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This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in MediaNation Inc., you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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MEDIA NATION
INC.

MediaNation Inc.

(Incorporated in the Cayman Islands with limited liability)

Major and connected transaction

**Proposed open offer of 1,202,325,990 new shares
of HK\$0.10 each
on the basis of two new shares for every existing share held
at a subscription price of HK\$0.10 per share
payable in full on application**

General mandates to issue and repurchase shares

Financial adviser to MediaNation Inc.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

**Independent financial adviser to the independent board committee
of MediaNation Inc.**

ALTUS CAPITAL LIMITED

A letter from the independent board committee of MediaNation Inc. dated 24th June, 2003 is set out on page 24 of this circular.

A letter from Altus Capital Limited, the independent financial adviser, containing its advice to the independent board committee of MediaNation Inc. dated 24th June, 2003 is set out on pages 25 to 36 of this circular.

A notice convening an extraordinary general meeting of MediaNation Inc. to be held at the Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong on 10th July, 2003 at 10:00 a.m. is set out on pages 108 to 112 of this circular. Whether or not you are able to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of MediaNation Inc. at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of MediaNation Inc. at www.medianationinc.com.

24th June, 2003

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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RESPONSIBILITY STATEMENT

This circular, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM listing rules for the purposes of giving information with regard to MediaNation. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- the information contained in this circular is accurate and complete in all material respects and not misleading;
- there are no other matters the omission of which would make any statement in this circular misleading; and
- all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Altus Capital”	Altus Capital Limited, a deemed licensed corporation under the SFO and the independent financial adviser to the independent board committee
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO and the financial adviser to MediaNation
“announcement”	the announcement dated 3rd June, 2003 issued by MediaNation in relation to the open offer
“application form(s)”	the form of application in respect of the assured allotment and the form of application for excess open offer shares
“associate”	shall have the same meaning ascribed to it under the GEM listing rules
“board”	the board of directors
“business day”	a day (excluding Saturdays or any day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which banks in Hong Kong are generally open for business
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Cayman Islands Companies Law
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“connected persons” and, or “connected with”	have the meaning ascribed to it under the GEM listing rules
“connected transaction”	the undertakings by SMI and Warburg to accept the open offer in respect of the shares held by them, and to apply for all excess open offer shares not taken up by other qualifying shareholders
“directors”	the directors of MediaNation

DEFINITIONS

“EGM”	the extraordinary general meeting of MediaNation to be convened on 10th July, 2003 at 10:00 a.m., the notice of which is set out on pages 108 to 112 of this circular
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“final acceptance date”	24th July, 2003, being the latest date for acceptance and payment in respect of the assured allotments and applications for excess open offer shares
“GEM”	Growth Enterprise Market operated by the Stock Exchange
“GEM listing rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“general mandate”	the proposed general mandate to be sought at the EGM to authorise the directors to allot and issue new shares in the manner set out in resolution number 3 in the notice of the EGM included in this circular
“group”	MediaNation and its subsidiaries
“HK\$” and “cents”	Hong Kong dollars and cents, respectively
“HKEX”	Hong Kong Exchanges and Clearing Limited
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“independent board committee”	the independent committee of the board, comprising Mr. Johannes Schöter and Mr. Barry John Buttifant
“independent shareholders”	shareholders other than SMI, Warburg and their respective associates
“independent third party (or parties)”	persons(s) who are independent of and not connected with the directors, chief executive and substantial shareholders of MediaNation or any of its subsidiaries or the associates of any of them
“i-Result business”	comprising i-Result Media Limited, i-Result (Beijing) Technology Development Company Limited and China Outdoor Data Centre Company Limited which provide outdoor media planning and buying service, outdoor media market information in the PRC and third party outdoor media monitoring services

DEFINITIONS

“latest practicable date”	18th June, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“listing prospectus”	the prospectus dated 14th January, 2002 and the supplementary prospectus dated 22nd January, 2002 issued by MediaNation relating to the initial public offering of its shares on GEM
“MediaNation”	MediaNation Inc., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“minority shareholders”	the shareholders of MediaNation (other than SMI and Warburg and their respective associates)
“open offer”	the issue by way of an open offer of 1,202,325,990 new shares at the subscription price to the qualifying shareholders in the proportion of two new shares for every share held on the record date, subject to the terms and conditions set out in this circular and the prospectus documents
“open offer shares”	a total of 1,202,325,990 new shares to be made available under the open offer
“option(s)”	a right to subscribe for shares granted under the share option scheme
“overseas shareholders”	shareholders whose names appear on the register of members of MediaNation on the record date and whose addresses as shown on such register are outside Hong Kong
“pre-IPO share options”	share options granted under the pre-IPO share option plans
“pre-IPO share option plans”	several share option plans adopted by MediaNation prior to the listing of MediaNation on GEM, whereby pre-IPO share options were granted to certain directors and employees of the group to subscribe for shares
“PRC”	the People’s Republic of China
“prospectus”	a prospectus to be issued by MediaNation containing details of the open offer
“prospectus documents”	the prospectus and the application forms
“qualifying shareholders”	shareholders, other than overseas shareholders, whose names appear on the register of members of MediaNation as at the close of business on the record date

DEFINITIONS

“record date”	10th July, 2003, the record date by reference to which entitlements to the open offer will be determined
“repurchase mandate”	has the meaning ascribed to it in appendix II to this circular, being the proposed general mandate to be sought at the EGM to authorise the directors to repurchase shares in the manner set out in resolution number 4 in the notice of the EGM included in this circular
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (as amended)
“share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of MediaNation
“shareholder(s)”	holders of the shares
“share option scheme”	the share option scheme conditionally adopted by MediaNation on 8th January, 2002 for a period of ten years, and which became unconditional upon the listing of the shares on GEM on 24th January, 2002
“SMI”	SMI Investors (PAPE II) Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, and a controlling shareholder and a management shareholder of MediaNation
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subscription price”	HK\$0.10 per open offer share
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases
“untaken shares”	those shares for which duly completed application forms (accompanied by cheques or banker’s cashier orders for the full amount payable on application) have not been lodged for acceptance, or received, as the case may be, on or before 4:00 p.m. on the final acceptance date
“Warburg”	Warburg Pincus Ventures, L.P., a limited partnership existing under the laws of the State of Delaware, the United States of America, and a controlling shareholder and a management shareholder of MediaNation

EXPECTED TIMETABLE

2003

Last day of dealings in the shares on a cum-entitlement basis	Friday, 4th July
First day of dealings in the shares on an ex-entitlement basis	Monday, 7th July
Latest time for return of proxy forms for the EGM	10:00 a.m. on Tuesday, 8th July
Latest time for lodging transfers of shares in MediaNation in order to qualify for the open offer	4:00 p.m. on Tuesday, 8th July
Register of members closed	Wednesday, 9th July to Thursday, 10th July (both dates inclusive)
Extraordinary general meeting	10:00 a.m. on Thursday, 10th July
Record date	Thursday, 10th July
Despatch of the prospectus documents in relation to the open offer	Thursday, 10th July
Open offer commences	Thursday, 10th July
Register of members re-opens	Friday, 11th July
Open offer closes	4:00 p.m. on Thursday, 24th July
Latest time for payment and acceptance of the open offer shares (including application for excess open offer shares) under the open offer	4:00 p.m. on Thursday, 24th July
Open offer expected to become unconditional	Monday, 4th August
Announcement of results of the open offer	Tuesday, 5th August
Share certificates for the open offer shares made available under the open offer expected to be posted by mail on or before	Tuesday, 5th August

EXPECTED TIMETABLE

2003

Posting by mail of refund cheques in respect of wholly
or partly unsuccessful excess applications Tuesday, 5th August

Dealings in fully paid open offer shares
expected to commence on Thursday, 7th August

Note: Any reference to time in this circular is in respect of Hong Kong time.

In the event that there is any change to the expected timetable, further announcement will be made.

LETTER FROM THE BOARD



MEDIA NATION
INC.

MediaNation Inc.

(Incorporated in the Cayman Islands with limited liability)

Executive director:

Mr. Chu Chung Hong, Francis

Non-executive directors:

Mr. Sun Qiang, Chang, *Chairman*

Mr. Kam Ling, *Vice Chairman*

Mr. Cheung Leung Hong, Cliff

Ms. Ho Ming Yee

Mr. Cheng Cheung Lun, Julian

Ms. Chan Sim Ngor, Summerine

Independent non-executive directors:

Mr. Johannes Schöter

Mr. Barry John Buttifant

Registered office:

P.O. Box 309

Ugland House

George Town

Grand Cayman

Cayman Islands

*Head office and principal
place of business:*

Rooms 3507-09

35th Floor

The Center

99 Queen's Road Central

Hong Kong

24th June, 2003

To the shareholders

Dear Sir or Madam,

Major and connected transaction **Proposed open offer**

INTRODUCTION

On 3rd June, 2003, MediaNation announced the fund raising proposal to raise approximately HK\$120.2 million, before expenses, by way of an issue of new shares through an open offer.

The open offer will be made to qualifying shareholders in the proportion of two new shares for every share held on the record date at the subscription price.

Each of the deemed controlling shareholders of MediaNation, SMI and Warburg has undertaken to accept the open offer in respect of the shares held by them, and apply for all excess open offer shares not taken up by other qualifying shareholders. Therefore, the total subscription monies from the

LETTER FROM THE BOARD

open offer are a fixed amount that is receivable by MediaNation upon the open offer becoming unconditional, and do not vary with the level of acceptance under the open offer. MediaNation has been advised by its legal adviser that there is no statutory requirements regarding minimum subscription level under the Cayman Islands law.

Subject to the fulfilment of the conditions of the open offer, it is expected that MediaNation will receive the subscription monies from the open offer totalling HK\$120.2 million by 24th July, 2003.

MediaNation also proposes that the general mandate and the repurchase mandate be granted to the directors following the approval of the open offer at the EGM.

The purpose of this circular is to provide you with details of the open offer, including information on applications for the open offer shares, and to give you notice of the EGM at which necessary resolutions will be proposed to seek your approval of the open offer, the connected transaction and the grant of the general mandate and the repurchase mandate.

DETAILS OF THE OPEN OFFER

Issue statistics

Basis of the open offer	two new shares for every share held on the record date at the subscription price, payable in full on application
Number of existing shares in issue	601,162,995 shares as at the latest practicable date
Total number of open offer shares to be issued	1,202,325,990 shares
Subscription price	HK\$0.10 per share

As at the latest practicable date, there are 61,171,630 outstanding options granted under the pre-IPO share option plans and the share option scheme, of which 51,349,508 are exercisable pursuant to their respective terms. If all of the subscription rights attaching to the outstanding options are exercised on or before the record date, the number of issued shares will be increased to 652,512,503 and the number of open offer shares to be issued pursuant to the open offer will be increased to 1,305,025,006. Save as disclosed above, MediaNation does not have in issue any outstanding options, warrants, convertible bonds or preference shares which entitle such security holder to convert such securities into shares prior to the record date. MediaNation has confirmed that it does not intend to issue any securities on or before the record date. Pursuant to the terms of the pre-IPO share option plans and the share option scheme, the number of shares comprised in the outstanding options will be adjusted upon the open offer becoming unconditional. MediaNation will notify the holders of the options the details of such adjustments.

Qualifying shareholders

MediaNation will send the prospectus documents to the qualifying shareholders only.

LETTER FROM THE BOARD

To qualify for the open offer, a shareholder must be registered as a member of MediaNation on the record date, and have an address in Hong Kong which appears on the register of members of MediaNation on the record date. In order to be registered as members of MediaNation on the record date, shareholders must lodge any transfers of shares (together with the relevant share certificates) with the share registrar and transfer office of MediaNation in Hong Kong at Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on 8th July, 2003 pursuant to the expected timetable set out on page 5 of this circular.

