong Kong. Prior to joining the Company in October 2000, Ms. Leung spent five years working at Leo Burnett Hong Kong, covering clients such as Philip Morris, McDonald's, Procter & Gamble and Caltex Oil. Ms. Leung played an active role in the industry's media and research associations. She was voted the Chairman of the HK4As Media Sub-Committee and Chairman of HK Audit Bureau of Circulations in 1997; as well as help develop the first Hong Kong Syndicated Radio Survey in 1997.

Mr. Hui See Wai, aged 28, joined the Group as Director of New Technology Applications in May 2000 and is responsible for product development and applying new technology to the existing media portfolio and operations. Prior to joining the Group, Mr. Hui was with Dentsu Young & Rubicam's Impiric ("Dentsu") where he served as Director of Interactive Services and Account Director. His main responsibilities at Dentsu included business development, account management, the development and implementation of e-marketing models and online communication strategies for corporate clients such as Intel, Ericsson, Philips, Cathay Pacific, HSBC, Citibank and the Garden Hotel across Asia. Mr. Hui holds a Computer Engineering degree from the University of Toronto.

The directors are pleased to present their report together with the audited financial statements of MediaNation Inc. (hereinafter referred to as the "Company" and formerly known as Summerine Media Inc.) and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended December 31, 2001.

GROUP REORGANIZATION AND BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on February 27, 1995 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. By a special resolution passed on July 10, 2001, the name of the Company was changed from Summerine Media Inc. to MediaNation Inc.

On July 1, 2000, the Company disposed of its 100% equity interest in Top Result Interactive Limited ("TRI") to the shareholders of the Company at cost. The shareholders of the Company held the same percentage of equity interests in TRI as their equity interests in the Company. On June 30, 2001, the Company acquired the entire share capital of TRI through a share exchange (the "Reorganization") and consequently became the holding company of the companies now comprising the group (together with the Company, collectively referred to as the "Group').

Further details of the Reorganization, are set out in note 1 to the financial statements and in the paragraph headed "Corporate reorganisation" in Appendix V headed "Statutory and general information" to the Company's prospectus and supplemental prospectus dated January 14, 2002 and January 22, 2002 respectively.

Except for the acquisition of a subsidiary from a third party on May 1, 2001 which is accounted for using acquisition accounting, the Reorganization has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation of the financial statements is set out in note 1 to the financial statements.

Subsequent to December 31, 2001, being the balance sheet date, the shares of the Company were listed on GEM on January 24, 2002.

The Company's directors have considered the Group's future liquidity in the light of its net current liabilities of approximately HK$155,242,000 as of December 31, 2001 after taking into consideration of the estimated net listing proceeds of approximately HK$394,000,000 received by the Group on January 24, 2002 after the Listing as mentioned in the preceding paragraph. The directors are satisfied that the Group will be able to meet its financial obligations as they fall due for the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2001 are set out in the consolidated income statement on page 37.

The directors do not recommend the payment of a dividend in respect of the year ended December 31, 2001.

SEGMENTAL INFORMATION

An analysis of the Group's segment information is set out in note 3 to the financial statements.

DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Details of the directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Rule 18.28 of the Rules Governing the List of Securities on GEM are set out in note 10 to the financial statements.

FIXED ASSETS

Details of the movement in fixed assets of the Group during the year ended December 31, 2001 are set out in note 14 to the financial statements.

INTANGIBLE ASSETS

Details of the movement in the intangible assets of the Group during the year ended December 31, 2001 are set out in note 15 to the financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company during the year ended December 31, 2001 are set out in note 23 to the financial statements.

RESERVES

Details of these and other movements during the year ended December 31, 2001 in the reserves of the Group and the Company are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account and the capital reserve of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at December 31, 2001, the reserves of the Company available for distribution to its shareholders amounted to approximately HK$297,221,000, subject to the restrictions stated above.

CONVERTIBLE LOAN NOTES

Particulars of the Company's convertible loan notes as at December 31, 2001 are set out in note 29 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2001 are set out in note 30 to the financial statements.

RETIREMENT BENEFIT OBLIGATION

Particulars of the retirement benefit obligation of the Group as at December 31, 2001 are set out in note 32 to the financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group which took place subsequent to December 31, 2001 and up to the date of the report are set out in note 38 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major customers and suppliers during the year ended December 31, 2001 are set out below:

Customers

The Group has over 1,300 customers spreading over a diverse range of industries such as food and beverage, pharmaceutical, telecommunications and consumer products. For the year ended December 31, 2001, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The largest customer represented 2.1% (2000: 2.4%) of the Group's total turnover.

At no time during the year ended December 31, 2001 did the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any beneficial interest in these major customers.

Suppliers

Due to the nature of business of the Group, the Group does not rely on a large number of suppliers. The directors of the Company consider bus operators to be its long term business partners and have therefore not included them as suppliers. The suppliers the Group uses primarily perform printing, posting, deposting, painting and cleaning services.

The largest supplier of the Group for the year ended December 31, 2001 represented 15.1% (2000 : 41.3%) of the Group's total production expenses (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 43.4% (2000 : 75.9%) of the Group's total production expenses for the year.

At December 31, 2001, Mr. Hui Yick Hun, Patrick, a non-executive director, had a beneficial interest in High Tech Company, one of the five largest suppliers of the Group. All transactions between the Group and the supplier concerned were carried out under normal commercial terms. Save as disclosed above, at no time during the year ended December 31, 2001 did the directors, their associates or any shareholder of the Company, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any beneficial interest in the five largest suppliers of the Group.

DIRECTORS

The directors of the Company who held office during the year ended December 31, 2001 and up to the date of this report are:

Executive Directors:

Ms. Chan Sim Ngor, Summerine	
Mr. Kam Ling *(Chief Executive Officer)*	(Appointed on July 9, 2001)

Non-Executive Directors:

Mr. Sun Qiang, Chang *(Chairman)*	
Mr. Cheung Leung Hong, Cliff	
Mr. Roque, Richard Sandoval	(Appointed on March 2, 2001 and resigned on September 28, 2001)
Mr. Hui Yick Hun, Patrick	
Mr. Andersen, Dee Allen	
Mr. Li Chun, Daniel	(Appointed on July 9, 2001)
Mr. Stewart, James Herbert	(Resigned on March 2, 2001)
Mr. Cheng, Jose	(Resigned on July 9, 2001)

Independent Non-Executive Directors:

Mr. Heung Shu Fai	(Appointed on July 9, 2001)
Mr. Liu Hong Ru	(Appointed on July 9, 2001)

In accordance with Article 112 of the Company's Articles of Association, Mr. Sun Qiang, Chang, Mr. Hui Yick Hun, Patrick and Ms. Chan Sim Ngor, Summerine, will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

Executive directors

Each of Mr. Kam Ling and Ms. Chan Sim Ngor, Summerine has entered into a service agreement with the Company for an initial term of two years commencing from January 1, 2002, and will continue thereafter until terminated by either party with no less than six months' written notice or payment of salary in lieu thereof to the other party, such notice to expire no earlier than June 30, 2004.

Save as disclosed above, none of the directors of the Company who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreements with any member of the Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN SHARE CAPITAL

Subsequent to December 31, 2001 being the balance sheet date, the shares of the Company were listed on GEM on January 24, 2002. As at December 31, 2001, the Company had no notice of any interests to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong, the "SDI Ordinance") as the Company was not listed on GEM as at that date. As at January 24, 2002, i.e., the date on which the Company's shares were listed on GEM, the interests of the directors and the chief executives of the Company in the equity or debt securities of the Company and its associated corporations (as defined in the SDI Ordinance) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register required to be kept therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rule, relating to securities transaction by directors, to be notified to the Company and the Stock Exchange (other than options which have been granted under any pre-IPO share option plans of the Company to certain directors of the Company, details of such options are set out in the paragraph headed "Pre-IPO Share Option Plans" below), were as follows:

	Number of shares of HK$0.10 each in the issued share capital of the Company held and nature of interests				
Name of director/chief executive	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Ms. Chan Sim Ngor, Summerine	26,252,118	—	—	—	26,252,118
Mr. Hui Yick Hun, Patrick	13,126,059	—	—	—	13,126,059
	39,378,177	—	—	—	39,378,177

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Option Plans" below, during the December 31, 2001 and up to the date of this report none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations and none of the directors, chief executives or any of their respective spouses or children under the age of 18 were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Pre-IPO Share Option Plans

Prior to the Listing of the Company's shares on GEM, the board of directors was authorized, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to certain directors and employees of the Group to subscribe for ordinary shares in the Company under the terms of three share option plans of the Company (the "Pre-IPO Share Option Plans"). A summary of the terms of these share option plans was set out in the paragraph headed "Share options – Summary of the principal terms of the Pre-IPO Share Option Plans" in Appendix V headed "Statutory and general information" of the Prospectus dated January 14, 2002 issued by the Company (the "Prospectus"). Further details of the Pre-IPO Share Option Plans are set out in note 34 to the financial statements.

Under the terms of the Pre-IPO Share Option Plans, details of the Pre-IPO Share Options granted to and held by the directors of the Company as at December 31, 2001 and up to the date of this report were set out as follows:

		Number of shares subject to the Pre-IPO Share Options							
Name of director	Date of grant	Outstanding at January 1, 2001	Granted during the year end December 31, 2001	Exercised during the year	Outstanding at December 31, 2001	Adjusted number of Shares subject to the Pre-IPO Share Options as at the date of this report[1]	Pre-adjusted execrcise price US $	Adjusted exercise price per share[1] US $	Exercise period of share options
Chan Sim Ngor, Summerine	July 1, 1997	77,500	—	—	77,500	2,712,500	1.333334	0.038095	July 1, 1998 to June 30, 2007[2]
	April 1, 2000	65,000	—	—	65,000	2,275,000	1.333334	0.038095	April 1, 2001 to March 31, 2010[2]
	April 1, 2000	81,000	—	—	81,000	2,835,000	6.000000	0.171429	April 1, 2001 to March 31, 2010[2]
	September 1, 2000	49,000	—	—	49,000	1,715,000	1.333334	0.038095	September 1, 2001 to August 31, 2010[2]
	May 5, 2001	—	70,000	—	70,000	2,450,000	6.000000	0.171429	May 5, 2002 to May 4, 2011[2]
	June 9, 2001	—	543,901	—	543,901	19,036,535	7.239441	0.206841	June 9, 2001 to June 8, 2011[3]
Kam Ling	July 1, 1997	50,000	—	—	50,000	1,750,000	1.333334	0.038095	July 1, 1998 to June 30, 2007[2]
	April 1, 2000	50,000	—	—	50,000	1,750,000	1.333334	0.038095	April 1, 2001 to March 31, 2010[2]
	September 1, 2000	55,000	—	—	55,000	1,925,000	1.333334	0.038095	September 1, 2001 to August 31, 2010[2]
	May 5, 2001	—	175,000	—	175,000	6,125,000	6.000000	0.171429	May 5, 2002 to May 4, 2011[2]
Hui Yick Hun, Patrick	April 1, 2000	15,000	—	—	15,000	525,000	1.333334	0.038095	April 1, 2001 to March 31, 2010[2]
	September 1, 2000	22,056	—	—	22,056	771,960	1.333334	0.038095	September 1, 2001 to August 31, 2010[2]
	May 5, 2001	—	30,000	—	30,000	1,050,000	6.000000	0.171429	May 5, 2002 to May 4, 2011[2]
	June 9, 2001	—	271,949	—	271,949	9,518,215	7.239441	0.206841	June 9, 2001 to June 8, 2011[3]

(1) Pursuant to a reorganisation of capital structure (taking into account the Global Offering and the Capitalisation Issue (both as defined in the Prospectus)) , the respective number of shares subject to the Pre-IPO Share Options and the exercise prices for such options were adjusted such that the entitlements of all the grantees under the Pre-IPO Share Option Plans were not diluted as a result of the Capitalisation Issue.

(2) Each of these Pre-IPO Share Options shall vest in respect of one third of the total number of shares to which it relates upon each anniversary of the respective date of grant until fully vested.