The entitlement to apply for the open offer shares under the open offer is not transferable or capable of renunciation. There will not be any trading of nil-paid entitlements of the open offer shares on GEM.

Closure of register of members

The register of members of MediaNation will be closed from 9th July, 2003 to 10th July, 2003, both dates inclusive, pursuant to the expected timetable. No transfers of shares will be registered during this period.

Subscription price

The subscription price is HK\$0.10 per open offer share. The subscription price in respect of the open offer is payable in full upon acceptance of the assured allotments and where applicable, application for excess open offer shares under the open offer.

The subscription price is equivalent to the par value of the shares and represents:

- a premium of approximately 16% to the closing price of HK\$0.086 per share as quoted on the Stock Exchange on the latest practicable date;
- a premium of approximately 33% to the closing price of HK\$0.075 per share as quoted on the Stock Exchange on 3rd June, 2003, being the last trading date prior to the date of the announcement;
- a premium of approximately 37% to the average closing price of HK\$0.073 per share for the ten trading days up to and including 3rd June, 2003;
- a premium of approximately 45% to the average closing price of HK\$0.069 per share for the three months up to and including 3rd June, 2003; and
- a discount of approximately 86% to the unaudited proforma adjusted consolidated net asset value per share of approximately HK\$0.697 based on 601,162,995 shares in issue as at 31st March, 2003.

LETTER FROM THE BOARD

The subscription price was based on arm's length negotiation between MediaNation, SMI and Warburg, and after taking into account the historical market prices of the shares since its listing on GEM in January 2002 and the current financial position of MediaNation. The executive director of MediaNation is of the view that the open offer will provide MediaNation the funds needed and the terms of the open offer are fair and reasonable and in the interest of MediaNation.

Status of the open offer shares

The open offer shares, when allotted and fully paid, will rank *pari passu* with the then existing shares in all respects. Holders of fully-paid open offer shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date on which the open offer becomes unconditional.

Rights of overseas shareholders

As the prospectus documents will not be registered or filed under the applicable securities legislation of any jurisdictions other than Hong Kong, the overseas shareholders (being those shareholders whose names appear on the register of members of MediaNation on the record date and whose addresses as shown on such register are outside Hong Kong) will not be entitled to take part in the open offer. MediaNation will send the prospectus to overseas shareholders for their information only. However, the overseas shareholders are entitled to vote at the EGM for the approval of the open offer.

Fractional entitlements

No fractional entitlements will result from the open offer.

Application for excess open offer shares

Under the open offer, qualifying shareholders are entitled to apply for any number of open offer shares but they are only assured of the allotment of open offer shares comprised in their assured entitlements. The excess open offer shares shall comprise any entitlements of the overseas shareholders and any open offer shares not applied for by the qualifying shareholders. SMI and Warburg have undertaken to apply for all the open offer shares not applied for by the qualifying shareholders.

Application for excess open offer shares may be made by completing the form of application for excess open offer shares. If the number of open offer shares applied for pursuant to the form of application for excess open offer shares exceeds the number of open offer shares which have not been taken up by the qualifying shareholders under their assured entitlements, the board shall ensure that the excess open offer shares shall be allocated at its discretion on a fair and equitable basis.

Application for listing

MediaNation will apply to the GEM listing committee of GEM for the listing of, and permission to deal in, the open offer shares on GEM.

LETTER FROM THE BOARD

Dealings in the open offer shares on GEM will be subject to payment of the applicable stamp duty, Stock Exchange trading fee, Securities and Futures Commission transaction levy or any other applicable fees and charges in Hong Kong.

OTHER TERMS AND CONDITIONS OF THE OPEN OFFER

Completion of the open offer is conditional upon:

- a. the passing by the shareholders, other than SMI, Warburg and their respective associates, at the EGM of an ordinary resolution to approve the open offer;
- b. the GEM listing committee of the Stock Exchange granting or agreeing to grant (subject to allotment), and not having revoked, listing of, and permission to deal in the open offer shares to be issued;
- c. the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong of one duly signed copy of each of the prospectus documents and otherwise in compliance with the GEM listing rules and the Companies Ordinance; and
- d. the posting of the prospectus documents to the qualifying shareholders and the posting of the prospectus to the overseas shareholders for information only.

MediaNation may not waive any of the conditions set out above.

The open offer is not underwritten.

IMPLICATIONS UNDER THE GEM LISTING RULES AND THE TAKEOVERS CODE

The open offer constitutes a major transaction for MediaNation under the GEM listing rules. In accordance with rule 10.39 of the GEM listing rules, the fund raising proposal requires the approval of shareholders and any controlling shareholder within the meaning of the GEM listing rules must abstain from voting. Accordingly, SMI, Warburg and their respective associates will abstain from voting on the ordinary resolution to approve the open offer at the EGM.

At the request of the Stock Exchange, MediaNation has appointed an independent financial adviser to advise the independent board committee of MediaNation on the terms of the open offer and the connected transaction. An independent board committee which comprises Mr. Johannes Schöter and Mr. Barry John Buttifant has been formed to advise the independent shareholders of MediaNation. The other directors of MediaNation are not members of the independent board committee because either they are board representatives of SMI or Warburg, or shareholders of MediaNation or connected persons of a shareholder of MediaNation. Mr. Liu Hong Ru, formerly an independent non executive director of MediaNation, is excluded from the independent board committee as he has resigned from the board of MediaNation on 10th June, 2003 due to personal reasons not relating to the open offer.

LETTER FROM THE BOARD

Each of SMI and Warburg holds 26.47% of the voting rights attached to the shares and are thus associated companies as defined under the Takeovers Code, and as such are presumed to be parties acting in concert within the definition in the Takeovers Code. The Executive has waived the obligation of SMI and Warburg to make a general offer for the shares pursuant to note 6(b) under rule 26.1 of the Takeovers Code. In reaching this decision, the Executive has stated that it has placed reliance, amongst other things, on the fact that SMI and Warburg have confirmed that they are parties acting in concert, they have maintained the same percentage of voting rights and (save for a brief period in 1998) equal board representation in MediaNation since 1998, the balance of shareholdings within the concert group will not change as a result of the open offer, and the price paid for the open offer shares will be the same as that offered to all shareholders under the open offer.

EFFECTS OF THE OPEN OFFER

The table below shows the existing shareholding structure of MediaNation, and the effects on the shareholding structure upon completion of the open offer.

	Existing shareholdings		Upon completion of the open offer (assuming all shareholders take up their assured entitlements) <i>(Note 1)</i>		Upon completion of the open offer (assuming no minority shareholders take up their assured entitlements) <i>(Note 2)</i>	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
SMI	159,130,088	26.47	477,390,264	26.47	760,293,083	42.16
Warburg	159,130,088	26.47	477,390,264	26.47	760,293,083	42.16
Ms. Chan Sim Ngor, Summerine	26,252,118	4.37	78,756,354	4.37	26,252,118	1.45
Mr. Hui Yick Hun, Patrick <i>(Note 4)</i>	13,126,059	2.18	39,378,177	2.18	13,126,059	0.73
Public shareholders	243,524,642	40.51	730,573,926	40.51	243,524,642	13.50
						<i>(Notes 2 & 3)</i>
Total	<u>601,162,995</u>	<u>100.00</u>	<u>1,803,488,985</u>	<u>100.00</u>	<u>1,803,488,985</u>	<u>100.00</u>

Notes:

- This assumes no shareholder applies for any excess open offer shares and there are no overseas shareholders.
- This assumes only SMI and Warburg apply for excess open offer shares.
- Shareholders should note that in the event that no minority shareholders take up their assured entitlements under the open offer, MediaNation will have a public float that falls below the minimum threshold of 25% as prescribed under the GEM listing rules. In the event that the public float of MediaNation falls below the 25% threshold, trading in the shares in MediaNation may be suspended and MediaNation will take appropriate actions to restore the public float.

LETTER FROM THE BOARD

4. The shareholding interest of Mr. Hui Yick Hun, Patrick shown above is based on the disclosure of interest made by Mr. Hui to MediaNation prior to his removal as a director on 19th December, 2002.

Immediately upon completion of the open offer, the unaudited pro forma adjusted consolidated net assets of the group will be approximately HK\$535.2 million, or HK29.7 cents per share. This represents a decrease of approximately 57.4% when compared to the net assets per share of HK69.7 cents prior to the open offer.

If all of the minority shareholders elect to subscribe in full for their entitlements under the open offer, the respective percentage shareholding interest in MediaNation held by SMI and Warburg will remain unchanged, that is, each of them will hold 26.47% of the issued share capital of MediaNation as enlarged by the issue of the open offer shares. The shareholding interest of Ms. Chan Sim Ngor, Summerine and Mr. Hui Yick Hun, Patrick will also remain unchanged.

If no minority shareholders elect to subscribe for their entitlements under the open offer, each of SMI and Warburg will hold approximately 42.16% (or in aggregate approximately 84.32%) of the issued share capital of MediaNation as enlarged by the issue of the open offer shares. Ms. Chan Sim Ngor, Summerine and Mr. Hui Yick Hun, Patrick will hold 1.45% and 0.73% of the enlarged issued share capital of MediaNation, respectively.

REASONS FOR AND BENEFITS OF THE OPEN OFFER

MediaNation and its subsidiaries operate in two main business lines: bus advertising in China and Hong Kong and metro system advertising through joint ventures in Beijing and Shanghai, China. The group recently expanded into street furniture advertising business in China.

MediaNation has incurred continuing operating losses since the financial year ended 31st December, 2002 and requires additional funding to improve its liquidity position and finance the future development of the group's business. The cash and cash equivalents held by the group as at 31st December, 2002 (based on the audited financial statements of the group) were approximately HK\$28.7 million. For the year ended 31st December, 2002, the group recorded an audited net loss of approximately HK\$252.8 million. As at 31st December, 2002, MediaNation had total liabilities of approximately HK\$230.0 million, comprising accounts payable of approximately HK\$81.8 million, long-term payables of approximately HK\$11.9 million, accrued liabilities and other payables of approximately HK\$68.8 million, deferred income of approximately HK\$32.9 million and other current liabilities of approximately HK\$34.6 million.

An unaudited net loss of approximately HK\$46.2 million was recorded for the three month period ended 31st March, 2003. As at 31st March, 2003, the cash and cash equivalents held by MediaNation and its subsidiaries were approximately HK\$48.5 million, based on the unaudited management accounts of the group. As at 31st March, 2003, MediaNation had total liabilities of approximately HK\$234.4 million, comprising accounts payable of approximately HK\$79.8 million, long-term payables of approximately HK\$11.9 million, accrued liabilities and other payables of approximately HK\$45.5 million, deferred income of approximately HK\$49.7 million, short term loans from shareholders of approximately HK\$40 million and other current liabilities of approximately HK\$7.5 million. As at 31st March, 2003, MediaNation had net current liabilities of approximately HK\$90.3

LETTER FROM THE BOARD

million. On 14th March, 2003 and 20th May, 2003, a shareholders' loan in the amount of HK\$60.0 million was advanced by SMI and Warburg to the group for general working capital purposes. As at 30th April, 2003, the net current liabilities position of the group amounted to approximately HK\$107.7 million.

Part of the proceeds raised from the open offer will be applied to meet maturing and past due obligations of MediaNation. The reason for proceeding with the fund raising proposal via an open offer is that it will provide MediaNation the funds needed in a timely manner. The current fund raising proposal also treats all shareholders fairly and equally.

In the event that the open offer does not become unconditional, MediaNation believes that it will have difficulties in meeting its maturing and past due obligations and this may in turn adversely affect the business operations and prospects of MediaNation.

It is not expected that there will be any further changes to the composition of the board of directors of MediaNation (other than those stated in the announcement dated 10th February, 2003) by reason of the open offer. Other changes to the composition of the board are that Mr. Liu Hong Ru, an independent non-executive director of MediaNation, has resigned from the board for personal reasons not relating to the open offer and Mr. Barry John Buttifant has been appointed as an independent non-executive director of MediaNation on 10th June, 2003.