(3) Each of these Pre-IPO Share Options was fully vested upon its grant and may be exercised at any time during the period commencing on the respective date of grant and expiring on the tenth anniversary thereof.

Save as disclosed above as at December 31,2001 and up to the date of this report, no Pre-IPO Share Options were granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under any of the Pre-IPO Share Options Plans to any directors of the Company. Each of the holders of the Pre-IPO Share Options has agreed with the Company not to exercise such options until six months after the listing.

Subsequent to the balance sheet date, on January 8, 2002, the Company conditionally adopted a further share option scheme (the "Share Option Scheme") for a period of ten years from the date on which the Share Option Scheme was adopted. The Share Option Scheme became unconditional upon the Listing of the Company's shares on the GEM of the Stock Exchange on January 24, 2002.

The principal purposes of the Share Option Scheme is to recognize the significant contributions of the full-time employees, executive directors, non-executive directors (including independent non-executive directors), any consultants or advisor of or to any member of the Group to the growth of the Group by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long term success and prosperity. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

As at the date of this report, no share options were granted under the Share Option Scheme.

Details of the movement in share options of the Company are set out in note 34 to the financial statements.

In respect of options granted during the financial year, the directors consider that it would not be practical to disclose the value of these options because the Company's shares are not listed on the GEM of the Stock Exchange at the time when the options are granted.

Save as disclosed above and other than in connection with the Reorganization and the Company's placing and public offer of shares on the GEM of the Stock Exchange, at no time during the year and up to the date of this report was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Biographical details of the directors of the Company and of the senior management and staff of the Group are set out on page 16 to 20 of the annual report.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2001, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company was not listed on GEM as at that date. As at January 24, 2002, i.e., the date on which the Company's shares were listed on GEM, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had a beneficial interest of 10% or more in the issued share capital of the Company (other than those interests of directors disclosed above):

Name of shareholder	**Number of shares**	**Approximate percentage of the total number of shares in issue as at January 24, 2002**
SMI Investors (PAPE II) Limited ("PAMA")	159,130,088	26.3
Warburg Pincus Ventures, L.P. ("Warburg Pincus")	159,130,088	26.3

Saved as disclosed above, the directors of the Company are not aware of any person (other than the directors of chief executives of the Company) who as at January 24, 2002 was interested in 10% or more of the share capital of the Company which was required to be recorded in the register of interests of the Company pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

As disclosed in the section headed "Waivers from compliance with the GEM Listing Rules and the Companies Ordinance" in the Prospectus, the Group has entered into the following continuing connected transactions as defined under the GEM Listing Rules:

Mr. Hui Yick Hun, Patrick, a non-executive director of the Company, is a partner in High Tech Company. Pursuant to an outsourcing contract entered into between Top Result Promotion Limited ("Top Result"), a wholly-owned subsidiary of the Company, and High Tech Company dated June 1, 1999 ("the Outsourcing Contract"), High Tech Company has agreed to provide certain posting and deposting services (more specifically set out in Schedule 1 of the Outsourcing Contract) to Top Result with effect from June 1, 1999 until October 31, 2004. The fee payable under the Outsourcing Contract is calculated by reference to the cost of production and amounted to HK$10,005,000 for the year ended December 31, 2001 (2000: HK$11,539,000).

The transactions contemplated under the Outsourcing Contract ("Connected Transactions") are expected to continue in the future and each Connected Transaction constitutes a non-exempt continuing connected transaction under Rule 20.26 of the GEM Listing Rules. Under the GEM Listing Rules, such transactions are normally subject to the reporting and announcement requirements set out in Rule 20.34 and Rule 20.35 of the GEM Listing Rules, respectively and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules.

However, as the Connected Transactions will be conducted in the normal course of business of Top Result and will occur on a regular basis, the directors (including the independent non-executive directors) of the Company consider that it would not be practical to make ongoing disclosure of such transactions. As such, the Company has obtained from the Stock Exchange a conditional waiver (the "Waiver") from the announcement and shareholders' approval requirements under Rule 20.35 and Rule 20.36 of the GEM Listing Rules, respectively, for the period up to the expiration of the term of the Outsourcing Contract unless further waiver has been granted by the Stock Exchange. The Waiver was granted on the condition that, among other things:

(a) in each financial year the aggregate amount of all Connected Transactions does not exceed an annual cap of HK$17.0 million (the "Cap");

(b) the independent non-executive directors of the Company shall review the Connected Transactions annually and confirm in the Company's annual report and accounts that the Connected Transactions have been or will be entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the Outsourcing Contract, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(c) as the Cap exceeds HK$10 million, pursuant to Rule 20.30 of the GEM Listing Rules, the Outsourcing Contract and the Cap are subject to review and re-approval by independent shareholders of the Company at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the Connected Transactions continue and, for this purpose, the independent non-executive directors of the Company are required to opine in the Company's annual report whether or not the Company should continue with the Outsourcing Contract.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" above, there were no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year ended December 31, 2001.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended December 31, 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SPONSOR'S INTEREST

Neither Deutsche Bank AG, Hong Kong Branch (the "Sponsor") nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at December 31, 2001.

Pursuant to an agreement dated January 23, 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from January 24, 2002 until December 31, 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PAMA Private Equity Limited Partnership I ("PAMA I"), an affiliated fund of SMI Investors (PAPEII) Limited ("PAMA"), is a private equity fund which has investments in various businesses including Texon International Limited ("Texon"). Texon is a competitor of the Group in the Hong Kong bus shelter market. PAMA I has two nominees appointed to the board of Texon, one of whom is Mr. Andersen, Dee Allen who is also a non-executive director of the Company. PAMA I and the Cayman Islands limited partnership private equity fund which owns PAMA are both managed by PAMA Group Inc. ("PAMA Group"), which is also the general partner in these two private equity funds. PAMA Group is a wholly owned subsidiary of PAMA Investment Holdings Limited ("PIHL"), Mr. Cheung Leung Hong, Cliff, a non-executive director of the Company, is a shareholder of PIHL and has an indirect interest of less than 0.5% in the share capital of Texon.

Save as disclosed above, as at December 31, 2001, none of the directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") on September 10, 2001 and has formulated its written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are to consider all matters relating to the financial controls and reporting of the Group and the Group's internal and external audit. Its responsibilities include overseeing the financial reporting processes, reviewing audited results, audit processes, the cost effectiveness, independence and objectivity of the auditors, accounting policies, compliance issues, internal control procedures and interactions with the internal and external auditors. The Group's financial statements for the year ended December 31, 2001 have been reviewed by the Committee.

The members of the Committee appointed during the financial year and up to the date of this report are as follows:

Mr. Heung Shu Fai *	(Appointed as a member and the chairman of the Committee on September 10, 2001)
Mr. Liu Hong Ru *	(Appointed as a member of the Committee on September 10, 2001)
Mr. Andersen, Dee Allen	(Appointed as a member of the Committee on September 10, 2001)

* *Independent non-executive directors*

BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM on January 24, 2002, except that the independent non-executive directors are not appointed for a specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the Companies Law (2001 Second Revision) of the Cayman Islands or any applicable laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY

During the year ended December 31, 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities as the Company's securities were listed after the end of the year.

AUDITORS

The accompanying financial statements of the Company were audited by Arthur Andersen & Co. A resolution for the reappointment of Arthur Andersen & Co as auditors of the Company for the year ending December 31, 2002 is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of
Directors of MediaNation Inc.,

Sun Qiang, Chang
Chairman
Hong Kong, March 26, 2002

ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

TO THE SHAREHOLDERS OF MEDIANATION INC.
(Formerly known as Summerine Media Inc.;
Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of MediaNation Inc. (the "Company") and its subsidiaries (together with the Company, collectively referred to as the "Group") on pages 37 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2001 and of the profit and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong, March 26, 2002

FOR THE YEAR ENDED DECEMBER 31, 2001

	NOTE(S)	2001	2000
		HK$'000	HK$'000
			(Notes 1 and 39)
Turnover	3, 4, 31(a)	**473,882**	418,781
Cost of revenue	31(a)	**(354,996)**	(311,317)
Gross profit		**118,886**	107,464
Other income, net	5	**5,568**	2,782
Selling, general and administrative expenses	31(a)	**(112,579)**	(94,193)
Profit from operations		**11,875**	16,053
Finance costs	6	**(14,412)**	(5,075)
Professional fees incurred in connection with a fund raising exercise		**—**	(4,989)
		(2,537)	5,989
Share of profits or losses of associated companies	18	**16,530**	23,110
Profit before taxation	7	**13,993**	29,099
Income tax expense			
— The Company and subsidiaries		**(3,552)**	(5,312)
— Associated companies	9, 18	**(6,713)**	(8,096)
	9	**(10,265)**	(13,408)
Profit after taxation but before minority interests		**3,728**	15,691
Minority interests		**(267)**	(2,977)
Net profit attributable to shareholders	3, 8	**3,461**	12,714
Earnings per share (HK cents)			
— Basic	12	**0.80**	2.93
— Diluted	12	**0.76**	2.84

	2001	2000
	HK$'000	HK$'000 (Note 1)
Net (losses) gains not recognized in the consolidated income statement		
— Exchange differences on translation of financial statements of foreign subsidiaries	**(100)**	1,668
Net profit attributable to shareholders	**3,461**	12,714
Total recognized gains	**3,361**	14,382

	NOTE(S)	2001	2000
		HK$'000	HK$'000 (Notes 1 and 39)
ASSETS			
Non-current assets			
Investment deposit placed with a joint venture partner - non-current	13	**8,727**	20,157
Fixed assets, net	14	**51,072**	17,704
Intangible assets, net	15	**351,879**	381,175
Long-term deposits	16	**62,219**	58,037
Investment in associated companies	18	**23,867**	14,621
Deposit for intangible assets	19	**36,041**	6,075
Other non-current assets		**748**	—
		534,553	497,769
Current assets			
Investment deposit placed with a joint venture partner - current	13	**11,430**	11,682
Prepayments, deposits and other receivables		**71,434**	32,199
Amount due from a joint venture partner	17(b)	**3,305**	2,357
Amounts due from related companies	31(b)	**416**	16
Amount due from a senior executive	20	**547**	—
Inventories		**2,514**	—
Income tax recoverable		**99**	—
Accounts receivable, net	21, 35	**102,676**	76,243
Pledged bank deposit	35	**19,493**	—
Cash and cash equivalents	22, 33(d)	**18,916**	12,900
		230,830	135,397
Total assets		**765,383**	633,166
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	**961**	961
Reserves	24	**322,969**	319,608
		323,930	320,569
Minority interests		**7,465**	5,578

	NOTE(S)	2001	2000
		HK$'000	HK$'000 (Notes 1 and 39)
Non-current liabilities			
Deferred taxation	25	**—**	—
Long-term payables	26	**47,916**	58,937
		47,916	58,937
Current liabilities			
Accounts payable	28	**62,778**	72,401
Accrued liabilities and other payables		**47,008**	42,792
Amount due to a director		**—**	120
Deferred income		**41,181**	67,896
Amounts due to related companies	31(b)	**1,073**	—
Obligations under finance leases-current portion	27	**944**	—
Income tax payable		**12,994**	13,381
Convertible loan notes	29	**116,960**	—
Bank loans and other borrowings	30	**103,134**	51,492
		386,072	248,082
Total equity and liabilities		**765,383**	633,166

Approved by the Board of Directors on March 26, 2002 and signed on behalf of the Board by

Sun Qiang, Chang
Director

Kam Ling
Director

	NOTE	2001	2000
		HK$'000	HK$'000 (Notes 1 and 39)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	33(a)	**(28,280)**	117,529
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**1,553**	1,715
Interest paid		**(5,816)**	(5,075)
Dividend received from an associated company		**13,295**	8,960
		9,032	5,600
TAXATION			
Hong Kong profits tax paid		**(99)**	—
Overseas taxation paid		**(7,486)**	(12,971)
		(7,585)	(12,971)
INVESTING ACTIVITIES			
Decrease (Increase) in investment deposit placed with a joint venture partner		**11,682**	(934)
Purchase of fixed assets		**(38,603)**	(11,791)
Proceeds from disposals of fixed assets		**1,038**	212
Payments for acquisition of intangible assets		**(28,199)**	(63,189)
Payments of long-term deposits		**(4,182)**	(40,037)
Increase in investment in associated companies		**—**	(17,623)
Increase in other non-current assets		**(748)**	—
Increase in deposit for intangible assets		**(36,041)**	(6,075)
Increase in amount due from a joint venture partner		**(948)**	(21)
(Decrease) Increase in long-term payables		**(11,021)**	3,084
Increase in cash and bank balances due to acquisition of subsidiaries	33(b)	**1,842**	—
		(105,180)	(136,374)
NET CASH OUTFLOW BEFORE FINANCING		**(132,013)**	(26,216)
FINANCING			
Proceeds from issuance of convertible loan notes	33(c)	**116,960**	—
New bank loans repayable within one year	33(c)	**56,602**	47,150
Repayment of bank loans repayable within one year	33(c)	**(47,150)**	(23,364)
Increase (Decrease) in loans from financial institutions	33(c)	**22,690**	(641)
New loan from a third party	33(c)	**19,500**	—
Increase in pledged bank deposit		**(19,493)**	—
Decrease (Increase) in restricted cash	33(d)	**327**	(1,554)
Repayment of principal portion of obligations under finance leases	33(c)	**(1,293)**	—
Payment for professional fees incurred in connection with funding raising exercises		**(8,829)**	—
Payment for loan financing fees		**(979)**	—
		138,335	21,591
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,322**	(4,625)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES		**21**	(1,744)
CASH AND CASH EQUIVALENTS			
Beginning of year		**11,346**	17,715
End of year	33(d)	**17,689**	11,346

	NOTE	2001	2000
		HK$'000	HK$'000
ASSETS			
Non-current assets			
Investment in subsidiaries	17	**292,075**	301,959
Current assets			
Prepayments, deposits and other receivables		**17,459**	—
Loan to a subsidiary	17	**116,960**	—
		134,419	—
Total assets		**426,494**	301,959
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	**961**	961
Reserves	24	**297,221**	297,427
		298,182	298,388
Current liabilities			
Accrued liabilities and other payables		**11,352**	3,571
Convertible loan notes	29	**116,960**	—
		128,312	3,571
Total equity and liabilities		**426,494**	301,959

Approved by the Board of Directors on March 26, 2002 and signed on behalf of the Board by

Sun Qiang, Chang
Director

Kam Ling
Director

1. ORGANIZATION, BASIS OF PRESENTATION AND OPERATIONS

MediaNation Inc. (the "Company" and formerly known as Summerine Media Inc.) was incorporated in the Cayman Islands on February 27, 1995 as an international company under the Companies Law (2001 Second Revision) of the Cayman Islands.

On July 1, 2000, the Company disposed of its 100% equity interest in Top Result Interactive Limited ("TRI") to the shareholders of the Company at cost. The shareholders of the Company held the same percentage of equity interests in TRI as their equity interests in the Company. On June 30, 2001, the Company acquired the entire share capital of TRI through a share exchange (the "Reorganization") and consequently became the holding company of the companies now comprising the group (together with the Company, collectively referred to as the "Group").

The Reorganization involved companies under common control and has been accounted for as a reorganization of the Group as a continuing entity. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" as if the current group structure had been in existence since the earliest period presented.

Pursuant to a written resolution of all the shareholders of the Company dated July 10, 2001, the Company changed its name from Summerine Media Inc. to MediaNation Inc.

The Company's ordinary shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since January 24, 2002 (the "Listing").

The Company's directors have considered the Group's future liquidity in the light of its net current liabilities of approximately HK$155,242,000 as of December 31, 2001 after taking into consideration of the estimated net listing proceeds of approximately HK$394,000,000 received by the Group on January 24, 2002 after the Listing as mentioned in the preceding paragraph. The directors are satisfied that the Group will be able to meet its financial obligations as they fall due for the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

The Group is principally engaged in the provision of outdoor advertising media services in the People's Republic of China (the "PRC") and Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, and the accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. Principal accounting policies are summarized below:

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(b) Adoption of Statements of Standard Accounting Practice ("SSAPs")

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 17 "Property, plant and equipment" and SSAP 18 "Revenue".

SSAP 26 establishes principles for reporting financial information by segments to help users of financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

The Group considers that the adoption of or the consequential changes made to the above SSAPs will not have a material impact on the financial statements of the Group.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(c) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. Except for the Reorganization as mentioned in Note 1, the results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless the cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events under similar circumstances.

In the Company's financial statements, investment in subsidiaries are carried at cost less accumulated impairment losses, if any. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends received and receivable.

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalized as an additional cost of the fixed assets.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(d) Fixed assets and depreciation – continued

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life and in the case of light boxes and fixed assets under Beijing Top Result Public Transportation Advertising Co., Ltd., i-Result (Beijing) Technology Development Co., Ltd. and China Outdoor Data Centre Co., Ltd., subsidiaries established in the PRC, after taking into account an estimated residual value of 10% of the costs of the fixed assets. The expected useful lives are as follows:

Leasehold improvements	Over the unexpired lease term
Furniture, fixtures and equipment	3 - 5 years
Production equipment	3 years
Unipoles	10 years
Motor vehicles	5 years
Advertising display panels	10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the income statement.

(e) Construction-in-progress

Construction-in-progress is stated at cost less accumulated impairment losses, if any. This includes cost of construction, plant and equipment and other direct costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(f) Investment in associated companies

Investment in associated companies where significant influence is exercised by the Group is accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the associated companies, distributions received from the associated companies and other necessary alterations in the Group's proportionate interest in the associated companies arising from changes in the equity of the associated companies that have not been included in the income statement and less accumulated impairment losses, if any. The Group's share of post-acquisition results of associated companies is included in the consolidated income statement.

(g) Interest in joint ventures

The Group's investment in joint ventures in the PRC are in the form of Sino-foreign cooperative joint ventures and Sino-foreign equity joint ventures. In respect of the Sino-foreign cooperative joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture periods may not be in proportion to their equity ratio, but are as defined in the respective joint venture contracts.

A jointly controlled joint venture is a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Where the Group's investment is made by means of joint venture structure, such investment is accounted for as a subsidiary when the Group can control the board of directors or is in a position to exercise control over the financial and operating policies of the joint venture. A joint venture, not being treated as a subsidiary, in which the Group can exercise significant influence over its management is treated as an associated company.

(h) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Internally generated intangible assets are charged against income in the period incurred. Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(h) Intangible assets – continued

After initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets mainly comprise the following:

(i) Advertising license rights

Advertising license rights represent license fees paid for the acquisition of exclusive rights of advertising on certain buses in the PRC. These fees are capitalized and amortized on a straight-line basis over the respective license periods.

(ii) Premium for redemption of a profit sharing right

Premium for the redemption of a profit sharing right previously granted to a lender under the terms of a loan agreement is capitalized and amortized over the remaining term of the advertising licenses from which the subject profit is derived.

(iii) Computer software

Computer software is amortized on a straight-line basis over its estimated useful life which is 5 years.

The amortization periods and the amortization method are reviewed periodically.

(i) Goodwill

Goodwill arising from the formation or acquisition of investments in subsidiaries or associated companies represents the excess of the cost of investment over the Group's share of fair value of the identifiable assets and liabilities of the investee. With respect to investment in associated companies accounted for under the equity method of accounting, goodwill is included in the carrying amount of the investments. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses, if any. Goodwill is amortized on a straight-line basis over the shorter of 20 years or the tenure of the investments.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(j) Website development costs

Costs directly associated with the development of a specific website, including external direct costs of materials and services consumed in developing or obtaining an external-use website, are capitalized. The capitalization of such costs ceases no later than the point at which the website is substantially completed and ready for its intended use. Website development costs are amortized on a straight-line basis over a period of three years, which represents the expected useful life of the website. The Company's directors review and evaluate the recoverability of the carrying value of the website development costs periodically.

Research and other development costs relating to website development and website maintenance costs are expensed in the period in which they are incurred.

(k) Inventories

Inventories, mainly raw materials, are stated at the lower of cost and net realizable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are stated at their cost after provision for doubtful debts.

(m) Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(n) Leases

(i) Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to the ownership of an asset. Title may or may not eventually be transferred.

The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts at the inception of the lease equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

(ii) Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

(o) Provisions

A provision is recognized when an enterprise has a present legal or constructive obligation as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(p) Turnover and direct costs

Turnover represents gross media rental, production income, agency commission income and media consultancy services income from the provision of outdoor media services, net of discounts.

Direct costs, including direct taxes on the generation of turnover, are recorded as cost of revenue. Subsidiaries in the PRC are subject to business tax and cultural tax at a rate of 5% and 3%-4% respectively of their gross revenues and are recorded as cost of revenue.

(q) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs can be measured reliably, revenue is recognized on the following bases:

(i) Media rental

Media rental from the provision of outdoor media advertising services is recognized on a time apportionment basis. The unearned portion of media rental attributable to future accounting periods is accounted for as deferred income.

(ii) Production income

Production income from the provision of advertising production services, which generally is of short duration, is recognized when the contracts are completed.

(iii) Agency commission income

Agency commission income, which is generated from acting as an agent for customers in buying advertising space on their behalf, is recognized when administrative and supporting services are rendered.

(iv) Media consultancy services income

Media consultancy services income is recognized when the consultancy services are rendered.

(v) Interest income

Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rates applicable.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(r) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or asset will crystallize.

(s) Foreign currency

(i) Foreign currency transactions

The Group companies maintain their books and records in Hong Kong dollars or Renminbi ("RMB") ("functional currencies"). Transactions in other currencies are translated into the respective functional currencies at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. All exchange differences are recognized in the income statement in the period in which they arise.

(ii) Foreign entities

The majority of foreign consolidated subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at an average rate for the year with respect to the income statement. All resulting translation differences are included in the translation reserve included in equity.

(t) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except to the extent that they are attributable to the acquisition, construction or production of an asset that necessarily involves a substantial period of time before the asset is ready for its intended use or sale, in which case the borrowing costs are capitalized as part of the cost of the asset.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(u) Advertising expenses

Advertising expenses are charged to the income statement as incurred.

(v) Employee benefits

The Group provides defined contribution plans based on relevant laws and regulations. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

(w) Impairment of assets

Fixed assets, intangible assets and investment in associated companies and subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income for items of these assets. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

(x) Segments

Business segments: for management purposes the Group's business in the PRC and Hong Kong is organized into four major operating businesses. The divisions are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 3.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

2. PRINCIPAL ACCOUNTING POLICIES – continued

(y) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(z) Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(aa) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. SEGMENT INFORMATION

(a) Primary segment

The Group is engaged in providing outdoor media advertising services under four business segments, namely, media rental, advertising production services, agency services and media consultancy services. An analysis by business segment information is as follows:

	Media rental		Advertising production services		Agency services		Media consultancy services		Corporate		Eliminations		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
TURNOVER														
Sales to external customers	**370,891**	337,908	**81,861**	74,195	**12,041**	6,390	**9,089**	—	**—**	288	**—**	—	**473,882**	418,781
Inter-segment sales	**8,163**	11,977	**9,301**	—	**—**	—	**10,482**	—	**—**	—	**(27,946)**	(11,977)	**—**	—
Total turnover	**379,054**	349,885	**91,162**	74,195	**12,041**	6,390	**19,571**	—	**—**	288	**(27,946)**	(11,977)	**473,882**	418,781
RESULTS														
Segment profit (loss) before amortization and depreciation	**162,718**	161,987	**10,041**	519	**10,252**	6,071	**12,353**	—	**(104,629)**	(87,524)	**(9,413)**	(64)	**81,322**	80,989
Amortization and depreciation	**(63,238)**	(61,323)	**(2,394)**	—	**—**	—	**(1,433)**	—	**(8,368)**	(6,395)	**418**	—	**(75,015)**	(67,718)
Segment profit (loss)	**99,480**	100,664	**7,647**	519	**10,252**	6,071	**10,920**	—	**(112,997)**	(93,919)	**(8,995)**	(64)	**6,307**	13,271
Other income, net													**5,568**	2,782
Profit from operations													**11,875**	16,053
Finance costs													**(14,412)**	(5,075)
Professional fee incurred in connection with a fund raising exercise													**—**	(4,989)
Share of net profits or losses of associated companies													**16,530**	23,110
Income tax expense													**(10,265)**	(13,408)
Profit after taxation but before minority interests													**3,728**	15,691
Minority interests													**(267)**	(2,977)
Net profit attributable to shareholders													**3,461**	12,714