SMI and Warburg will continue to be involved in MediaNation through their respective nominated non-executive directors and do not intend to introduce any new business or inject any assets into MediaNation after completion of the open offer. The board does not expect any material change to the general character or nature of the business of MediaNation following the open offer.

USE OF PROCEEDS

The net proceeds of the open offer are expected to be approximately HK\$116.0 million. The board of MediaNation intends to use the proceeds of (i) approximately HK\$50.3 million for the payment of outstanding liabilities due to independent third parties including overdue media rental fees (also called concession fees) to various bus and metro companies in China of approximately HK\$7.0 million and HK\$43.3 million, respectively; (ii) approximately HK\$5.7 million for payment of outstanding investment commitments for 100 investment buses in China acquired during 2001; and (iii) approximately HK\$60.0 million for repayment of the shareholders' loans advanced by SMI and Warburg of which approximately HK\$34.8 million had been used for the payment of outstanding liabilities to third parties including overdue media rental fees (also called concession fees) to various bus and metro companies in China of approximately HK\$23.3 million and HK\$8.0 million, respectively, approximately HK\$12.5 million for the payment of outstanding investment commitments for investment buses and upfront payments for agency bus contracts in China acquired in prior years, and approximately HK\$12.7 million for financing operating losses and working capital of the group during the first quarter of 2003. The directors of MediaNation expect that all overdue payables of MediaNation mentioned above will be fully repaid with the net proceeds of the open offer of approximately HK\$116.0 million.

LETTER FROM THE BOARD

PROGRESS IN ACHIEVING THE BUSINESS OBJECTIVES

The group's progress in achieving its business objectives as stated in the listing prospectus is set out below:

Business objectives as stated in the listing prospectus

Maintain and strengthen market leadership position

Expand the bus-advertising network in China by acquiring additional concession in new cities or our existing cities.

Install additional advertising displays in metro position in metro advertising systems.

Invest in new digital printing machine.

Current progress to date

In June 2002, the group entered into a new bus advertising concession contract in respect of about 2,800 buses under exclusive agency arrangement. As contemplated in the listing prospectus, expansion of the bus advertising business had been funded from internally generated funds of MediaNation.

The group has largely completed the media assets development in Shanghai Metro Line 2, and the media assets development in the platforms and ticketing halls of Shanghai Metro Line 3. As contemplated in the listing prospectus, expansion of the metro advertising business had been funded from internally generated funds of MediaNation.

In view of the decrease in media sales that resulted in a decrease in production volume, the project has been put on hold. As a result, none of the listing proceeds have been used for this purpose. The group will further reassess the feasibility of the investment. Any future investment in new digital printing machine, if any, will be funded from internally generated funds of MediaNation.

LETTER FROM THE BOARD

Business objectives as stated in the listing prospectus

Develop and implement proprietary Enterprise Resource Planning software, named Media Inventory Management System to enhance ability to accumulate and analyse data relating to the business.

Introduce new media formats

Roll out the street furniture project - newspaper kiosks in China.

Current progress to date

Instead of engaging external vendors, the group used in-house resources to develop the software and, as at the latest practicable date, had largely completed the programming. Trial runs have been implemented on different media assets. None of the listing proceeds have been used for this purpose because the software is being developed in-house.

In September 2002, the group launched a pilot campaign to promote the advertising panels on about 200 kiosks and received reasonable response from interested advertisers. As at the latest practicable date, the group had installed approximately 700 newspaper kiosks, of which approximately 400 are equipped with advertising display panels. The group experienced certain delay with implementation and location selection of the remaining 300 kiosks in the first phase of the project and the management is taking steps to resolve the outstanding issues. The group decided to focus on the installation of the remaining 300 kiosks and proposes to finance the same with a further amount of HK\$5.9 million out of the remaining listing proceeds. As for the implementation of an additional 1,000 kiosks in the second stage of the project, the group will reassess the expansion plan based on the success of the first phase of the project and proposes to finance such expansion plan, if any, using cash flow generated from the successful implementation of the first phase of the project and internally generated cash flow of the group.

LETTER FROM THE BOARD

Business objectives as stated in the listing prospectus

Install and market first aid light boxes in shopping malls in China.

Upgrade and begin marketing New World First Bus Services Limited's bus shelters.

Begin development of new mobile broadcasting display units such as LEDs and LCDs in existing bus and metro media portfolio in China.

Provide integrated outdoor advertising

Further develop and improve the outdoor services media database for i-Result.

Selectively pursue acquisitions

Selectively pursue acquisitions of high quality assets and outdoor advertising related business.

Current progress to date

As at the latest practicable date, the group had installed approximately 1,500 advertising light boxes across China. The design of the first aid light box has been modified so that the appearance is more appealing and less bulky. However, implementation during 2002 was slower than expected due to higher priority given by management to the implementation of the kiosk project. The group decided to focus on outlets that are not populated by other advertising media, and the major cities of Beijing, Shanghai, Guangzhou and Shenzhen. It is intended that a network of approximately 4,000 advertising light boxes in aggregate will be completed by the end of 2003. A further amount of HK\$5.4 million out of the remaining listing proceeds is proposed to be used for the implementation of this project. If this project is successful, the group will consider further expansion plans using cash flow generated from the successful implementation of this project and internally generated cash flow of the group.

The group continued to market the New World First Bus Services Limited's bus shelters to advertisers.

This project has been put on hold. The group will reassess the feasibility of the project when its financial position has improved.

The group decided to discontinue this operation. (Please refer to the announcement dated 10th February, 2003 issued by MediaNation for further details.)

The group has no current plan to pursue this objective until its financial resources allow and until it can identify suitable acquisition targets.

LETTER FROM THE BOARD

Built on a solid business foundation and reputation, and together with a new and committed management team in place, MediaNation plans to focus and strengthen its core business, bus and metro system advertising. The directors believe that the outdoor advertising market in China has strong growth prospects and is attracting new domestic and international entrants. Advertisers are now being offered a wider choices of advertising media and formats. Media property owners, including the bus and metro companies, are increasingly aware of the potential advertising value of their properties. The market has matured and also become more transparent.

Metro system advertising is believed to be one of the key growth drivers in the future. Although the metro system in Shanghai is still in the start-up process in the short run, the directors are confident of the continuing revenue growth and long-term profitability of the operation. The metro system in Beijing is expected to continue to have steady growth in profit contribution to the group. The group will be selective in expanding into new bus concessions and will focus on improving the occupancy and advertising rates of its existing bus portfolio in the PRC. In Hong Kong, although the overall economic environment is difficult, the board is committed to improving its bus advertising operational performance.

LETTER FROM THE BOARD

USE OF PROCEEDS FROM THE LISTING OF MEDIANATION

The net listing proceeds raised from the listing of the shares on GEM on 24th January, 2002 was approximately HK\$394.0 million. The actual use of such net proceeds for the period up to 31st March, 2003, as compared to the proposed use as set out in the listing prospectus is as follows:

	As stated in the listing prospectus HK\$' million	Actual amount used up to 31st March, 2003 HK\$' million	Further amount to be used in 2003 HK\$' million
Development of printing and Media Inventory Management System	7.0	0.0	0.0
Expansion of street furniture business:			
- newspaper kiosks	120.0	67.8	5.9
- other new media formats, including "in-mall" advertising displays, such as first aid light boxes as well as other multimedia displays for bus and metro advertising	100.0	20.6	5.4
Expansion of the i-Result database (<i>Note 1</i>)	5.0	1.4	0.0
Repayment of certain existing debts to Gavast Estates (<i>Note 2</i>)	120.0	117.0	0.0
Repayment of certain existing debts to Everpower and E2-Capital (<i>Note 2</i>)	39.0	39.8	0.0
Operating losses and others	<u>3.0</u>	<u>136.1</u>	<u>0.0</u>
	<u><u>394.0</u></u>	<u><u>382.7</u></u>	<u><u>11.3</u></u>

Notes:

1. MediaNation has ceased its i-Results operations. Please refer to the announcement dated 10th February, 2003 issued by MediaNation for further details.
2. These debts have been fully repaid in 2002.

As disclosed in the group's interim results announcement in 2002, the announcements dated 29th November, 2002 and 10th February, 2003, the annual report 2002 and the first quarter 2003 results announcement, a substantial portion of the listing proceeds had been used to finance the group's operating losses and in this connection, this deviates from the original plan stated in the listing prospectus. As set out above, the group will use the remaining listing proceeds of HK\$11.3 million for expansion of its street furniture business.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The group operates bus advertising in the PRC and Hong Kong and metro system advertising in the PRC. As at the latest practicable date, MediaNation entered into more than 50 concession contracts with bus operators in the PRC and Hong Kong through which the group offers customers a variety of bus advertising products. The group also operates metro advertising business in Beijing and Shanghai through its joint ventures, through which the group offers customers with advertising spaces on light boxes, concourse posters, in-train displays and escalator crowns within the Beijing metro system and Line 2 and Line 3 of the Shanghai metro system. The group has also recently expanded into street furniture advertising in the PRC. Currently, approximately 700 kiosks have been installed on the streets of Shanghai with over 400 of them installed with advertising lightboxes. The group is not considering any other new business development at this stage. In view of the strong business network of MediaNation and with the leadership of the new management and subject to the completion of the open offer, the board is confident that the financial position of MediaNation will gradually improve.

MAINTENANCE OF THE LISTING STATUS

The Stock Exchange has stated that, in the event that less than 25% of the shares are in public hands following completion of the open offer, or if the Stock Exchange believes that a false market exists or may exist in the shares, and that there are insufficient shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the shares.

It is the intention of the directors to maintain the listing of MediaNation on the Stock Exchange after completion of the open offer. After the open offer, should there be less than 25% of the shares in public hands, SMI and Warburg will make arrangements to place sufficient shares, subject to terms and market conditions, so that the shares held by the public will not be less than 25% of the issued share capital of MediaNation.

WARNING OF THE RISKS OF DEALING IN THE SHARES

Existing shares will be dealt with on an ex-entitlement basis from 7th July, 2003. If the conditions of the open offer are not fulfilled, the open offer will not proceed. Any person dealing in the ex-entitlement shares will accordingly bear the risk that the open offer may not become unconditional and may not proceed.

Any shareholders or other persons contemplating selling or purchasing shares during such period who is in any doubt about his or her position is recommended to consult his or her own professional adviser(s).

The open offer may or may not proceed. Shareholders and interested investors are reminded to exercise caution when dealing in the shares. MediaNation will make an appropriate announcement in the event that the open offer does not proceed.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS, LISTINGS AND DEALINGS

The register of members of MediaNation will be closed from 9th July, 2003 to 10th July, 2003, both dates inclusive, pursuant to the expected timetable, for the purpose of determining the entitlement of shareholders under the open offer. No transfers of shares will be registered during this period.

In order to qualify for the open offer, shareholders must lodge any transfers of shares (together with the relevant share certificates) with MediaNation's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on 8th July, 2003 pursuant to the expected timetable.

Application will be made to the GEM listing committee of the Stock Exchange for the listing of, and permission to deal in, the open offer shares which may be issued pursuant to the open offer. Dealings in the open offer shares are expected to commence on 7th August, 2003. No part of the securities of MediaNation are listed or dealt in on any stock exchanges other than the Stock Exchange, nor is the listing of, or permission to deal in, MediaNation's securities on any other stock exchanges being or proposed to be sought.

Subject to the granting of listing of, and permission to deal in, the open offer shares on the Stock Exchange, the open offer shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the open offer shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading date is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the open offer shares be admitted into CCASS.

Dealings in the open offer shares will be subject to payment of stamp duty in Hong Kong.

SHARE CERTIFICATES

It is expected that the certificates for the fully paid open offer shares will be posted to persons entitled thereto at their own risk by the branch share registrar and transfer office of MediaNation in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, on or about 5th August, 2003 to their registered addresses and in case of joint applicants to the registered address of the applicant whose name first appears on the register of members of MediaNation.