3. SEGMENT INFORMATION – continued

(a) Primary segment – continued

	Media rental		Advertising production services		Agency services		Media consultancy services		Corporate		Eliminations		Total	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS														
Segment assets	**601,055**	559,612	**8,602**	14,533	**3,484**	—	**13,681**	6,243	**114,694**	38,157	**—**	—	**741,516**	618,545
Investment in associated companies													**23,867**	14,621
Total assets													**765,383**	633,166
LIABILITIES														
Segment liabilities	**133,171**	147,816	**26,457**	10,114	**—**	—	**106**	—	**274,254**	149,089	**—**	—	**433,988**	307,019
OTHER INFORMATION														
Capital expenditure	**78,873**	63,189	**58**	—	**—**	—	**2,795**	6,075	**21,865**	11,791	**—**	—	**103,591**	81,055
Provision for doubtful debts	**1,142**	2,056	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**1,142**	2,056

3. SEGMENT INFORMATION – continued

(b) Secondary segment

An analysis of the Group's revenue by geographical location for the year ended December 31, 2001 is as follows:

	The PRC		Hong Kong		Total	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
TURNOVER						
Sales to external customers	**311,522**	250,893	**162,360**	167,888	**473,882**	418,781

An analysis of segment assets and capital expenditure of the Group by geographical location for the year ended December 31, 2001 is as follows:

	The PRC		Hong Kong		Total	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**522,010**	470,010	**243,373**	163,156	**765,383**	633,166
Capital expenditure	**71,009**	70,653	**32,582**	10,402	**103,591**	81,055

4. REVENUE

	2001	2000
	HK$'000	HK$'000
Media rental	**370,891**	337,908
Production income	**81,861**	74,195
Agency commission income	**12,041**	6,390
Media consultancy services income	**9,089**	—
Others	**—**	288
Total turnover	**473,882**	418,781
Interest income from bank deposits	**1,553**	1,715
Total revenue	**475,435**	420,496

5. OTHER INCOME, NET

	2001	2000
	HK$'000	HK$'000
Interest income from bank deposits	**1,553**	1,715
Gain (Loss) on disposals of fixed assets, net	**4,573**	(207)
Loss on disposals of intangible assets	**(141)**	—
Exchange (loss) gain, net	**(258)**	132
Income from forfeited contributions upon the termination of the former defined contribution provident fund	**—**	846
Others	**(159)**	296
	5,568	2,782

6. FINANCE COSTS

	2001	2000
	HK$'000	HK$'000 (Note 39)
Interest on		
— Convertible loan notes	**8,492**	—
— Bank loans and overdrafts	**3,540**	1,743
— Loans from financial institutions	**338**	1,108
— Loan from a third party	**47**	—
— Finance leases	**279**	—
— Accounts payable (Note 28)	**1,127**	961
— Long-term payables (Note 26)	**589**	1,263
	14,412	5,075

Except for the long-term payables, all finance costs are related to loans or payables due within one year.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging and crediting the following:

	2001	2000
	HK$'000	HK$'000 (Note 39)
Charging:		
Depreciation on		
— owned assets	8,682	6,395
— assets under finance leases	1,514	—
Loss on disposals of fixed assets, net	—	207
Loss on disposals of intangible assets	141	1,633
Directors' emoluments (see Note 10)		
— fees	300	—
— other emoluments	3,372	2,914
Auditors' remuneration	1,000	520
Amortization of the following intangible assets included in cost of sales		
— advertising license rights	62,635	59,176
— premium for redemption of a profit sharing right	223	1,340
— computer software	1,813	807
Amortization of goodwill included in		
— administrative expenses	115	—
— share of profits or losses of associated companies	1,268	1,268
Amortization of website development costs included in administrative expenses	33	—
Operating lease rentals for		
— office premises	11,654	8,501
— advertising spaces	184,272	145,455
Interest expense (see Note 6)	14,412	5,075
Staff costs (including directors' emoluments)	58,982	46,311
Provision for doubtful debts	1,142	2,056
Exchange loss, net	258	—
Crediting:		
Gain on disposals of fixed assets, net	4,573	—
Interest income from bank deposits	1,553	1,715
Exchange gain, net	—	132

8. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a loss of approximately HK$206,000 (2000 - HK$5,262,000) which has been dealt with in the financial statements of the Company.

9. INCOME TAX EXPENSE

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the year ended December 31, 2001. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits in Hong Kong for the year ended December 31, 2000.

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax on their taxable income at a combined national and local tax rate of 33% (2000 - 33%). Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	2001	2000
	HK$'000	HK$'000
Hong Kong profits tax	**—**	122
PRC enterprise income tax	**3,597**	12,500
Write-back of provision for Hong Kong profits tax in respect of prior years	**—**	(3,313)
Write-back of deferred taxation (Note 25)	**(45)**	(3,997)
Share of associated companies' income tax expense	**6,713**	8,096
	10,265	13,408

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Details of directors' emoluments pursuant Section 161 of the Companies Ordinance are set out below:

	2001	2000
	HK$'000	HK$'000
Non-executive directors		
Fees	**300**	—
Executive directors		
Fees	**—**	—
Basic salaries, housing benefits, other allowances and benefits in kind	**3,240**	2,270
Pension scheme contributions	**132**	66
Bonus	**—**	578
	3,372	2,914
Total	**3,672**	2,914

The emoluments of the directors (including executive and non-executive directors) analyzed by the number of directors and emolument ranges are as follows:

	Number of directors	
	2001	2000
Up to HK$1,000,000	**10**	6
HK$1,000,001 - HK$1,500,000	**1**	—
HK$1,500,001 - HK$2,000,000	**1**	—
HK$2,000,001 - HK$2,500,000	**—**	—
HK$2,500,001 - HK$3,000,000	**—**	1
	12	7

During the year ended December 31, 2001, the two (2000 - one) executive directors received individual emoluments of approximately HK$1,986,000 (2000 - HK$2,674,000) and HK$1,386,000 (2000 - nil). Among the ten (2000 - six) non-executive directors, one non-executive director received an emolument of approximately HK$300,000 (2000 - HK$240,000) while the remaining nine (2000 - five) non-executive directors did not receive any emolument.

10. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS – continued

Two executive directors waived part of their emoluments amounting to HK$110,000 each (2000 - nil) in 2001.

During the year, no emoluments were paid to the directors as an inducement to join the Group or as compensation for loss of office (2000 - same).

(b) Details of five highest paid individuals' emoluments are set out below:

Of the five highest paid individuals in the Group, two (2000 - one) are directors of the Company whose emoluments are included above. The emoluments of the remaining three (2000 - four) individuals were as follows:

	2001	2000
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**3,696**	5,776
Pension scheme contributions	**176**	160
Bonus	**—**	1,646
Total	**3,872**	7,582

Their emoluments (including directors and other employees) were within the following bands:

	2001	2000
HK$1,000,001 - HK$1,500,000	**4**	—
HK$1,500,001 - HK$2,000,000	**1**	2
HK$2,000,001 - HK$2,500,000	**—**	2
HK$2,500,001 - HK$3,000,000	**—**	1
Total	**5**	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

11. DIVIDENDS

No dividends were paid or declared by the Company during the year (2000 - nil).

12. EARNINGS PER SHARE

As a result of the Capitalization Issue described in Note 23, the number of ordinary shares described in this Note 12 was adjusted accordingly.

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$3,461,000 (2000 - HK$12,714,000), divided by the weighted average number of ordinary shares outstanding during the year as shown in the table below.

Diluted earnings per share is computed by dividing the Group's net profit attributable to shareholders of HK$3,461,000 (2000 - HK$12,714,000) by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares (including the dilutive effects of the conversion of all the outstanding convertible loan notes and the exercise of all the outstanding share options on January 1, 2001 or, if later, the date of issue of the convertible loan notes/share options). Reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share is as follows:

	2001	2000
Weighted average number of ordinary shares used in calculation of basic earnings per share	**433,672,995**	433,672,995
Deemed issue of ordinary shares for no consideration	**23,327,535**	13,749,115
Weighted average number of ordinary shares used in calculaton of diluted earnings per share	**457,000,530**	447,422,110

13. INVESTMENT DEPOSIT PLACED WITH A JOINT VENTURE PARTNER

In accordance with the terms of an agreement dated November 8, 1996 and a supplementary agreement dated June 8, 1998, in order to guarantee the performance of the Group's obligations on the profit sharing arrangements as described in Note 18, the Group is required to place an investment deposit totaling RMB45,000,000 with the Chinese joint venture partner of Beijing Top Result Metro Advertising Co. Ltd. ("BJ Metro"), an associated company. As at December 31, 2001, the Group had made deposits in aggregate of RMB45,000,000.

Refund of the investment deposit has been agreed to be made in six annual instalments starting from January 1, 1999. The annual instalment amount was pre-determined at 50% of the amount of distributed profit of the preceding year of BJ Metro to be shared by the Chinese joint venture partner. Any remaining balance will be refunded within 180 days after the end of the sixth year. As at December 31, 2001, the amount of refund of the investment deposit received by the Group was RMB23,500,000 (2000 - RMB11,000,000).

The Chinese joint venture partner will further refund approximately RMB12,120,000 (HK$11,430,000) to the Group which represented 50% of distributable profit of BJ Metro for the year ended December 31, 2001 to be shared by the Chinese joint venture partner in 2002.

The investment deposit carries no interest charge unless refund of the full amount has not been made 180 days after the end of the sixth year. The interest will be charged at a rate of 20% per annum on the balance not refunded 180 days after the end of the sixth year.

14. FIXED ASSETS, NET

The movements of fixed assets of the Group are:

	2001							
	Leasehold improvements	Furniture, fixtures and equipment	Production equipment	Unipoles	Motor vehicles	Advertising display panels	Construction-in-progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
Beginning of year (Note 39)	10,605	13,620	—	2,408	1,760	—	1,814	30,207
Transfer	1,814	—	—	—	—	—	(1,814)	—
Additions	7,545	8,788	58	—	1,676	16,680	3,856	38,603
Additions through acquisition of a subsidiary	233	214	5,420	—	—	—	—	5,867
Disposals	(3,547)	(452)	—	(2,408)	—	—	—	(6,407)
Translation adjustments	—	—	1	—	—	—	—	1
End of year	16,650	22,170	5,479	—	3,436	16,680	3,856	68,271
Accumulated depreciation								
Beginning of year (Note 39)	5,751	4,612	—	1,377	763	—	—	12,503
Charge for the year	3,461	3,242	2,394	241	490	368	—	10,196
Disposals	(3,547)	(335)	—	(1,618)	—	—	—	(5,500)
End of year	5,665	7,519	2,394	—	1,253	368	—	17,199
Net book value								
End of year	10,985	14,651	3,085	—	2,183	16,312	3,856	51,072
Beginning of year (Note 39)	4,854	9,008	—	1,031	997	—	1,814	17,704

As at December 31, 2001, the net book value of fixed assets (production equipment) held under finance leases was approximately HK$912,000 (2000 - nil).