TAXATION

Qualifying shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the open offer shares. It is emphasised that none of MediaNation, its directors or any other parties involved in the open offer accepts responsibility for any tax effects or liabilities of holders of the open offer shares resulting from the purchase, holding or disposal of, or dealing in the open offer shares.

LETTER FROM THE BOARD

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

A resolution will be put to the shareholders at the EGM to approve the granting of the general mandate to the directors to allot, issue and deal with the additional shares equal to a maximum of 20 per cent. of the issued share capital of MediaNation at the date of passing such resolution and as enlarged by the issue of the open offer shares pursuant to the open offer.

The general mandate will remain effective until the conclusion of MediaNation's next annual general meeting or the expiration of the period within which the next annual general meeting of MediaNation is required by any applicable law or the articles of association of MediaNation to be held or until revoked by any ordinary resolution of the shareholders, whichever occurs earlier.

It is also intended that a resolution will be put to the shareholders at the EGM granting the directors a general mandate authorising the repurchase by MediaNation on the Stock Exchange of up to 180,348,898 shares, being 10 per cent. of the aggregate amount of the issued share capital of MediaNation at the date of passing such resolution and as enlarged by the issue of open offer shares pursuant to the open offer. This repurchase mandate will remain effective until the conclusion of MediaNation's next annual general meeting or the expiration of the period within which the next annual general meeting of MediaNation is required by any applicable law or the articles of association of MediaNation to be held or until revoked or varied by an ordinary resolution of the shareholders, whichever occurs earlier.

EGM

A notice convening the EGM to be held at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong on 10th July, 2003 at 10:00 a.m. is set out on pages 108 to 112 of this circular at which ordinary resolutions will be proposed and, if thought fit, passed to approve (i) the open offer; (ii) the connected transaction; (iii) the general mandate; and (iv) the repurchase mandate.

In accordance with rule 10.39 of the GEM listing rules, SMI and Warburg who are the controlling shareholders and their respective associate will abstain from voting in respect of the open offer and the connected transaction at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of MediaNation in Hong Kong at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting (as the case may be) should you so wish.

INDEPENDENT BOARD COMMITTEE

The Stock Exchange has stated that in accordance with established practice and in the interest of good corporate governance, MediaNation is expected on transactions such as this, which requires controlling shareholders to abstain from voting, to (a) establish an independent board committee to

LETTER FROM THE BOARD

advise shareholders on the transaction taking into account the recommendations of an independent expert; and (b) appoint an independent expert to recommend to the independent board committee on whether the terms of the subject transaction are fair and reasonable, whether such a transaction is in the interest of the issuer and its shareholders as a whole and advise shareholders on how to vote. Accordingly, MediaNation has appointed an independent financial adviser to advise the independent board committee of MediaNation on the terms of the open offer and the connected transaction.

An independent board committee comprising Mr. Johannes Schöter and Mr. Barry John Buttifant has been formed to advise the independent shareholders of MediaNation in relation to the open offer and the connected transaction. The other directors are not members of the independent board committee because either they are the board representatives of SMI or Warburg, or they are shareholders of MediaNation or connected persons of a shareholder of MediaNation.

Your attention is drawn to the letters from the independent board committee and the independent financial adviser. Both the independent board committee and the independent financial adviser are of the view that the terms of the open offer and the connected transaction are fair and reasonable as far as the shareholders are concerned.

ADDITIONAL INFORMATION

Subject to, amongst other matters, the approval of the open offer at the EGM, it is expected that the prospectus documents will be posted to the qualifying shareholders on 10th July, 2003.

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of the EGM set out in this circular.

By order of the board of
MediaNation Inc.
Sun Qiang, Chang
Director



MEDIA NATION
INC.

MediaNation Inc.

(Incorporated in the Cayman Islands with limited liability)

24th June, 2003

To the independent shareholders

Dear Sir or Madam,

**Major and connected transaction
Proposed open offer**

We have been appointed as members of the independent board committee to advise you in connection with the open offer and the connected transaction, details of which are set out in the document dated 24th June, 2003 (the “document”) to the shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the document.

Your attention is drawn to the “Letter from Altus Capital” concerning its advice to us regarding, the open offer and the connected transaction as set out on pages 25 to 36 of the document. Having considered the advice given by Altus Capital and the principal factors and reasons taken into consideration by them in arriving at its advice, we are of the opinion that the open offer and the connected transaction are in the interests of MediaNation and the shareholders as a whole, and are fair and reasonable so far as the independent shareholders are concerned. We, therefore, recommend the independent shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve, inter alia, the open offer and the connected transaction.

Yours faithfully,
For and on behalf of
the independent board committee

Johannes Schöter

Independent non-executive director

Barry John Buttifant

Independent non-executive director

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

24th June, 2003

The Independent Board Committee
MediaNation Inc.
Room 3507-9, 35th Floor
The Center
99 Queen's Road Central
Hong Kong

Dear Sirs,

**PROPOSED OPEN OFFER
MAJOR AND CONNECTED TRANSACTION**

INTRODUCTION

We refer to the circular dated 24th June, 2003 (the "circular") issued by MediaNation to its shareholders of which this letter forms part and to our appointment as independent financial adviser to the independent board committee in respect of the open offer, the details of which are set out in the letter from the board contained in the circular. Terms used in this letter shall have the same meanings ascribed to them in the circular of which this letter forms part unless the context otherwise requires.

MediaNation proposes the open offer in the proportion of two open offer shares for every share held by the qualifying shareholders at HK\$0.10 per open offer share. The open offer constitutes a major transaction for MediaNation under the GEM listing rules. In accordance with rule 10.39 of the GEM listing rules, the fund raising proposal requires the approval of shareholders and any controlling shareholders within the meaning of the GEM listing rules must abstain from voting. Accordingly, SMI and Warburg and their respective associates will abstain from voting on the ordinary resolution to approve the open offer at the EGM.

The net proceeds of the open offer are expected to be approximately HK\$116.0 million. The board of MediaNation intends to apply the net proceeds as follow:

- (i) approximately HK\$50.3 million for the payment of outstanding liabilities due to independent third parties including overdue media rental fees to various bus and metro companies in the PRC of approximately HK\$7.0 million and HK\$43.3 million, respectively;
- (ii) approximately HK\$5.7 million for payment of outstanding investment commitments for 100 investment buses in the PRC acquired during 2001; and

LETTER FROM ALTUS CAPITAL

- (iii) approximately HK\$60.0 million for repayment of the shareholders' loans advanced by SMI and Warburg of which approximately HK\$34.8 million was used for the payment of outstanding liabilities to third parties including overdue media rental fees to various bus and metro companies in the PRC of approximately HK\$23.3 million and HK\$8.0 million, respectively, approximately HK\$12.5 million for the payment of outstanding investment commitments for investment buses and upfront payments for agency bus contracts in the PRC acquired in prior years, and approximately HK\$12.7 million for financing the operating losses and working capital of the group during the first quarter of 2003.

SMI and Warburg have undertaken to accept the open offer in respect of the shares held by them, and apply for all excess open offer shares not taken up by other qualifying shareholders. Therefore, the total subscription monies from the open offer is a fixed amount that is receivable by MediaNation upon it becoming unconditional, and does not vary with the level of acceptance under the open offer. The above arrangement constitutes a connected transaction for MediaNation.

The independent board committee, comprising Mr. Johannes Schöter and Mr. Barry John Buttifant who are independent non-executive directors, has been appointed to advise the independent shareholders in relation to the open offer. The other directors are not members of the independent board committee because either they are board representatives of SMI or Warburg, or shareholders or connected persons of a shareholder. We have been appointed by MediaNation to advise the independent board committee on the fairness and reasonableness of the open offer, so far as the interests of the independent shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinion and representations supplied to us by MediaNation and the directors of MediaNation and we have assumed that all such information, statements, opinions and representations contained or referred to in the circular were true and accurate and complete at the time they were made and continue to be true at the date of the circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the directors of MediaNation as set out in the letter from the board in the circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from MediaNation that no material facts have been omitted from the information provided and referred to in the circular. We have also discussed with the management of the group their plans for the group and the prospects of the businesses of the group.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the open offer and to justify reliance on the accuracy of the information contained in the circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information (which is known to MediaNation) have been omitted or withheld from the information supplied or opinions expressed in the circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by MediaNation and the directors of MediaNation which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the directors of MediaNation, nor have we conducted an independent in-depth investigation into the business and affairs of the group.

Also, we have not considered the tax consequences for shareholders in relation to the open offer as these are specific to their own individual circumstances. Independent shareholders should take into account their tax positions when considering the open offer and to consult their professional advisers if in any doubt.

THE OPEN OFFER

Principal factors considered

In arriving at our recommendation in relation to the open offer, we have considered the following:

(i) *Reasons for the open offer*

MediaNation and its subsidiaries operate two main business lines: bus advertising in PRC and Hong Kong and metro system advertising through joint ventures in Beijing and Shanghai, Mainland China. The group recently expanded into street furniture advertising business in the PRC.

During the three financial years ended 31st December, 2002, the turnover of the group fluctuated. The turnover of the group increased from approximately HK\$418.8 million for the year ended 31st December, 2000 to approximately HK\$473.9 million for the year ended 31st December, 2001, representing an increase of approximately 13.2%. According to the annual report of MediaNation for the year 2001, the increase in turnover was due to increases in the group's media rental revenue, production revenue, agency services income and media consultancy services income.

The turnover of the group decreased to approximately HK\$370.7 million for the year ended 31st December, 2002, representing a reduction of approximately 21.8% as compared to the previous financial year. According to the annual report of MediaNation for the year 2002, the decrease in turnover for the year ended 31st December, 2002 was due to increased competition in the PRC and sluggish advertising market in Hong Kong.

The group recorded consolidated net losses attributable to shareholders of approximately HK\$252.8 million for the year ended 31st December, 2002 as compared to profits of approximately HK\$12.7 million and HK\$3.5 million for the two years ended 31st December, 2000 and 2001. The loss for the year ended 31st December, 2002 was due mainly to the decrease in sales of approximately HK\$103.2 million, the increase in cost of sales by approximately HK\$71.6 million, the increase in selling, general and administration expenses by approximately HK\$66.3 million and the provision for impairment of assets of approximately HK\$36.8 million. As stated in the letter from the board, a substantial portion of the listing proceeds amounting to HK\$136.1 million has been used in financing the group's operating losses and, to that extent, the group has deviated from its original plan as stated in the listing prospectus. The group will use the remaining listing proceeds of HK\$11.3 million for expansion of its street furniture business.

LETTER FROM ALTUS CAPITAL

As stated above, MediaNation incurred substantial losses for the financial year ended 31st December, 2002 and requires additional funding to improve its liquidity position and finance the future development of the business of MediaNation and its subsidiaries. As at 31st December, 2002, MediaNation had total liabilities of approximately HK\$230.0 million, comprising current liabilities of approximately HK\$218.0 million (including accounts payable of approximately HK\$81.8 million, accrued liabilities and other payables of approximately HK\$68.8 million, deferred income of approximately HK\$32.9 million and other current liabilities of approximately HK\$34.5 million) and long-term payables of approximately HK\$11.9 million. Nevertheless, the cash and cash equivalents held by MediaNation and its subsidiaries as at 31st December, 2002 were approximately HK\$28.7 million. As at 31st December, 2002, MediaNation had net current liabilities amounting to approximately HK\$96.0 million.

An unaudited net loss of approximately HK\$46.2 million was recorded for the three-month period ended 31st March, 2003. Based on the unaudited management accounts of the group, as at 31st March, 2003, the cash and cash equivalents held by MediaNation and its subsidiaries were approximately HK\$48.5 million. Nevertheless, as at 31st March, 2003, MediaNation had total liabilities of approximately HK\$234.4 million, comprising current liabilities of approximately HK\$222.5 million (including accounts payable of approximately HK\$79.8 million, accrued liabilities and other payables of approximately HK\$45.5 million, deferred income of approximately HK\$49.7 million, short term loans from shareholders (being SMI and Warburg) of approximately HK\$40 million and other current liabilities of approximately HK\$7.5 million) and long-term payables of approximately HK\$11.9 million. Due to the urgent need of funding for the settlement of past due obligations, in March and May 2003, SMI and Warburg together advanced HK\$40 million and HK\$20 million respectively as shareholders' loans to MediaNation to repay part of the liabilities. According to MediaNation, approximately HK\$34.8 million of the shareholders' loans was used for the payment of outstanding liabilities to third parties including overdue media rental fees to various bus and metro companies in the PRC of approximately HK\$23.3 million and HK\$8.0 million, respectively, approximately HK\$12.5 million of the shareholders' loans was used for the payment of outstanding investment commitments for investment buses and upfront payments for agency bus contracts in the PRC acquired in prior years, and approximately HK\$12.7 million of the shareholders' loans was used for financing the operating losses and working capital of the group during the first quarter of 2003. As at 31st March, and 30th April, 2003, the net current liabilities of the group were approximately HK\$90.3 million and HK\$107.7 million respectively.

Part of the proceeds raised from the open offer will be applied to meet maturing and past due obligations of MediaNation. The reason for proceeding with the fund raising proposal via an open offer is that it will provide MediaNation with the funds needed in a timely manner. We concur with the directors' view that the current proposal has been formulated so that shareholders are treated fairly and equally since all qualifying shareholders are given the opportunity to subscribe for their entitlements under the terms of the open offer. The management of MediaNation believes that the proceeds from the open offer, together with the cash on hand and the revenue generated by the operations of the group, should be able to meet the group's funding requirements in continuing to pursue its business objectives as set out in the section headed "Progress in achieving the business objectives" in the letter from the board.

LETTER FROM ALTUS CAPITAL

Having considered the financial performance and conditions of the group and based on the working capital forecast of MediaNation, we concur with the view of the directors that the proceeds of the open offer should enable the payment of all of the past due obligations of MediaNation as stated in the letter from the board and the repayment of the shareholders' loans and that MediaNation should have sufficient working capital for its present requirements.

(ii) *Subscription price of the open offer*

MediaNation will provisionally allot two open offer shares for every one share held by the qualifying shareholders at the close of business on the record date at a subscription price of HK\$0.10 per open offer share. The subscription price represents:

1. a premium of approximately 33.3% to the closing price of HK\$0.075 per share in MediaNation as quoted on the Stock Exchange on 3rd June, 2003, being the last trading date prior to the date of the announcement;
2. a premium of approximately 37.0% to the average closing price of approximately HK\$0.073 per share in MediaNation for the ten trading days up to and including 3rd June, 2003;
3. a premium of approximately 44.9% to the average closing price of approximately HK\$0.069 per share in MediaNation for the three months up to and including 3rd June, 2003;
4. a premium of approximately 8.7% to the theoretical ex-entitlement price of approximately HK\$0.092 per share in MediaNation based on the closing price of HK\$0.075 per share in MediaNation as quoted on the Stock Exchange on 3rd June, 2003;
5. a premium of approximately 16.3% to the closing price of HK\$0.086 per share as quoted on the Stock Exchange on the latest practicable date;
6. a discount of approximately 85.7% to the unaudited pro forma adjusted consolidated net asset value per share of approximately HK\$0.697 based on 601,162,995 shares in issue as at 31st March, 2003; and
7. a discount of approximately 3.8% to the unaudited pro forma adjusted consolidated net tangible asset value per share of approximately HK\$0.104 based on 601,162,995 shares in issue as at the latest practicable date.

The subscription price of HK\$0.10 per open offer share, is equivalent to the par value per share, was based on arm's length negotiation between MediaNation, SMI and Warburg, and after taking into account the historical market prices of the shares since the listing on GEM in January 2002 and the current financial position of MediaNation. We concur with the view of the executive director that the open offer will provide MediaNation the funds needed and the terms of the open offer are fair and reasonable and in the interest of MediaNation.

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Subscription price comparison

For comparison, we have reviewed the subscription prices of, to the best of our knowledge, all the open offers announced by companies listed on the main board and GEM of the Stock Exchange since November 2002 to May 2003 (the “Comparable Offers”) as summarised below:

Company	Date of announcement ¹	Subscription price (HK\$)	Premium over/ (Discount of) the subscription price to last trading day ²	Premium over/ (Discount of) the subscription price to last 10 trading days ³	Premium over/ (Discount of) the subscription price to the theoretical ex-entitlement price ⁴
GR Investment International Limited	6th May, 2003	0.01	(62.96%)	(71.99%)	(29.82%)
New Universe International Group Limited	11th February, 2003	0.05	(1.96%)	(3.66%)	(1.57%)
Ezcom Holdings Limited	29th January, 2003	0.10	(96.15%)	(96.45%)	(80.66%)
Blu Spa Holdings Limited	28th January, 2003	0.018	(28.00%)	(29.13%)	(20.70%)
Starbow Holdings Limited	2nd December, 2002	0.01	(64.29%)	(66.67%)	(15.25%)
Can Do Holdings Limited	9th November, 2002	0.01	(60.00%)	(64.29%)	(41.18%)
MediaNation		0.10	33.3%	37.0%	8.7%

Notes:

- (1) Being date of announcement of the respective open offers (the “press announcement”).
- (2) Being premium over or discount of the subscription price to the closing price on the last trading day prior to the release of the press announcement.
- (3) Being premium over or discount of the subscription price to the average closing price for the last 10 trading days up to and including the last trading day prior to the release of the press announcement.
- (4) Being premium over or discount of the subscription price to the theoretical ex-entitlement price calculated based on the closing price on the last trading day prior to the release of the press announcement.

From the above table, whilst the offer prices of the Comparable Offers have been discounted to each of their respective market prices and the theoretical ex-entitlement prices, the subscription price represents a premium over each of the market prices and the theoretical ex-entitlement price.

As discussed in the section headed “Alternative fund raising methods” below, having considered that MediaNation has been loss making since 2002 and that shareholders will be treated fairly and equally under the open offer, the directors are of the view that the open offer is a reasonable fund

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raising method. However, the shares are being traded on the Stock Exchange below their nominal value of HK\$0.10 per share. In fact, the shares were traded in the range of HK\$0.070 to HK\$0.098 during the one-month period up to and including the latest practicable date. Under applicable laws and MediaNation's articles of association, MediaNation cannot issue shares below their nominal value. Accordingly, HK\$0.10 represents the lowest possible price at which MediaNation can issue shares. On the basis of the above, we are of the view that the subscription price, which represents a premium over prevailing market price, is fair and reasonable and in the interest of the shareholders as a whole.

Share price performance

The following table sets out the average daily closing price of the shares and the average daily trading volume of the shares since May 2002:

Month/Period	Average daily closing price (HK\$)	Average daily trading volume (shares)
May 2002	1.534	11,426,762
June 2002	1.125	2,403,500
July 2002	0.839	2,364,591
August 2002	0.378	6,040,591
September 2002	0.212	1,116,286
October 2002	0.161	1,031,048
November 2002	0.160	291,190
December 2002 ¹	0.140	2,500
January 2003 ¹	N/A	0
February 2003 ¹	0.082	867,673
March 2003	0.067	1,372,095
April 2003	0.070	878,150
May 2003	0.072	278,450
June 2003 (up to the latest practicable date)	0.086	1,869,775

Note:

(1) Trading of shares suspended from 3rd December, 2002 to 10th February, 2003

The average daily closing price of the shares has been on a declining trend, decreasing from an average of HK\$1.534 per share in May 2002 to an average of HK\$0.067 per share in March 2003. Based on the closing share price of HK\$0.086 per share as at the latest practicable date, the subscription price represents a premium of 16.3%. Since 11th February, 2003, the shares have been trading below the subscription price. Accordingly, independent shareholders who wish to subscribe for the open offer and increase their shareholding should however note that in the event that the prevailing trading price of shares is still lower than the subscription price, it will be more appropriate to purchase such additional shares through the market than to subscribe for the open offer shares.

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The open offer shares, when allotted and fully paid, will rank pari passu with the then existing shares in all respects. Qualifying shareholders who have successfully applied for the open offer shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date on which the open offer becomes unconditional.

(iii) *Alternative fund raising methods*

In addition to the open offer, there are other alternatives to raise funds for the group, such as through bank borrowings and placement of new shares to third parties. Given that the group has been loss making since the year 2002 and that the group has a substantial amount of liabilities, the directors are of the view it will not be possible for the group to obtain favourable terms for any borrowings, and also is not desirable to do so. Placement of new shares to third parties will result in a dilution of shareholdings of the shareholders since the existing shareholders will not in the event be given an opportunity to participate in the placing of shares and given the financial position of MediaNation and the current weak market sentiment, the discounts of such placements will be deep. In this case, since the subscription price of HK\$0.10 per open offer share is equivalent to the nominal value per share, MediaNation cannot issue shares below the nominal value and, to facilitate any placement, it needs to reduce the nominal value of the shares prior to the placement, which will take longer than the issue of shares through the open offer, and the operations of MediaNation would be adversely affected. In addition, a lower subscription price would increase the potential dilution effects on the shareholdings of existing shareholders.

We therefore agree with the directors' view that the open offer is a reasonable fund raising method to strengthen the group's financial position and to enlarge its capital base without diluting the shareholding interests of shareholders if the shareholders fully subscribe for their entitlements under the open offer. The open offer will provide all shareholders (other than the overseas shareholders) an equal opportunity to participate in the development of the group and pursuing of the group's business objectives as set out in the section headed "Progress in achieving the business objectives" in the board letter.

(iv) *Dilution effect of the open offer on shareholdings*

The attributable equity interests in MediaNation of those qualifying shareholders who do not subscribe in full to their provisional allotments under the open offer will be diluted after completion of the open offer up to a dilution of 66.7%. On the contrary, to the extent qualifying shareholders subscribe in full to their provisional allotments, they will not suffer dilution upon completion of the open offer. Besides, qualifying shareholders who wish to increase their shareholdings in MediaNation through the open offer may, subject to availability, apply for excess open offer shares. We consider that the dilution is not prejudicial as qualifying shareholders are given the opportunity and are entitled to subscribe for their entitlement under the terms of the open offer.

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(v) *Financial effects of the open offer*

1. *Net tangible assets*

The table below sets out the pro forma consolidated net tangible assets of the group, illustrating the effects of the open offer:

	<i>HK\$'million</i>
Audited consolidated net tangible assets of the group as at 31st December, 2002	92.1
Less: Unaudited loss attributable to the shareholders for the three months ended 31st March, 2003	(46.2)
Add: Movement for the intangible assets for the three months ended 31st March, 2003	<u>16.7</u>
Unaudited pro forma adjusted consolidated net tangible assets of the group immediately prior to the open offer	62.6
Add: Net proceeds from the open offer	<u>116.0</u>
Unaudited pro forma adjusted consolidated net tangible assets of the group immediately after completion of the open offer	178.6
Unaudited pro forma adjusted consolidated net tangible asset value per share immediately prior to the open offer based on 601,162,995 shares in issue as at the latest practicable date	HK10.4 cents
Unaudited pro forma adjusted consolidated net tangible asset value per share immediately following the open offer based on 1,803,488,985 shares in issue as enlarged by the issue of the open offer shares	HK9.9 cents

The group's unaudited pro forma adjusted consolidated net tangible asset value per share prior to the open offer based on 601,162,995 shares in issue as at the latest practicable date is HK10.4 cents and the unaudited pro forma adjusted consolidated net tangible asset value per share immediately following the open offer based on 1,803,488,985 shares in issue as enlarged by the issue of the open offer shares is HK9.9 cents, representing a decrease of 5.1%. This decrease is due to the fact that the subscription price of HK\$0.10 per share is slightly lower than the group's unaudited pro forma adjusted consolidated net tangible asset value per share of HK10.4 cents.