15. INTANGIBLE ASSETS, NET

Intangible assets of the Group comprised:

	2001					
	Advertising license rights	Premium for redemption of a profit sharing right (Note (i))	Computer software (Notes (ii))	Goodwill	Website development costs	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
Beginning of year (Note 39)	524,411	7,595	1,864	—	168	534,038
Additions	25,404	—	8,870	1,135	—	35,409
Additions through acquisition of a subsidiary	—	—	—	238	—	238
Disposals	(347)	—	(690)	—	—	(1,037)
Translation adjustments	25	—	(1)	—	—	24
End of year	549,493	7,595	10,043	1,373	168	568,672
Accumulated amortization						
Beginning of year (Note 39)	144,268	7,372	1,223	—	—	152,863
Amortization for the year	62,635	223	1,813	115	33	64,819
Disposals	(347)	—	(549)	—	—	(896)
Translation adjustments	7	—	—	—	—	7
End of year	206,563	7,595	2,487	115	33	216,793
Net book value						
End of year	342,930	—	7,556	1,258	135	351,879
Beginning of year (Note 39)	380,143	223	641	—	168	381,175

15. INTANGIBLE ASSETS, NET – continued

(i) The premium for redemption of a profit sharing right was paid in 1995 to relinquish a loan creditor's entitlement to 80% of the gross advertising income derived from the exploitation of an advertising license for exclusive rights to advertise on forty double-decker buses in the PRC. The loan was originally drawn down for the acquisition of the advertising license rights and has been fully repaid in prior years.

(ii) Pursuant to a purchase agreement dated July 8, 2000, the Group paid approximately HK$6,075,000 to the joint venture partner of a Sino-foreign cooperative joint venture, China Outdoor Data Centre Co., Ltd., for the purchase of computer software in 2000 (see Note 19). In accordance with the supplemental agreement dated May 10, 2001, the Group made a further payment of approximately HK$2,795,000 to the joint venture partner in the current year to settle the remaining balance.

The directors are of the opinion that the underlying value of the intangible assets is not less than the carrying value as at December 31, 2001.

16. LONG-TERM DEPOSITS

A long-term deposit amounting to HK$32,500,000 (2000 - HK$30,000,000) represents money placed with a business partner, Kowloon Motor Bus Company (1933) Limited, as a security deposit for the due performance and observance by a subsidiary of the terms of an advertising contract entered into by the subsidiary in 1998.

This long-term deposit is unsecured and carries interest at the annual standard Hong Kong dollar savings interest rate set by the bank with which the long-term deposit is placed and is to be refunded to the subsidiary after the expiration of the relevant advertising contract on October 31, 2004.

The Group is required to increase the security deposit to HK$35,000,000 in November 2002 (see also Note 37(c)(iii)).

An amount of approximately HK$28,037,000 (2000 - HK$28,037,000) represents a refundable security deposit placed with a potential joint venture partner under an agency agreement entered into by the Group in November 2000. Under the agency agreement, the Group is entitled to place advertisements within designated areas of certain metro stations in Shanghai, the PRC, for 15 years. The deposit will be refunded to the Group in three annual installments of RMB10,000,000 (approximately HK$9,984,000) commencing from the sixth anniversary of the agency agreement and can be refunded to the Group by the potential joint venture partner through offsetting of concession fees payable to the potential joint venture partner. See Note 38 for more details of the joint venture to be established in Shanghai, the PRC.

17. INVESTMENT IN SUBSIDIARIES

As at December 31, 2001, investment in subsidiaries comprised the following:

	2001	2000
	HK$'000	HK$'000
Unlisted investment, at cost	**2,804**	2,804
Amount due from a subsidiary	**289,271**	299,155
	292,075	301,959

The amount due from a subsidiary is unsecured, non-interest bearing and has no fixed repayment terms. In addition, the loan to a subsidiary is unsecured, interest bearing at 9.5% per annum and is repayable during the period from January 24, 2002 (the date of the Listing) to October 24, 2002.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value as at December 31, 2001.

17. INVESTMENT IN SUBSIDIARIES – continued

Details of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/ registered capital held by the Company		Attributable percentage of distributable profit to the Group	Principal activities
				Direct	Indirect		
				%	%	%	
Top Result Promotion Limited ("Top Result")	Hong Kong July 18, 1991	HK$1,000,000	Company with limited liability	100	—	100	Provide media advertising services
Top Result Interactive Limited	The Cayman Islands December 16, 1999	US$124	Company with limited liability	100	—	100	Investment holding
i-Result Media Limited	Hong Kong March 29, 2000	US$2	Company with limited liability	—	100	100	Provide outdoor media advertising services
i-Result (Beijing) Technology Development Co., Ltd. ("IRT") (Note a)	The PRC February 19, 2001	HK$9,500,000	Wholly-foreign-owned enterprise	—	100	100	Develop outdoor media database and provide media consultancy services
China Outdoor Data Centre Co., Ltd. ("CODC") (Note a)	The PRC March 9, 2001	RMB2,800,000	Cooperative joint venture	—	100	57	Provide research, data collection and media monitoring services
Beijing Top Result Public Transportation Advertising Co., Ltd. ("Beijing Joint Venture") (Note b)	The PRC February 22, 1994	RMB99,600,000	Cooperative joint venture	—	99.5	80	Provide media advertising services
Digital Photo Limited ("Digital Photo") (Note c)	Hong Kong July 6, 1998	HK$200,000	Company with limited liability	—	51	51	Provide large scale digital colour printing services

17. INVESTMENT IN SUBSIDIARIES – continued

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/ registered capital held by the Company		Attributable percentage of distributable profit to the Group	Principal activities
				Direct	Indirect		
				%	%	%	
Top Photo Imaging Company Limited ("Top Photo") (Note c)	The PRC November 2, 1999	US$400,000	Equity joint venture	—	45.9	45.9	Provide large scale digital colour printing services
China Kiosk Development Limited (formerly known as Fanwest Limited) ("China Kiosk") (Note d)	Hong Kong June 20, 2001	HK$1,000	Company with limited liability	—	80	80	Investment holding

(a) IRT is a wholly-foreign-owned enterprise established in the PRC for a period of 20 years up to February 19, 2021. CODC is a Sino-foreign cooperative joint venture established in the PRC for a period of ten years up to March 2011. Pursuant to the joint venture agreement, the Group contributed RMB2,800,000 (or approximately HK$2,639,000) in cash as registered capital and has agreed to advance RMB1,200,000 (or approximately HK$1,129,000) to CODC as a working capital loan. The joint venture partner was not required to make any capital contributions. The Group is entitled to 57% of the operating results of CODC for each year during the joint venture period and 57% of the net assets of CODC upon the expiry of the joint venture agreement. Accordingly, 43% of the capital contributed to CODC by the Group is recorded as goodwill and is amortized over the joint venture contract period of ten years.

(b) Beijing Joint Venture is a Sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to February 22, 2009. Pursuant to the joint venture agreement and the supplemental agreement, dated December 10, 1993 and May 24, 1995 respectively, signed between Top Result and the Chinese joint venture partner of Beijing Joint Venture, Top Result is entitled to 100% of the distributable profit of Beijing Joint Venture for the first 4 years from the date of issuance of the business license. Thereafter, Top Result will be entitled to 80% of the distributable profit of Beijing Joint Venture. As at December 31, 2001, Beijing Joint Venture was in its eighth year of operations. As such, minority interests in the distributable profit of Beijing Joint Venture have been recorded at 20% for the year ended December 31, 2001.

Upon the expiry of the joint venture contract the net assets of Beijing Joint Venture will be distributed according to the amount of capital contributed. Where there is any surplus of net assets after the return of the capital contributed, the net assets will be distributed to the joint venture partners according to the profit sharing ratio.

The balance with the joint venture partner is unsecured, non-interest bearing and has no fixed repayment terms. Subsequent to the balance sheet date, the amount due from this joint venture partner has been fully settled.

17. INVESTMENT IN SUBSIDIARIES – continued

(c) On May 1, 2001, the Group acquired an additional 1.0% equity interest in Digital Photo at a consideration of HK$2,000. Consequently, the Group's equity interests in Digital Photo and its 90.0% owned subsidiary, Top Photo, increased from 50.0% and 45.0% to 51.0% and 45.9%, respectively. Digital Photo and Top Photo became subsidiaries of the Group thereafter. In the consolidated financial statements, the investment in Digital Photo was accounted for using the equity method of accounting before May 1, 2001. Since May 1, 2001, the results of Digital Photo have been consolidated into the consolidated financial statements of the Group.

(d) On October 29, 2001, the Group entered into an agreement with business partners to establish a company in Hong Kong, China Kiosk, in which the Group has 80% equity interest. Under the agreement, China Kiosk will establish a wholly-foreign-owned enterprise (the "WFOE") in Shanghai, the PRC, to expand the street furniture (newspaper kiosk) business in the PRC. The total investment for the WFOE will be USD12,500,000 (HK$97,500,000). The Group is required to provide the entire amount of the total investment (see Note 37(b)(ii)). The WFOE obtained the certificate of approval on March 4, 2002 and is in the process of obtaining its business license.

18. INVESTMENT IN ASSOCIATED COMPANIES

Investment in associated companies comprised the following:

	2001	2000
	HK$'000	HK$'000
Share of net assets other than goodwill	**25,600**	29,079
Goodwill		
— Cost	**20,280**	20,280
— Accumulated amortization	**(3,689)**	(2,421)
Amount due from an associated company	**7,083**	2,013
Amount due to an associated company	**(25,407)**	(34,330)
	23,867	14,621

The amounts due from or due to an associated company are unsecured, non-interest bearing and have no fixed repayment terms.

18. INVESTMENT IN ASSOCIATED COMPANIES – continued

Details of the associated company are as follows:

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/ registered capital held by the Company Indirect	Attributable percentage of distributable profit to the Group	Principal activity
				%	%	
Beijing Top Result Metro Advertising Co., Ltd. ("BJ Metro")	The PRC April 28, 1997	RMB35,000,000	Cooperative joint venture	100	38	Provide media advertising services

The summary of financial information of BJ Metro based on the adjusted financial statements prepared under the accounting principles generally accepted in Hong Kong for the year ended December 31, 2001 is as follows:

	2001	2000
	HK$'000	HK$'000
Total assets	**94,722**	102,983
Total liabilities	**29,264**	29,623
Turnover	**84,711**	92,131
Profit before taxation	**47,169**	61,645
Profit after taxation	**29,502**	40,447

BJ Metro was formed under a cooperative joint venture agreement dated November 8, 1996 and obtained a business license on June 11, 1997 with a term of 18 years.

18. INVESTMENT IN ASSOCIATED COMPANIES – continued

Pursuant to a supplemental agreement, dated April 6, 1999, signed between the two joint venture partners, BJ Metro increased its registered capital from RMB17,500,000 (approximately HK$16,355,000) to RMB35,000,000 (approximately HK$32,710,000). During the year ended December 31, 2000, the Group injected RMB17,500,000 in cash as additional capital contribution while the Chinese joint venture partner contributed the advertising right of a new subway line into BJ Metro. Consequently, the Group is entitled to 38% of the distributable profit of the joint venture effective from January 1, 2000. In addition, pursuant to the supplemental agreement, the Group has undertaken to guarantee that the Chinese joint venture partner's share of BJ Metro's distributable profit will not be lower than RMB13,000,000 (approximately HK$12,150,000) each year effective from January 1, 2000 for the remaining tenure of the joint venture. The Group's share of distributable profit of BJ Metro for the year ended December 31, 2001 amounted to approximately HK$11,212,000 (2000 - HK$15,370,000).

The net assets of BJ Metro will be distributed according to the profit sharing ratio upon the expiry of the joint venture agreement. Accordingly, 62% of the capital contributed to BJ Metro by the Group is recorded as goodwill and is amortized over the joint venture period. The amortization expense for the year ended December 31, 2001 amounted to approximately HK$1,268,000 (2000 - HK$1,268,000) and was included in the share of profits or losses of associated companies. The remaining balance of share of profits or losses of associated companies amounting to a loss of approximately HK$127,000 (2000 - profit of HK$912,000) represented the share of losses of Digital Photo and Top Photo for the period in the current year before May 1, 2001, the date of transforming from being associated companies to subsidiaries (see Note 17(c)).

19. DEPOSIT FOR INTANGIBLE ASSETS

As at December 31, 2001, the Group has advanced approximately HK$31,326,000 (2000 - nil) to a subsidiary of the joint venture partner of China Kiosk for the purpose of acquiring the rights to place advertisements on specially designed newspaper kiosks. The construction of the newspaper kiosks has not been completed as at December 31, 2001, and accordingly the advance has been treated as a deposit for intangible assets. The Group will contribute this deposit for intangible assets as part of its capital contributions to the WFOE (also see Note 37(b)(ii)).

The remaining balance of approximately HK$4,715,000 (2000 - nil) represented an advance to an independent third party for acquiring certain exclusive advertising rights.

As disclosed in Note 15(ii), the deposit for intangible assets as at December 31, 2000 represented an advance to a joint venture partner for the purchase of computer software. The computer software was obtained by the Group in the current year, accordingly the deposit was reclassified to intangible assets.

20. AMOUNT DUE FROM A SENIOR EXECUTIVE

	Balance as at December 31, 2001	Balance as at December 31, 2000	Maximum balance during the year
	HK$'000	HK$'000	HK$'000
An Ning	**547**	—	547

The amount due from a senior executive represented a housing loan granted and is unsecured, non-interest bearing and repayable by the end of 2002.

21. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net comprised:

	2001	2000
	HK$'000	HK$'000
Accounts receivable	**107,194**	79,619
Less: Provision for doubtful debts	**(4,518)**	(3,376)
	102,676	76,243

See Note 35 for details of charges on accounts receivable.

An aging analysis of accounts receivable based on due dates is set out below:

	2001	2000
Current	**28,092**	11,268
1 - 30 days	**26,481**	20,433
31 - 60 days	**16,126**	11,073
61 - 90 days	**10,988**	9,267
91 - 120 days	**5,387**	7,685
Over 120 days	**20,120**	19,893
	107,194	79,619

The normal credit period granted by the Group ranges from 30 days to 90 days from the date of invoice.

22. CASH AND CASH EQUIVALENTS

As at December 31, 2001, the cash and cash equivalents of the Group denominated in RMB amounting to approximately HK$12,229,000. RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business.

23. SHARE CAPITAL

	2001	2000
	HK$'000	HK$'000
Authorized		
— 50,000,000 (2000 - 50,000,000) ordinary shares of USD0.01 (2000 - USD0.01) each	**3,880**	3,880
Issued and fully paid		
— 12,390,657 (2000 - 12,390,657) ordinary shares of USD0.01 (2000 - USD0.01) each	**961**	961

Subsequent to the balance sheet date, the following changes in the Company's authorized and issued share capital took place:

(a) Pursuant to resolutions passed by the shareholders of the Company on January 8, 2002:

(i) the denomination of the share capital of the Company was converted from USD to Hong Kong dollars through the following steps:

— the authorized share capital was increased from USD500,000 to the aggregate of USD500,000 and HK$500,000,000 by the creation of 5,000,000,000 shares of HK$0.10 each;

— 12,390,657 shares of HK$0.10 each were allotted and issued to the then shareholders in proportion to their respective shareholdings in the Company;

— the Company repurchased from such shareholders all the shares of USD0.01 each then in issue for a price equal to the subscription monies payable in respect of the Hong Kong dollars denominated shares issued to them, such shares were automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and

— the authorized but unissued shares of USD0.01 each were cancelled.

23. SHARE CAPITAL – continued

(ii) a sum of HK$42,128,233.8 being part of the amount then standing to the credit of the share premium account of the Company was capitalized by issuing 421,282,338 shares (the "Capitalization Issue"), credited as fully paid at par, to the holders of shares registered on the register of member of the Company on January 8, 2002 in proportion to their respective shareholdings.

(b) On January 24, 2002, 171,386,000 shares of HK$0.10 each were issued to the public by way of a new issue and placement of shares at HK$2.60 each, for a total cash consideration of approximately HK$445,604,000 before related issuing expenses.

24. RESERVES

	Share premium	Translation reserve	Capital reserve*	Retained profits/ (Accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group					
As at January 1, 2000	300,721	—	883	3,622	305,226
Exchange difference arising from the translation of financial statements of foreign subsidiaries	—	1,668	—	—	1,668
Profit for the year	—	—	—	12,714	12,714
As at January 1, 2001	300,721	1,668	883	16,336	319,608
Exchange difference arising from the translation of financial statements of foreign subsidiaries	—	(100)	—	—	(100)
Profit for the year	—	—	—	3,461	3,461
As at December 31, 2001	300,721	1,568	883	19,797	322,969
Attributable to:					
The Company and subsidiaries	300,721	1,668	883	16,599	319,871
Associated companies	—	—	—	(263)	(263)
As at December 31, 2000	300,721	1,668	883	16,336	319,608
The Company and subsidiaries	300,721	1,568	883	10,481	313,653
Associated companies	—	—	—	9,316	9,316
As at December 31, 2001	300,721	1,568	883	19,797	322,969

24. RESERVES – continued

	Share premium	Translation reserve	Capital reserve*	Retained profits/ (Accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Company					
As at January 1, 2000	300,721	—	2,687	(719)	302,689
Loss for the year	—	—	—	(5,262)	(5,262)
As at January 1, 2001	300,721	—	2,687	(5,981)	297,427
Loss for the year	—	—	—	(206)	(206)
As at December 31, 2001	300,721	—	2,687	(6,187)	297,221

In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after taxation, if any, to certain statutory reserves which comprise the statutory reserve and the enterprise expansion fund. The percentage of the transfer is determined by statute or the board of directors of the subsidiaries. During the year ended December 31, 2001, no transfer was made by the subsidiaries.

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account and the capital reserve of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. As at December 31, 2001, in the opinion of the Directors, the reserves of the Company available for distribution to its shareholders amounted to approximately HK$297,221,000 (2000 - HK$297,427,000), subject to the restrictions stated above.

* Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganization in February 1995, and the nominal value of the Company's shares issued in exchange therefor.

Capital reserve of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganization, over the nominal value of the Company's shares issued in exchange therefor.

25. DEFERRED TAXATION

Deferred taxation mainly represents the taxation effect of accelerated depreciation of fixed assets for taxation purpose. The movements are as follows:

	2001	2000
	HK$'000	HK$'000
Beginning of year	**—**	3,997
Addition through the acquisition of a subsidiary	**45**	—
Reversal of taxation effect of net timing difference	**(45)**	(3,997)
End of year	**—**	—

The Group has not recorded deferred tax assets, mainly in respect of tax losses for the operations in Hong Kong and the PRC. Tax losses for the operations in Hong Kong and the PRC were approximately HK$43,578,000 and HK$243,000 (2000 - HK$30,785,000 and nil), respectively, subject to agreement by relevant tax authorities. There was no other significant unprovided deferred taxation liabilities as at December 31, 2001.

26. LONG-TERM PAYABLES

Long-term payables represent payables for the acquisition of advertising licenses from bus operators in the PRC. The balances are unsecured, not repayable within one year and are non-interest bearing except for a balance of approximately HK$7,402,000 (2000 - HK$10,372,000) which bears interest at 6.435% (2000 - 6.435%) per annum.

27. OBLIGATIONS UNDER FINANCE LEASES

	2001	2000
	HK$'000	HK$'000
Total minimum lease payments under finance leases payable:		
— not later than one year	**1,170**	—
Less: finance charges	**(226)**	—
Obligation under finance leases	**944**	—
Representing finance lease obligations:		
— current	**944**	—

28. ACCOUNTS PAYABLE

An aging analysis of accounts payable of the Group based on due dates is set out below:

	2001	2000
	HK$'000	HK$'000
Current	**19,584**	12,207
0 - 30 days	**8,884**	23,434
31 - 60 days	**6,954**	5,686
61 - 90 days	**2,011**	2,495
91 - 120 days	**1,102**	2,641
Over 120 days	**24,243**	25,938
	62,778	72,401

29. CONVERTIBLE LOAN NOTES

The Company entered into an agreement on February 28, 2001 and a supplemental agreement on December 31, 2001 (the "Agreements") with an independent third party in respect of the issuance of convertible loan notes (the "Convertible Notes") amounting to HK$116,960,000 (USD15,000,000). Pursuant to the terms of the Agreements, the Convertible Notes can be converted into ordinary shares of the Company at a conversion price of HK$2.60, the share price at the time of the Listing, provided that conversion can only be effected six months after the Listing. The Convertible Notes are (i) unsecured, (ii) (a) interest bearing at 9.5% per annum for the period up to and including May 28, 2002 and (b) at 3-month London Inter-Bank Offered Rate for deposits in USD plus 400 basis points after May 28, 2002, and (iii) redeemable anytime nine months after the Listing provided that at least 10 banking days' notice is given to the Company or otherwise repayable by October 24, 2002. The principal sums under the Convertible Notes are not subject to partial redemption. Pursuant to the Agreements, the Group has to comply with certain covenants, including among others, ensuring the Group's unsubordinated and unsecured debt ranking *pari passu* with the Convertible Notes after the issuance of the Convertible Notes will not be in excess of USD30,000,000 (approximately HK$234,000,000).

30. BANK LOANS AND OTHER BORROWINGS

	2001	2000
	HK$'000	HK$'000
Bank loans repayable within one year		
— Secured (Note 35)	56,582	47,150
— Unsecured	20	—
Loans from financial institutions repayable within one year		
— Secured (Note 35)	27,032	4,342
Loan from a third party repayable within one year		
— Unsecured (Note 35)	19,500	—
	103,134	51,492

A loan from a financial institution and the loan from a third party totalling HK$39,500,000 were fully repaid in January 2002 before their due dates.

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

31. RELATED PARTY TRANSACTIONS – continued

(a) During the year, the following transactions occurred with related companies:

	Note	2001	2000
		HK$'000	HK$'000
Income			
Agency commission income for marketing services from BJ Metro	(i)	2,843	4,263
Production income from High Tech Company	(ii)	512	—
Expenses			
Production costs charged by High Tech Company	(ii)	10,005	11,539
Production costs charged by Digital Photo	(iii)	3,279	10,543
Production costs charged by Top Photo	(iv)	4,301	15,472
Sub-contracting fees charged by Pro Photo Processing Limited ("PP")	(v)	450	—
Administrative expenses charged by PP	(v)	672	—

(i) BJ Metro is an associated company of the Group. Agency commission income is determined based on the agreement executed between the two parties. The commission is based on 12.5% of sales contract amounts.

(ii) A non-executive director of the Company, Hui Yick Hun, Patrick, has a beneficial interest in High Tech Company. The Group charged High Tech Company for printing services provided based on negotiations between the two parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. High Tech Company also provides production services to the Group in Hong Kong. Production costs charged by High Tech Company are determined based on the outsourcing agreement and standard price list which were executed and agreed between the two parties in June 1999.

(iii) Digital Photo provides printing services to the Group in Hong Kong. Digital Photo was an associated company of the Group before May 1, 2001. The transactions with this company have been eliminated upon consolidation since May 1, 2001. Production costs charged by Digital Photo are determined based on the standard price list executed and agreed to between the two parties.

(iv) Top Photo provides printing services to the Group in certain cities of the PRC. Top Photo is a 90.0% owned subsidiary of Digital Photo. Accordingly, Top Photo was an associated company in which the Group had 45.0% effective interest before May 1, 2001. The transactions with this company have been eliminated upon consolidation since May 1, 2001. Production costs charged by Top Photo are determined on a similar basis as described in (iii) above.

31. RELATED PARTY TRANSACTIONS – continued

(v) PP is a minority shareholder of Digital Photo. Sub-contracting fees charged by PP are determined based on a similar basis as described in (iii) above. Administrative expenses charged by PP are determined based on a cost recovery basis.

In the opinion of the directors of the Company, the above transactions were carried out in the normal course of business of the Group and on the basis of estimated market value as determined by the directors of the Company.

(b) Save as disclosed in other notes to the consolidated financial statements, balances with related companies are unsecured, non-interest bearing and have no fixed repayment terms.

32. RETIREMENT BENEFIT OBLIGATION

The Group has participated in the defined contribution Mandatory Provident Fund (the "MPF Scheme") in Hong Kong since December 1, 2000, in which all the employees are entitled to join this scheme. The assets of the MPF Scheme are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, the Group makes monthly contributions to the MPF Scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK$12,000 per annum per person. Contributions in excess of the 5% or HK$1,000 per month limit are made to the MPF Scheme as voluntary contribution by the Group and its Hong Kong employees so as to maintain the previous level of contributions before the MPF Scheme was established. The pension cost charged to the income statement represents contributions paid or payable by the Group at the aforesaid rates. Where employees leave the scheme prior to the full vesting of their contributions, the amount of forfeited voluntary contributions is used to reduce the future voluntary contributions payable by the Group. During the year, the Group's contributions to the MPF Scheme were approximately HK$1,341,000 (2000 - nil) after deduction of forfeited voluntary contributions of approximately HK$48,000 (2000 - nil).