2. *Liabilities and gearing ratio*

As at 31st December, 2002 and 31st March, 2003, the group had outstanding liabilities totalling approximately HK\$230.0 million and HK\$234.4 million, resulting in a gearing ratio of approximately 49.4% and 55.9% respectively. According to MediaNation, upon completion of the open offer, HK\$52.7 million of the net proceeds will be used for the payment of existing liabilities. On this basis, the pro forma total liabilities of the group will decrease by approximately 22.5% to approximately HK\$181.7 million and the pro forma gearing ratio of the group after the open offer will decrease to approximately 33.9%.

The open offer will improve the net asset position as well as lower the gearing ratio of the group. The open offer will increase the net asset value of the group from approximately HK\$419.2 million as at 31st March, 2003 to approximately HK\$585.4 million, representing an increase of approximately 39.6%.

3. *Working capital*

The net current liabilities of the group as at 31st March, 2003 amounted to approximately HK\$90.3 million. According to MediaNation, all the net proceeds from the open offer will be deployed for current utilisation, such as payment of current liabilities and outstanding commitments and repayment of shareholder's loans, and the group's pro forma working capital will, therefore, revert to a positive level of approximately HK\$25.7 million from a negative level of approximately HK\$90.3 million as at 31st March, 2003. The working capital position of the group will be enhanced after the open offer.

Since the open offer would 1) only slightly decrease the net tangible asset value per share by 5.1%; 2) lower the liabilities of the group by 22.5%; 3) lower the gearing ratio of the group from 55.9% to 33.9%; and 4) restore the working capital of the group to a positive level from a negative level, we concur with the view of the directors that the open offer will improve the financial position and provide liquidity to the group. We are of the view that the open offer is in the interest of MediaNation and that the dilution is not prejudicial as qualifying shareholders are given the opportunity to subscribe for their entitlements under the terms of the open offer.

(vi) *Application for excess open offer shares by SMI and Warburg*

1. *Reason for the connected transaction*

According to MediaNation, due to the current financial situation of the group, it would be difficult to engage a suitable underwriter for the open offer. Accordingly, the open offer is not being underwritten. According to MediaNation, owing to their internal policies, SMI and Warburg would not underwrite the open offer shares. Nevertheless, SMI and Warburg have undertaken to accept the open offer in respect of the shares held by them, and apply for all excess open offer shares not taken up by other qualifying shareholders. We are of the view that the above arrangement is the best alternative to an underwritten open offer.

2. *Benefits of the connected transaction*

Based on the undertakings from SMI and Warburg, the total subscription monies from the open offer is a fixed amount that is receivable by MediaNation upon it becoming unconditional, and does not vary with the level of acceptance under the open offer. We consider that the undertakings from SMI and Warburg will, in fact, facilitate the open offer and show the continued support for the group from SMI and Warburg.

If no minority shareholder elects to subscribe for entitlements under the open offer, each of SMI and Warburg will hold approximately 42.16% (or in aggregate approximately 84.32%) of the issued share capital of MediaNation as enlarged by the issue of the open offer shares. Please refer to the section headed “Dilution effect of the open offer on shareholdings” above for details of the dilution effect. Having considered 1) the financial situation of the group; 2) the amount to be raised by MediaNation and; 3) that the group could not engage a suitable underwriter for the open offer, we concur with the view of the directors’ that the above undertakings from SMI and Warburg would facilitate the open offer.

(vii) *Maintaining listing status*

The Stock Exchange has stated that, in the event that less than 25% of the shares in public hands following completion of the open offer, or if the Stock Exchange believes that a false market exists or may exist in the shares, and that there are insufficient shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the shares.

It is the intention of the directors to maintain the listing of MediaNation on the Stock Exchange after completion of the open offer. After the open offer, should there be less than 25% of the shares in public hands, SMI and Warburg will make arrangements to place sufficient shares, subject to terms and market conditions, so that the shares held by the public will not be less than 25% of the issued share capital of MediaNation.

Recommendations on the open offer

Having considered the above factors and reasons, in particular,

- the directors’ view of the group’s financial situation;
- that the open offer is a better way to raise funds for the group to repay the shareholder’s loans and certain parts of the liabilities;
- that the subscription price and the terms of the open offer is fair and reasonable;
- that the open offer reduces the liabilities and the gearing ratio of the group, restores the working capital of the group to a positive level, enhances the capital base of MediaNation and improves liquidity and financial position of the group;

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- the reason for the connected transaction; and
- the benefits of the connected transaction,

we are of the view that the open offer is in the interests of MediaNation and the shareholders as a whole, and the terms of it are fair and reasonable so far as the independent shareholders are concerned and the connected transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable, and in the interests of the shareholders as a whole and would advise the independent board committee to recommend to the independent shareholders to vote in favour of the resolution to approve the open offer to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Arnold Ip
Executive Director

Kevin Chan
Executive Director

1. SHARE CAPITAL

The authorised and issued share capital of MediaNation as at the latest practicable date were, and after the completion of the open offer are expected to be, as follows:

<i>Authorised:</i>		<i>HK\$'000</i>
<u>5,000,000,000</u>	shares	<u>500,000</u>
<i>Issued and to be issued:</i>		
601,162,995	shares in issue	60,116
<u>1,202,325,990</u>	open offer shares to be issued	<u>120,233</u>
<u>1,803,488,985</u>	shares	<u>180,349</u>

The shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of MediaNation is listed or dealt in on any other stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the shares or any other securities of MediaNation to be listed or dealt in on any other stock exchange.

Save for the outstanding options, there were no other options, warrants or conversion rights affecting the shares outstanding as at the latest practicable date.

2. INDEBTEDNESS*Borrowings*

As at the close of business on 30th April, 2003, being the latest practicable date for the purpose of this indebtedness statement, the group had total liabilities of approximately HK\$236.4 million, comprising accounts payable of approximately HK\$67.5 million, long-term payables of approximately HK\$11.9 million, accrued liabilities and other payables of approximately HK\$46.9 million, deferred income of approximately HK\$62.6 million, short term loans from shareholders of approximately HK\$40.0 million and other current liabilities of approximately HK\$7.5 million.

Contingent liabilities

As at 30th April, 2003, being the latest practicable date for the purpose of this indebtedness statement, MediaNation had no material contingent liabilities.

Security

As at 30th April, 2003, being the latest practicable date for the purpose of this indebtedness statement, MediaNation did not have any pledged assets.

Disclaimer

Save as disclosed above, the group did not, as at the close of business on 30th April, 2003, have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other outstanding material contingent liabilities.

3. WORKING CAPITAL

Taking into account of the internal resources of the group and the expected net proceeds of the open offer, the directors are of the opinion that the group has sufficient working capital for its present requirements.

4. AUDITED FINANCIAL INFORMATION

The following is a summary of the audited consolidated profit and loss account of the group for each of the two years ended 31st December, 2002.

Consolidated profit and loss account of the group

	<i>Note(s)</i>	For the year ended 31st December	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Note 35)</i>
Turnover	2, 31(a)	370,672	473,882
Cost of sales	31(a)	<u>(426,593)</u>	<u>(354,996)</u>
Gross (loss)/profit		(55,921)	118,886
Other revenue	2	3,259	1,553
Selling, general and administrative expenses	31(a)	(174,873)	(108,564)
Impairment of assets	4	<u>(36,793)</u>	<u>—</u>
Operating (loss)/profit	2, 4	(264,328)	11,875
Finance costs	5	(8,853)	(14,412)
Share of profits less losses of associated companies	19	<u>18,574</u>	<u>16,530</u>
(Loss)/profit before taxation		<u>(254,607)</u>	<u>13,993</u>
Taxation			
— The Company and subsidiaries		(442)	(3,552)
— An associated company	19	<u>(6,973)</u>	<u>(6,713)</u>
	6	<u>(7,415)</u>	<u>(10,265)</u>
(Loss)/profit after taxation		(262,022)	3,728
Minority interests		<u>9,239</u>	<u>(267)</u>
Net (loss)/profit attributable to shareholders	7	<u>(252,783)</u>	<u>3,461</u>
Dividend	8	<u>—</u>	<u>—</u>
(Loss)/earnings per share (HK cents)			
— Basic	9	(42.68)	0.80
— Diluted	9	<u>N/A</u>	<u>0.76</u>

Consolidated balance sheet

	Note(s)	As at 31st December	
		2002 HK\$'000	2001 HK\$'000 (Note 35)
Non-current assets			
Intangible assets	12	298,730	351,879
Fixed assets	13	69,038	51,072
Investment deposit placed with a joint venture partner — non-current	14	28,291	8,727
Long-term deposits	15	35,000	62,219
Deposits for intangible assets	16	74,511	36,041
Deposits for fixed assets	17	27,715	—
Investment in an associated company	19	39,781	42,191
Other non-current assets		747	748
		<u>573,813</u>	<u>552,877</u>
Current assets			
Investment deposit placed with a joint venture partner — current		—	11,430
Prepayments, deposits and other receivables		34,968	71,434
Amount due from a joint venture partner	18(ii)	—	3,305
Amounts due from related companies		—	416
Amount due from a senior executive	20	—	547
Inventories		2,741	2,514
Income tax recoverable		—	99
Trade receivables	21	53,419	102,676
Pledged bank deposits		241	19,493
Bank balances and cash	22, 29(c)	30,613	18,916
		<u>121,982</u>	<u>230,830</u>
Current liabilities			
Trade payables	23	81,784	62,778
Accrued liabilities and other payables	3(ii), 14	68,807	57,348
Deferred income		32,919	41,181
Amount due to an associated company	19	32,936	18,324
Amount due to a joint venture partner	31(b)	264	—
Amounts due to related companies	31(b)	1,169	1,073
Obligations under finance leases		—	944
Convertible loan notes		—	116,960
Short-term bank loans, overdraft and other borrowings		91	103,134
Taxation payable		48	2,654
		<u>218,018</u>	<u>404,396</u>
Net current liabilities		<u>(96,036)</u>	<u>(173,566)</u>
Total assets less current liabilities		<u>477,777</u>	<u>379,311</u>

		As at 31st December	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note 35)</i>
Financed by:			
Capital and reserves			
Share capital	25	60,116	961
Reserves	27	<u>405,251</u>	<u>322,969</u>
		465,367	323,930
Minority interests		476	7,465
Non-current liabilities			
Long-term payables	24	<u>11,934</u>	<u>47,916</u>
		<u>477,777</u>	<u>379,311</u>

Balance sheet

		As at 31st December	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current asset			
Investments in subsidiaries	18	467,511	292,075
Current assets			
Prepayments, deposits and other receivables		458	17,459
Loan to a subsidiary		—	116,960
Bank balances and cash		604	—
		<u>1,062</u>	<u>134,419</u>
Current liabilities			
Accrued liabilities and other payables		3,206	11,352
Convertible loan notes		—	116,960
		<u>3,206</u>	<u>128,312</u>
Net current (liabilities)/assets		<u>(2,144)</u>	<u>6,107</u>
Total assets less current liabilities		<u>465,367</u>	<u>298,182</u>
Financed by:			
Capital and reserves			
Share capital	25	60,116	961
Reserves	27	405,251	297,221
		<u>465,367</u>	<u>298,182</u>

Consolidated statements of changes in equity

	<i>Note</i>	For the year ended 31st December	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Note 35)</i>
Total equity as at 1st January		323,930	320,569
Issue of ordinary shares upon the listing	25(b)	445,604	—
Share issuing expenses	27	(47,935)	—
Repurchase and cancellation of ordinary shares	25(c)	(3,725)	—
Net gains /(losses) not recognised in the profit and loss account			
— Exchange difference arising from the translation of accounts of foreign subsidiaries	27	276	(100)
Net (loss)/profit for the year	27	<u>(252,783)</u>	<u>3,461</u>
Total equity as at 31st December		<u>465,367</u>	<u>323,930</u>

Consolidated cash flow statement

	<i>Note</i>	For the year ended 31st December	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Note 35)</i>
Net cash outflow used in operations	29(a)	(49,505)	(34,468)
Interest paid		(8,853)	(5,816)
Hong Kong profits tax refund/(paid)		99	(99)
Overseas taxation paid		<u>(3,048)</u>	<u>(7,486)</u>
Net cash outflow from operating activities		<u>(61,307)</u>	<u>(47,869)</u>
Investing activities			
Refund of investment deposit placed with a joint venture partner		20,157	11,682
Purchase of fixed assets		(28,646)	(38,603)
Proceeds from disposals of fixed assets		45	1,038
Payments for acquisition of intangible assets		(32,032)	(28,199)
Increase in long-term deposits		(2,500)	(4,182)
Increase in deposits for fixed assets		(27,715)	—
Increase in deposits for intangible assets		(43,185)	(36,041)
Increase in amount due from a joint venture partner		—	(948)
Decrease/(increase) in other non-current assets		1	(748)
Increase in bank balances and cash due to acquisition of subsidiaries		—	1,842
Interest received		3,259	1,553
Decrease in long-term payables		(27,475)	(6,101)
Dividends received from an associated company		<u>14,011</u>	<u>14,563</u>
Net cash outflow from investing activities		<u>(124,080)</u>	<u>(84,144)</u>
Net cash outflow before financing		<u>(185,387)</u>	<u>(132,013)</u>

	<i>Note</i>	For the year ended	
		2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note 35)</i>
Financing activities			
Dividends paid to a minority shareholder		(2,116)	—
Proceeds from issuance of convertible loan notes	29(b)	—	116,960
Repayment of convertible loan notes	29(b)	(116,960)	—
New bank loans repayable within one year	29(b)	—	56,602
Increase in loans from financial institutions	29(b)	—	22,690
New loan from a third party	29(b)	—	19,500
Repayment of bank loans repayable within one year	29(b)	—	(47,150)
Repayment of borrowings	29(b)	(103,134)	—
Issue of new shares upon the listing	25(b)	445,604	—
Share issuing expenses		(41,006)	(6,929)
Repurchase of shares	25(c)	(3,725)	—
Decrease/(increase) in pledged bank deposits		19,252	(19,493)
Decrease/(increase) in restricted cash	29(c)	(556)	327
Repayment of principal portion of obligations under finance leases	29(b)	(944)	(1,293)
Payment for professional fees incurred in connection with fund raising exercises		—	(1,900)
Payment for loan financing fees		—	(979)
		<u>196,415</u>	<u>138,335</u>
Net cash inflow from financing			
		11,028	6,322
Increase in cash and cash equivalents			
		17,689	11,346
Cash and cash equivalents at 1st January			
		22	21
Effect of foreign exchange rates changes			
		<u>28,739</u>	<u>17,689</u>
Cash and cash equivalents at 31st December	29(c)		

Notes to the Accounts

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) *Basis of preparation*

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

The accounts have been prepared on a going concern basis, the validity of which depends on the availability of necessary financial resources. The Group incurred a substantial loss that resulted in a substantial cash outflow during the year ended 31st December 2002 and had net current liabilities of approximately HK\$96,036,000 as at 31st December 2002, as well as commitments that are payable in the next twelve months as detailed in Note 30. The following steps have been taken to ensure the Group has sufficient financial resources to meet its liabilities as they fall due during the year ended 31st December 2003.

- (i) In March 2003, two substantial shareholders, Warburg Pincus Ventures, L.P. and SMI Investors (PAPE II) Limited, have advanced HK\$20 million each (totaling HK\$40 million) to the Company as unsecured loans. The Company shall repay the loans on 31st March 2004 or within five business days after the date on which all the proceeds of the proposed fund raising exercise of the Company (as referred to (iii) below) are actually received by the Company, whichever is the earlier.
- (ii) The Group has taken various measures, including but not limited to the changes in its management team (including the appointment of a new Chief Executive Officer) and the discontinuation of the loss making i-Result business (Note 3) in December 2002 as detailed in its public announcement dated 10th February 2003. These measures are intended to improve the cash flow position of the Group.
- (iii) The Company is now considering several possible fund raising arrangements so as to support its future operations for at least the next twelve months. In January 2003, the Company appointed Anglo Chinese Corporate Finance, Limited to advise it on the alternative strategies for raising additional capital, which includes the possibility of an open offer (as mentioned in the Company’s public announcement dated 10th February 2003). In the event that the Company proceeds with an open offer and subject to obtaining the necessary shareholders’ approval, the two abovementioned shareholders have undertaken that they will take up the shares offered thereunder. An announcement setting out the particulars of the fund raising exercise will be issued by the Company as soon as practicable.
- (iv) If the Company does not proceed with an open offer as mentioned in (iii) above or if the open offer is not completed, the Company intends to obtain alternative funding in order to meet its financial obligations as and when they fall due. The two abovementioned shareholders have indicated that they would be willing to give their support to the Company based upon terms agreeable to them and where it would be practicable to do so.

The directors are of opinion that it is appropriate for the Group’s accounts to be prepared on the going concern basis in view of the foregoing measures to enhance the Group’s financial resources.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP33:	Discontinuing operations
SSAP34 (revised):	Employee benefits

Other than those disclosed in the respective notes to the accounts, the Group considers that the consequential changes made to the above SSAPs will not have material impact on the accounts of the Group.

(b) *Group accounting*

(i) Consolidation

On 1st July 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 Company held the same percentage of equity interests in TRI as their equity interests in the Company. On 30th June 2001, the Company acquired the entire share capital of TRI through a share exchange (“Reorganisation”) and consequently became the holding company of the companies now comprising the Group (including TRI).

The Reorganisation involved companies under common control and has been accounted for as a reorganisation of the Group as a continuing entity. The consolidated accounts for the year ended 31st December 2001 have been prepared using merger basis of accounting in accordance with the SSAP27 “Accounting for Group Reconstructions” as if the current group structure had been in existence since 1st January 2001.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Joint ventures

The Group's investment in joint ventures in the People's Republic of China (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 joint venture is a contractual arrangement whereby 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. The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) *Intangibles*

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/associated company at the date of acquisition. With respect to investment in the associated company accounted for under the equity method of accounting, goodwill is included in the carrying amount of the investment. Goodwill on acquisitions of subsidiaries is included in the intangible assets. Goodwill is amortised using the straight-line method over the shorter of 20 years or the tenure of the investments.

(ii) Advertising licence rights

Advertising licence rights represent licence fees paid for the acquisition of exclusive rights of advertising on certain buses in the PRC. These fees are capitalised and amortised using the straight-line method over their respective licence periods but not exceeding 20 years.

(iii) Computer software

Expenditure on computer software is capitalised and amortised using the straight-line method over its estimated useful life which is 5 years.

(iv) 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 capitalised. The capitalisation 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 amortised on a straight-line basis over a period of three years, which represents the expected useful life of the website.

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

(v) 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 capitalised and amortised over the remaining term of the advertising licences from which the subject profit is derived.

(vi) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) *Fixed assets*

(i) Construction-in-progress

Construction-in-progress is an investment in advertising display panels which are not ready for use as at the balance sheet date and management intends to hold for operating purposes. Construction-in-progress is carried at cost that includes development and construction expenditure incurred and other direct costs attributable to the development less accumulated impairment losses. On completion, the construction-in-progress is transferred to other fixed assets at cost less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures and equipment, production equipment, motor vehicles and advertising display panels are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation

Fixed assets other than construction-in-progress are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, and in the case of fixed assets under Beijing Top Result Public Transportation Advertising Co., Ltd., i-Result (Beijing) Technology Development Co., Ltd., China Outdoor Data Center Co., Ltd., Shanghai Top Result Metro Advertising Co, Ltd. and Top Result Kiosk (Shanghai) Development Co., Ltd., all being subsidiaries established in the PRC, after taking into account an estimated residual value of 10% of the costs of the fixed assets. The principal annual rates are as follows:

Leasehold improvements	over the unexpired lease term
Furniture, fixtures and equipment	20%-33.33%
Production equipment	33.33%
Motor vehicles	20%
Advertising display panels	10%

Major costs incurred in restoring the fixed assets to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the expected useful lives. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on disposal

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) *Inventories*

Inventories comprise stock and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labor and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(i) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) *Employee benefits*

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised where the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong, the assets of which are generally held in separate trustee - administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies based on a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the plan prior to the full vesting of their contributions.

(k) *Deferred taxation*

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liabilities or an asset was expected to be payable or recoverable in the foreseeable future.

(l) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) *Revenue recognition*

(i) Media rental

Media rental income from the provision of outdoor media advertising services is recognised on a time apportionment basis throughout the contract periods. 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 recognised when the contracts are completed and the services are rendered.

(iii) Agency commission income

Agency commission income, which is generated from the provision of service in assisting customers in buying advertising spaces, is recognised when the services are rendered.

(iv) Media consultancy services income

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

(v) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) *Borrowing costs*

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) *Segment reporting*

During the year, the Group restructured its internal financial reporting. The Group has determined that geographical segments be presented as the primary reporting format (2001: business segments (media rental, advertising production services, agency services and media consultancy services)) and business segments as the secondary reporting format (2001: geographical segments). Management considers this new reporting format gives a fairer presentation of its business focus.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on where the assets are located.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure primarily comprises additions to intangible assets, fixed assets, deposits for intangible assets and deposits for fixed assets.

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

2 Turnover, revenue and segment information

The Group is principally engaged in the provision of outdoor advertising media services in Hong Kong and the PRC. Revenues recognised during the year are as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Media rental	284,904	370,891
Production income	74,993	81,861
Agency commission income	9,726	12,041
Media consultancy services income	<u>1,049</u>	<u>9,089</u>
	<u>370,672</u>	<u>473,882</u>
Other revenue		
Interest income from bank deposits	2,126	1,553
Interest income from long-term deposits	1,122	—
Interest income from trade receivables	<u>11</u>	<u>—</u>
	<u>3,259</u>	<u>1,553</u>
Total revenue	<u><u>373,931</u></u>	<u><u>475,435</u></u>

(a) *Primary reporting format geographical segments*

The Group's principal activities are conducted mainly in Hong Kong and the PRC.

An analysis by geographical segment is as follows:

	Hong Kong		The PRC		Eliminations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	107,986	162,360	262,686	311,522	—	—	370,672	473,882
Inter-segment sales	<u>5,738</u>	<u>11,791</u>	<u>19,536</u>	<u>16,155</u>	<u>(25,274)</u>	<u>(27,946)</u>	<u>—</u>	<u>—</u>
Total turnover	<u>113,724</u>	<u>174,151</u>	<u>282,222</u>	<u>327,677</u>	<u>(25,274)</u>	<u>(27,946)</u>	<u>370,672</u>	<u>473,882</u>
Segment operating (loss)/profit	(78,792)	6,387	(187,677)	8,296	2,141	(2,808)	(264,328)	11,875
Finance costs							(8,853)	(14,412)
Share of profits less losses of associated companies							<u>18,574</u>	<u>16,530</u>
(Loss)/profit before taxation							(254,607)	13,993
Taxation							<u>(7,415)</u>	<u>(10,265)</u>
(Loss)/profit after taxation							(262,022)	3,728
Minority interests							<u>9,239</u>	<u>(267)</u>
Net (loss)/profit attributable to shareholders							<u>(252,783)</u>	<u>3,461</u>
Assets								
Segment assets	182,413	243,373	473,601	498,143	—	—	656,014	741,516
Investment in an associated company							<u>39,781</u>	<u>42,191</u>
Total assets							<u>695,795</u>	<u>783,707</u>
Liabilities								
Segment liabilities	<u>13,035</u>	<u>217,597</u>	<u>216,917</u>	<u>234,715</u>	<u>—</u>	<u>—</u>	<u>229,952</u>	<u>452,312</u>
Other information								
Capital expenditure	370	9,837	158,683	99,855	—	—	159,053	109,692
Provision for doubtful debts:								
Trade receivables	419	—	5,781	1,142	—	—	6,200	1,142
Deposits and other receivables	6,124	—	2,782	—	—	—	8,906	—
Impairment of assets	6,431	—	30,362	—	—	—	36,793	—
Depreciation of fixed assets	2,515	4,046	13,261	6,150	—	—	15,776	10,196
Amortisation of intangible assets	1,315	2,129	68,911	62,690	—	—	70,226	64,819

(b) *Secondary reporting format — business segments*

The Group is organised into three main business segments, namely Metro system advertising, Bus advertising and i-Result business. The i-Result business provides outdoor media information, planning, buying and monitoring services in the PRC by launching outdoor machine which is a subscription service featuring an integrated outdoor advertising service platform. On 2nd December 2002 the i-Result business segment was abandoned (Note 3).