All subsidiaries of the Company in the PRC provide government-sponsored defined contribution retirement schemes for its full-time employees. The subsidiaries and the employees are required to contribute 19% and 7% respectively of the employees' average salary to the schemes, and the subsidiaries have no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The government sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. For the year ended December 31, 2001, the subsidiaries contributed approximately HK$1,196,000 (2000 - HK$1,210,000).

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash (outflow) inflow from operating activities

	2001	2000
	HK$'000	HK$'000
Profit before taxation	13,993	29,099
Interest income	(1,553)	(1,715)
Interest expense	14,412	5,075
Provision for doubtful debts	1,142	2,056
Depreciation	10,196	6,395
(Gain) Loss on disposals of fixed assets	(4,573)	207
Loss on disposals of intangible assets	141	1,633
Increase (Decrease) in business tax and cultural tax payable	2,690	(1,989)
Amortization of intangible assets	64,704	61,323
Amortization of goodwill	1,268	1,268
Share of profits or losses of associated companies	(16,530)	(23,110)
Increase in accounts receivable	(25,301)	(5,978)
Increase in inventories	(1,452)	—
Increase in amount due from a senior executive	(547)	—
Increase in prepayments, deposits and other receivables	(27,124)	(14,391)
(Decrease) Increase in accounts payable, accrued liabilities and other payables	(17,498)	12,403
Decrease (Increase) in amounts due from related companies	1,904	(16)
Increase (Decrease) in amounts due to related companies	709	(831)
(Increase) Decrease in amounts due from associated companies	(5,070)	13,046
(Decrease) Increase in amounts due to associated companies	(12,956)	14,116
(Decrease) Increase in amount due to a director	(120)	39
(Decrease) Increase in deferred income	(26,715)	18,899
Net cash (outflow) inflow from operating activities	(28,280)	117,529

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT – continued

(b) Acquisition of subsidiaries

On May 1, 2001, the Group acquired an additional 1% equity interest in Digital Photo Limited. The details are as follows:

	2001
	HK$'000
Net assets acquired:	
Fixed assets, net	5,867
Cash and cash equivalents	1,842
Prepayments, deposits and other receivables	79
Accounts receivable, net	2,274
Inventories	1,062
Amounts due from related companies	2,408
Accounts payable, accrued liabilities and other payables	(5,441)
Obligations under finance leases	(2,237)
Amounts due to related companies	(4,501)
Income tax payable	(813)
Minority interests	(272)
Deferred taxation	(45)
	223
Share of net assets acquired	3
Negative goodwill arising on acquisition	(1)
	2
Satisfied by:	
Other payables	2
Analysis of the net inflow of cash in respect of the acquisition:	
Cash and cash equivalents acquired	1,842

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT – continued

(c) Analysis of changes in financing

	Loans from financial institutions	Loan from a third party	Short-term bank loans	Finance leases	Convertible loan notes	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at January 1, 2000	4,983	—	23,364	—	—	28,347
New bank loans repayable within one year	—	—	47,150	—	—	47,150
Repayment of bank loans	—	—	(23,364)	—	—	(23,364)
Repayment of loans from financial institutions	(641)	—	—	—	—	(641)
As at January 1, 2001	4,342	—	47,150	—	—	51,492
Proceeds from issuance of convertible loan notes	—	—	—	—	116,960	116,960
New bank loans repayable within one year	—	—	56,602	—	—	56,602
Repayment of bank loans repayable within one year	—	—	(47,150)	—	—	(47,150)
Increase in loans from financial institutions	22,690	—	—	—	—	22,690
New loan from a third party	—	19,500	—	—	—	19,500
Increase through acquisition of a subsidiary	—	—	—	2,237	—	2,237
Repayment of principal portion of obligations under finance lease	—	—	—	(1,293)	—	(1,293)
As at December 31, 2001	27,032	19,500	56,602	944	116,960	221,038

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT – continued

(d) Analysis of cash and cash equivalents

	2001	2000
	HK$'000	HK$'000
Cash and bank balances	**18,916**	12,900
Less: Non-cash and cash equivalents*	**(1,227)**	(1,554)
	17,689	11,346

* As at December 31, 2001, pursuant to the arrangement with a business partner, bank balances of HK$1,227,000 (2000 - HK$1,554,000) were received from customers on behalf of the business partner. The bank balance is kept for the purpose of payment of costs relating to the restoration of advertising media to their original states.

34. SHARE OPTIONS

As a result of the Capitalization Issue described in Note 23, the number of share options and the exercise prices under each of Plan 1, Plan 2 and Plan 3 described in this Note 34 were adjusted accordingly.

Pursuant to an Executive Share Option Plan ("Plan 1") approved by the shareholders of the Company on April 7, 1995 and amended and restated on June 9, 2001, the board of directors may at its discretion within five years after July 1, 1997, invite employees, including directors of the Company and its subsidiaries, to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under Plan 1 may not exceed 17,500,000 ordinary shares in aggregate. The exercise price of the option post the Capitalization Issue is USD0.038095 per share.

On June 9, 2001, the shareholders of the Company rectified and approved another Executive Share Option Plan ("Plan 2"). Pursuant to Plan 2, the board of directors may at its discretion within three years after April 1, 2000, invite employees, including directors of the Company and its subsidiaries, to take up their options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under Plan 2 may not exceed 21,000,000 ordinary shares in aggregate. The exercise price of the option post the Capitalization Issue is USD0.171429 per share.

On June 9, 2001, the shareholders of the Company approved another Executive Share Option Plan ("Plan 3"). Pursuant to Plan 3, the board of directors granted 28,554,750 share options to senior executives to replace all outstanding warrants then held by them. The maximum number of shares in respect of which options may be granted under Plan 3 may not exceed 28,554,750 ordinary shares in aggregate. The exercise price of the option post the Capitalization Issue is USD0.206857 per share.

34. SHARE OPTIONS – continued

All the outstanding options, except for those under Plan 3, may be exercised at any time during the period commencing one year after the date of grant of the options and ending 10 years after the date of the options with the following schedule:

Period since date of grant	Portion of shares comprised in options which become exercisable
Date of grant – first anniversary	Zero
The date after the first anniversary – second anniversary	Up to one-third
The date after the second anniversary – third anniversary	Up to two-third (less the portion of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
The date after the third anniversary and thereafter	All shares in respect of which the option has not been previously exercised

The outstanding options under Plan 3 is fully vested upon its grant and may be exercised at any time during the period commencing on the date upon which the offer of the option is accepted and ending 10 years after the date of the options.

A summary of the movement of share options granted to employees (including directors) under Plan 1, Plan 2 and Plan 3 during the year is as follows:

	Plan 1 at exercise price of USD0.038095	Plan 2 at exercise price of USD0.171429	Plan 3 at exercise price of USD0.206857
At beginning of the year	15,897,770	6,825,000	—
Granted during the year	513,380	15,645,000	28,554,750
Repurchased/retired during the year*	(700,000)	(1,470,000)	—
At the end of the year	15,711,150	21,000,000	28,554,750

34. SHARE OPTIONS – continued

* For the year ended December 31, 2001, the Company repurchased 466,690 vested share options under Plan 1 from an employee at an aggregate amount of approximately HK$168,000 and recorded this amount as an expense in the income statement. The remaining 233,310 unvested share options under Plan 1 held by the employee were retired and returned to the option pool available for granting.

For the year ended December 31, 2001, the 1,470,000 unvested share options under Plan 2 held by three employees were retired and returned to the option pool available for granting.

Save as disclosed above, no share options have been granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under Plan 1, Plan 2 and Plan 3. Each of the holders of the Plan 1, Plan 2 and Plan 3 has agreed with the Company not to exercise such options until six months after the Listing.

Subsequent to the balance sheet date, on January 8, 2002 the Company conditionally adopted a further share option scheme (the “Share Option Scheme”) for a period of ten years from the date on which the Share Option Scheme was adopted. The Share Option Scheme became unconditional upon the Listing.

35. CREDIT FACILITIES

Aggregate credit facilities as at December 31, 2001 were approximately HK$111,082,000 (2000 - HK$51,492,000) of which the unutilized facilities as at the same date amounted to approximately HK$7,968,000 (2000 - nil).

A portion of the total facilities amounting to approximately HK$37,722,000, representing bank loans denominated in RMB granted to a subsidiary in the PRC, are secured by corporate guarantees from BJ Metro and the Chinese joint venture partner of Beijing Joint Venture, interest bearing at 6.435% to 7.020% per annum and are repayable within one year from the draw-down date.

A portion of the total facilities amounting to approximately HK$18,860,000, representing a bank loan denominated in RMB granted to a subsidiary in the PRC, are interest bearing at 5.58% per annum and are repayable by the end of February 2002. These facilities are secured by a fixed deposit of approximately USD2,500,000 (HK$19,493,000).

A portion of the total facilities amounting to approximately HK$7,032,000 is secured by:

- a first fixed charge on certain of the Group’s factored accounts receivable of approximately HK$12,702,000; and
- a floating charge on certain of the Group’s accounts receivable, both present and future.

35. CREDIT FACILITIES – continued

A portion of the total facilities amounting to HK$20,000,000 granted to a subsidiary in Hong Kong was secured by guarantees from the Company and certain directors of the Company, was interest bearing at 8% per annum and has been repaid in January 2002 before the due date.

A portion of the total facilities amounting to HK$19,500,000 granted to a subsidiary in Hong Kong was unsecured, interest bearing at 8% per annum and has been repaid in January 2002 before the due date.

36. CONTINGENT LIABILITIES

	2001	2000
	HK$'000	HK$'000
Letter of guarantee given to a landlord	**241**	241

37. COMMITMENTS

(a) Capital commitments

	2001	2000
	HK$'000	HK$'000
Authorized and contracted for:		
Acquisition of fixed assets	**2,132**	544

(b) Investment commitments

As at December 31, 2001, the Group had the following investment commitments:

	2001	2000
	HK$'000	HK$'000
Authorized and contracted for:		
Establishment of a joint venture (Note (i))	**—**	21,500
Establishment of a WFOE (Note (ii))	**66,174**	—
Total	**66,174**	21,500

37. COMMITMENTS – continued

(b) Investment commitments – continued

(i) On September 5, 2000, the Group executed an agreement which was amended on December 8, 2001 with a potential joint venture partner in the PRC for the purpose of setting up a cooperative joint venture to provide advertising media services in Shanghai, the PRC. Pursuant to the joint venture agreement, the Group's capital commitment is RMB14,800,000 (approximately HK$13,956,000) (RMB22,800,000 before the amendment) of which RMB8,000,000 (approximately HK$7,544,000) (RMB16,000,000 before the amendment) represents the registered capital to be contributed by the Group while the remaining RMB6,800,000 (approximately HK$6,412,000) represents a working capital loan to be advanced by the Group. As at December 31, 2001, the Group acquired certain fixed assets of approximately HK$16,680,000. Upon establishment of the joint venture, the Group's capital contributions will be used to acquire the fixed assets purchased by the Group.

As at December 31, 2001, the Group and the potential joint venture partner were in the process of applying for the business license and other approval procedures for the establishment of the joint venture (also see Note 38(a)).

(ii) The Group is required to provide an investment of US$12,500,000 in the WFOE in Shanghai, the PRC. The Group will contribute the deposit for intangible assets with a book value of approximately HK$31,326,000 as at December 31, 2001 as part of the capital contribution. The outstanding capital commitment is approximately HK$66,174,000 as at December 31, 2001.

(c) Operating

(i) The Group leases office space under non-cancellable lease agreements. The amount of total minimum lease payments under non-cancellable operating leases is analyzed as follows:

	2001	2000
	HK$'000	HK$'000
Total future minimum lease payments payable:		
— not later than one year	**13,173**	8,356
— later than one year and not later than five years	**11,649**	12,985
— later than five years	**2,698**	—
	27,520	21,341

37. COMMITMENTS – continued

(c) **Operating** – continued

(ii) The Group has entered into certain media rental contracts under which the Group has committed to pay to various media owners concession fees calculated based on various arrangements as stipulated in the respective contracts. The amount of total minimum concession fee payments under the above contracts is analyzed as follows:

	2001	2000
	HK$'000	HK$'000
Total future minimum concession fee payments payable:		
— not later than one year	**215,000**	129,000
— later than one year and not later than five years	**565,000**	350,000
— later than five years	**876,000**	839,000
	1,656,000	1,318,000

The above operating commitments only include those for basic concession fees and do not include any additional fees payable. Additional concession fees would be determined based on the actual media rental revenue generated.

(iii) A subsidiary has committed to place a security deposit with a business partner for the performance and observance by the Group of terms under an advertising contract (see Note 16). As at December 31, 2001, the Group has deposited HK$32,500,000 with the business partner. The Group is required to increase the security deposit to HK$35,000,000 in November 2002.

(iv) The Group has undertaken to guarantee the annual distributable profit of BJ Metro to be shared by one of its Chinese joint venture partners will not be lower than RMB13,000,000 for each year over the remaining joint venture period until 2015 (also see Note 18).

38. SUBSEQUENT EVENTS

Save as disclosed in other notes to these consolidated financial statements, the following significant event took place subsequent to December 31, 2001 and up to the date of this report:

As discussed in Note 16 and Note 37(b)(i), Shanghai Metro Top Result Advertising Co. Ltd. ("Shanghai Metro Joint Venture") is a Sino-foreign cooperative joint venture established in the PRC. Pursuant to the amended cooperative joint venture agreement dated December 8, 2001, signed between Top Result and the Chinese joint venture partner of Shanghai Metro Joint Venture, the total investment amount is RMB22,800,000 (approximately HK$21,500,000) of which RMB16,000,000 (approximately HK$15,088,000) represents registered capital while the remaining of RMB6,800,000 (approximately HK$6,412,000) represents a working capital loan to be advanced by the Group. Pursuant to the joint venture agreement, the Group is required to contribute RMB8,000,000 (approximately HK$7,544,000) in cash which represents 50% equity interests as registered capital while the Chinese joint venture partner will contribute its portion of the registered capital by way of contributing advertising display panels (light boxes) amounting to RMB8,000,000 (approximately HK$7,544,000). The Group is entitled to 90% of the distributable profits of Shanghai Metro Joint Venture. The cooperative joint venture has a term of 15 years from the date of the issuance of the business license. Shanghai Metro Joint Venture obtained the certificate of approval on December 26, 2001 and is in the process of obtaining its business license.

Upon the expiry of the cooperative joint venture agreement, the Chinese joint venture partner will be entitled to all fixed assets of the joint venture and the Group will be entitled to 50% of the remaining net assets.

39. COMPARATIVE FIGURES

Certain of the 2000 comparative figures have been reclassified to conform to the current year's presentation.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 37 to 92 were approved and authorized for issue by the Board of Directors on March 26, 2002.

RESULTS

	1997	1998	1999	2000	2001
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	72,559	105,214	236,416	418,781	**473,882**
Operating (loss) profit	12,165	(2,710)	(10,825)	5,989	**(2,537)**
Share of profit (loss) of associated companies	(470)	2,797	13,036	23,110	**16,530**
Profit (loss) before taxation	11,695	87	2,211	29,099	**13,993**
Income tax expenses					
-The Company	(500)	(8,760)	(2,381)	(5,312)	**(3,552)**
-Associated companies	—	(1,595)	(5,083)	(8,096)	**(6,713)**
	(500)	(10,355)	(7,464)	(13,408)	**(10,265)**
Profit (Loss)after taxation but before minority interest	11,195	(10,268)	(5,253)	15,691	**3,728**
Minority interests	—	(1,261)	(875)	(2,977)	**(267)**
Net profit (loss) attributable to shareholders	11,195	(11,529)	(6,128)	12,714	**3,461**

ASSETS AND LIABILITIES

	1997	1998	1999	2000	2001
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	254,665	397,526	583,788	633,166	**765,383**
Total liabilities	(112,871)	(245,800)	(275,000)	(307,019)	**(433,988)**
	141,794	151,726	308,788	326,147	**331,395**

Notes:

1. The Company was incorporated in the Cayman Islands on February 27, 1995 and became the holding company of the companies now comprising the Group, as a result of the Reorganization.

2. The results, assets and liabilities of the Group for the two years ended December 31, 2000 and 2001 have been extracted from the audited consolidated income statement and consolidated balance sheet as set out on page 37 and page 39 to 40 respectively of the financial statements. Certain figures in 2000 have been reclassified to conform with current year's presentation.

3. The results, assets and liabilities of the Group for the years ended December 31, 1998 and 1999, presented above have been extracted from the Prospectus dated January 14, 2002 when listing of the Company's shares was sought on the GEM.

4. The results, assets and liabilities of the Group for the year ended December 31, 1997 have been extracted from the Company's audited financial statements dated April 20, 1999.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MediaNation Inc. (the "Company") will be held at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong SAR on Monday, 29th April, 2002 at 10:00 a.m. for the following purposes:

1. To consider, approve and adopt the audited financial statements of the Company for the year ended 31st December 2001, the report of the directors of the Company (the "Directors") for the year ended 31st December, 2001 and the report of the auditors of the Company (the "Auditors") for the year ended 31st December, 2001;

2. To re-elect retiring Directors, namely Ms. Chan Sim Ngor, Summerine, Mr. Hui Yick Hun, Patrick and Mr. Sun Qiang, Chang for a further and additional term of three years from the date of the Annual General Meeting, and to authorise the Board of Directors to determine their Directors' fees;

3. To re-appoint the Auditors and to authorise the Board of Directors to determine their remuneration;

4. As special business, to consider and, if thought fit, pass, with or without modifications, the following resolution upon the terms set out below which will be proposed as an ordinary resolution (Note 3):

"4. MANDATE TO ALLOT SHARES

THAT:-

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the Directors during the Relevant Period (as defined in Resolution No. 5(c) below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:-

(i) a Rights Issue (as defined below); or,

(ii) the exercise of the subscription rights under any option scheme of the Company or similar arrangement for the time being adopted for the grant or issue to participants of such scheme or arrangement or rights to acquire Shares; or,

(iii) any issue of Shares upon the exercise of the subscription rights attaching to any warrants or convertible notes of the Company or any securities which are convertible into Shares; or,

(iv) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company,

shall not exceed the aggregate of:-

(A) 20 percent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution; and,

(B) an amount representing the aggregate nominal value of Shares repurchased by the Company pursuant to the mandate referred to in Resolution No. 5 below provided that such value shall not exceed 10 percent of the aggregate nominal value of the share capital of the Company in issue as mentioned in Resolution No. 5 below,

and the said approval shall be limited accordingly; and,

(d) for the purposes of this Resolution:-

"Rights Issue" means an offer of Shares open for a period fixed by the Directors to holders of Shares whose names appear on the register of shareholders of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory applicable to the Company)."

5. As special business, to consider and, if thought fit, pass, with or without modifications, the following resolution upon the terms set out below which will be proposed as an ordinary resolution (Note 4):

"5. MANDATE TO REPURCHASE SHARES

THAT:-

(a) subject to paragraph (b) below and subject to and in accordance with all applicable laws and the requirements of the GEM Listing Rules as amended from time to time, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase Shares on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 percent of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and,

(c) for the purposes of this Resolution and Resolution No. 4 above:-

"Relevant Period" means the period from the date on which this Resolution or Resolution No. 4 above, as the case may be, is passed until whichever is the earliest of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the Companies Law of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and,

(iii) the date on which the authority set out in this Resolution or Resolution No. 4 above, as the case may be, is revoked or varied by an ordinary resolution of the shareholders in general meeting."

6. As special business, to consider and, if thought fit, pass, with or without modifications, the following resolution upon the terms set out below which will be proposed as an ordinary resolution (Note 5):

"6. CONTINUING CONNECTED TRANSACTIONS

THAT:-

(a) the outsourcing contract dated 1st June, 1999 (the "Outsourcing Contract"), a copy of which is produced to the meeting marked "A" and signed by the Chairman for identification, entered into between Top Result Promotion Limited ("Top Result"), a wholly-owned subsidiary of the Company, and High Tech Company, of which Mr. Hui Yick Hun, Patrick, a non-executive Director, is a partner, pursuant to which High Tech Company has agreed to provide certain posting and depositing services to Top Result with effect from 1st June, 1999 until 31st October, 2004;

(b) the transactions contemplated under the Outsourcing Contract; and,

(c) the annual cap amount of HK$17 million relating to the aggregate amount of all transactions contemplated under the Outsourcing Contract in any given financial year;

be and are hereby re-approved."

By Order of the Board
Sun Qiang, Chang
Chairman

Hong Kong, 26th March, 2002

Head office and principal place of business:
Rooms 3507-09, 35th Floor, The Center
99 Queen's Road Central,
Hong Kong SAR

Registered office:
P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands

Notes:

1. Shareholders whose names appear on the register of members of the Company at the close of business on 25th April, 2002 are entitled to attend the Annual General Meeting upon completion of the necessary registration process. In order to establish the identity of the members who are entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong SAR, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong SAR for registration, not later than 4:00 p.m. on 24th April, 2002. Each of the shareholders of the Company (or his proxy) shall exercise his voting rights according to the number of Shares with voting rights represented by him and shall be entitled to one vote for each Share held.

2. Every shareholder of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company. A proxy form is attached. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong SAR at Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong SAR not less than 48 hours before the time appointed for holding the Annual General Meeting. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Annual General Meeting in person if the shareholder so desires.

3. In relation to the proposed Resolution No. 4 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Directors have no immediate plans to issue any new securities of the Company pursuant to the said general mandate other than shares which may fall to be issued upon the exercise of any options granted under the share option scheme of the Company or any scrip dividend scheme.

4. A circular appended with an explanatory statement containing further details regarding the proposed Resolution No. 5 above of the notice of this Annual General Meeting as required by the GEM Listing Rules will be dispatched to the shareholders of the Company together with the 2001 annual report.

5. As disclosed in the section headed "Waivers from compliance with the GEM Listing Rules and the Companies Ordinance" in the prospectus dated 14th January, 2002 (the "Prospectus") issued by the Company, each of the transactions contemplated under the Outsourcing Contract (the "Connected Transactions") constitutes a non-exempt continuing connected transaction under the GEM Listing Rules and, except for a waiver granted by The Stock Exchange of Hong Kong Limited, is normally subject to the reporting and announcement requirements set out in Rules 20.34 and 20.35 of the GEM Listing Rules, respectively, and the shareholders' approval requirement set out in Rule 20.36 of the GEM Listing Rules. As the Connected Transactions will be conducted in the normal course of business of Top Result and will occur on a regular basis, the Directors (including the non-executive Directors), as stated in the Prospectus, consider that it would not be practical to make ongoing disclosure of such transactions. Accordingly, the Company has applied for, and the Stock Exchange has granted to the Company, a conditional waiver from the announcement and shareholders' approval requirement as required under Rules 20.35 and 20.36 of the GEM Listing Rules for each of the Connected Transactions. The waiver was granted on the condition that, among other things:

   (a) in each financial year the aggregate amount of all Connected Transactions does not exceed HK$17.0 million; and

   (b) as the annual cap set out in paragraph (a) above exceeds HK$10 million, as required by Rule 20.30 of the GEM Listing Rules, the Outsourcing Contract and the annual cap will be subject to review and re-approval by independent shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the Connected Transactions continue.

   Based on the above, pursuant to Rule 20.30 of the GEM Listing Rules, the Outsourcing Contract and the annual cap are required to be subject to review and re-approval by independent shareholders, i.e., shareholders of the Company other than Mr. Hui Yick Hun, Patrick and his associates (as defined in the GEM Listing Rules), at the Annual General Meeting.

6. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.