The Group's turnover, segment result, segment assets and capital expenditure for the year, analysed by business segments are as follows:

	Turnover		Segment result		Total assets		Capital expenditure	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Metro system advertising	43,727	32,864	(23,417)	2,158	61,946	49,759	11,670	18,439
Bus advertising	318,951	430,112	(158,754)	38,261	461,165	568,101	52,884	37,832
i-Result business	7,840	10,906	(29,471)	(16,836)	2,527	25,928	3,705	13,524
Other operations	154	—	(9,036)	—	110,975	36,041	90,794	39,897
	<u>370,672</u>	<u>473,882</u>	<u>(220,678)</u>	<u>23,583</u>	<u>636,613</u>	<u>679,829</u>	<u>159,053</u>	<u>109,692</u>
Unallocated costs			<u>(43,650)</u>	<u>(11,708)</u>				
Operating (loss) profit			<u>(264,328)</u>	<u>11,875</u>				
Investment in an associated company					39,781	42,191		
Unallocated assets					<u>19,401</u>	<u>61,687</u>		
Total assets					<u>695,795</u>	<u>783,707</u>		

3 Discontinuing operation

On 2nd December 2002 the Group announced its plan to close down the i-Result business. The subsidiaries comprising this segment, namely i-Result Media Limited, i-Result (Beijing) Technology Development Co., Ltd. and China Outdoor Data Centre Co., Ltd., will be liquidated and are reported as a discontinuing operation. The turnover, results, cash flows and net assets of the i-Result business are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover	7,840	10,906
Cost of sales	(7,536)	(6,666)
Other revenue	5	14
Operating costs	(21,785)	(21,090)
Impairment of assets (<i>Note (i)</i>)	<u>(7,995)</u>	<u>—</u>
Operating loss	(29,471)	(16,836)
Finance costs	<u>—</u>	<u>—</u>
Loss before taxation	(29,471)	(16,836)
Taxation	<u>(2)</u>	<u>(4)</u>
Loss after taxation	(29,473)	(16,840)
Minority interests	<u>—</u>	<u>(3)</u>
Net loss	<u><u>(29,473)</u></u>	<u><u>(16,843)</u></u>
Net operating cash outflow	(5,789)	(22,585)
Net investing cash outflow	(1,813)	(6,047)
Net financing cash outflow	<u>—</u>	<u>—</u>
Total net cash outflow	<u><u>(7,602)</u></u>	<u><u>(28,632)</u></u>
Fixed assets (<i>Note 13</i>)	407	4,782
Intangible assets	—	8,340
Current assets	<u>2,120</u>	<u>12,806</u>
Total assets	2,527	25,928
Total liabilities (<i>Note (ii)</i>)	<u>(6,384)</u>	<u>(4,944)</u>
Net (liabilities)/assets	<u><u>(3,857)</u></u>	<u><u>20,984</u></u>

- (i) As a result of the closure of the i-Result business, impairment charges for i-Result business's intangible assets (computer software, goodwill and website development costs) and fixed assets of approximately HK\$6,912,000 and HK\$1,083,000 respectively have been made in the current year.
- (ii) The closure of i-Result business will result in the loss of approximately 160 jobs in the PRC. The involuntary severance and termination benefits payable to those made redundant in accordance with the relevant laws in the PRC of approximately HK\$1,535,000 has been recognised in the current year and included in accrued liabilities and other payables in the consolidated balance sheet. Provision for other costs related to the closure of i-Result business was approximately HK\$500,000. The provision is expected to be fully utilised during 2003.

4 Operating (loss)/profit

Operating (loss)/profit is stated after crediting and charging the following:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Gain on disposals of fixed assets	—	4,573
Charging		
Depreciation:		
Owned fixed assets	14,610	8,682
Leased fixed assets	1,166	1,514
Loss on disposals of fixed assets	1,320	—
Impairment of assets:		
Discontinuing operation (<i>Note 3</i>):		
Fixed assets (<i>Note 13</i>)	1,083	—
Intangible assets (<i>Note 12</i>):		
Goodwill	927	—
Computer software	5,875	—
Website development costs	110	—
Continuing operation:		
Intangible assets (<i>Note 12</i>):		
Advertising licence rights	28,798	—
	36,793	—
Loss on disposals of intangible assets	112	141
Staff costs (including directors' emoluments) (<i>Note 10</i>)	91,340	58,982
Auditors' remuneration	1,010	1,000
Amortisation of intangible assets (<i>Note 12</i>):		
Advertising licence rights (included in cost of sales)	68,396	62,635
Computer software (included in cost of sales)	1,660	1,813
Goodwill (included in administrative expenses)	145	115
Website development costs (included in administrative expenses)	25	33
Premium for redemption of a profit sharing right (included in cost of sales)	—	223
Amortisation of goodwill on acquisition of an associated company (included in share of profits less losses of associated companies)	1,268	1,268
Operating lease rental:		
Office premises	13,892	11,654
Advertising spaces	231,951	184,272
Provision for doubtful debts:		
Trade receivables	6,200	1,142
Deposits and other receivables	8,906	—
Net exchange losses	126	258

5 Finance costs

	2002 HK\$'000	2001 HK\$'000
Interest on convertible loan notes	4,973	8,492
Interest on bank loans and overdrafts	2,298	3,540
Interest on loans from financial institutions	118	338
Interest on loan from a third party	120	47
Interest element of finance leases	245	279
Interest on trade payables	680	1,127
Interest on amount due to an associated company (<i>Note 19</i>)	245	—
Interest on long-term payables (<i>Note 24</i>)	174	589
	<u>8,853</u>	<u>14,412</u>

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

6 Taxation

No provision for Hong Kong profits tax has been provided as the Group had no estimated assessable profit for the year (2001: nil).

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax ("EIT") on their taxable income at a combined national and local tax rate of 33% (2001: 33%). Taxation on overseas profits 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 profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Current taxation — PRC EIT	269	3,597
Under provisions in prior years	173	—
Write-back of deferred taxation	—	(45)
	<u>442</u>	<u>3,552</u>
Share of taxation attributable to:		
An associated company	<u>6,973</u>	<u>6,713</u>
	<u>7,415</u>	<u>10,265</u>

7 Net (loss)/profit attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$226,759,000 (2001: HK\$206,000).

8 Dividend

No dividends were paid or declared by the Company during the year (2001: nil).

9 (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's net loss attributable to shareholders of approximately HK\$252,783,000 (2001: profit of HK\$3,461,000) and the weighted average of 592,311,526 ordinary shares in issue during the year (2001: weighted average of 433,672,995 ordinary shares after the Capitalisation Issue as described in Note 25). The diluted loss per share for the year ended 31st December 2002 is not presented because the effect of the assumed conversion of all potential dilutive ordinary shares is anti-dilutive. For the year ended 31st December 2001, diluted earnings per share is computed by dividing the Group's net profit attributable to shareholders of approximately HK\$3,461,000 by the weighted average of 457,000,530 ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares.

10 Staff costs (including directors' emoluments)

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages and salaries	71,930	50,693
Unutilised annual leave	443	—
Termination benefits	6,924	—
Pension costs — defined contribution plan (<i>Note 32</i>)	3,391	2,537
Social security cost	6,920	4,592
Other staff benefits	<u>1,732</u>	<u>1,160</u>
	<u>91,340</u>	<u>58,982</u>

11 Directors' and five highest paid individuals' emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees		
Executive directors	—	—
Non-executive directors	516	300
Independent non-executive directors	<u>492</u>	<u>—</u>
	1,008	300
Consultancy fees		
Non-executive directors	736	—
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	3,390	3,240
Discretionary bonuses	1,320	—
Pension scheme contributions		
— for other offices	120	132
Compensation for loss of office		
— as other offices paid by the Company	<u>5,181</u>	<u>—</u>
	<u><u>11,755</u></u>	<u><u>3,672</u></u>

Former executive directors received individual emoluments for the year ended 31st December 2002 of approximately HK\$4,756,000 (2001: HK\$1,986,000), HK\$4,563,000 (2001: HK\$1,386,000) and HK\$524,000 (2001: nil) respectively.

During the year, no emoluments were paid to the directors as an inducement to join the Group (2001: nil).

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for both years include two (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	4,714	3,696
Discretionary bonuses	700	—
Pension scheme contributions	75	176
Compensation for loss of office D contractual payment	<u>194</u>	<u>—</u>
Total	<u><u>5,683</u></u>	<u><u>3,872</u></u>

The emoluments (excluding directors) fell within the following bands:

	Number of individuals	
	2002	2001
Emolument bands		
HK\$1,500,001-HK\$2,000,000	2	3
HK\$2,000,001-HK\$2,500,000	<u>1</u>	<u>—</u>
Total	<u><u>3</u></u>	<u><u>3</u></u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group (2001: nil).

12 Intangible assets — Group

	Advertising licence rights <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Website development costs <i>HK\$'000</i>	Premium for redemption of a profit sharing right <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2002	342,930	7,556	1,258	135	—	351,879
Acquisition costs	55,474	414	—	—	—	55,888
Disposals of intangible assets	(3,101)	—	—	—	—	(3,101)
Amortisation charge (<i>Note 4</i>)	(68,396)	(1,660)	(145)	(25)	—	(70,226)
Impairment charge (<i>Note 4</i>)	<u>(28,798)</u>	<u>(5,875)</u>	<u>(927)</u>	<u>(110)</u>	<u>—</u>	<u>(35,710)</u>
At 31st December 2002	<u>298,109</u>	<u>435</u>	<u>186</u>	<u>—</u>	<u>—</u>	<u>298,730</u>
At 31st December 2002						
Cost	600,912	10,457	1,373	168	7,595	620,505
Accumulated amortisation	(274,005)	(4,147)	(260)	(58)	(7,595)	(286,065)
Accumulated impairment losses	<u>(28,798)</u>	<u>(5,875)</u>	<u>(927)</u>	<u>(110)</u>	<u>—</u>	<u>(35,710)</u>
Net book amount	<u>298,109</u>	<u>435</u>	<u>186</u>	<u>—</u>	<u>—</u>	<u>298,730</u>
At 31st December 2001						
Cost	549,493	10,043	1,373	168	7,595	568,672
Accumulated amortisation	<u>(206,563)</u>	<u>(2,487)</u>	<u>(115)</u>	<u>(33)</u>	<u>(7,595)</u>	<u>(216,793)</u>
Net book amount	<u>342,930</u>	<u>7,556</u>	<u>1,258</u>	<u>135</u>	<u>—</u>	<u>351,879</u>

The impairment charges on computer software, goodwill and website development costs arose from the closure of the i-Result business (Note 3).

Management have prepared an updated assessment of the value in use of the underlying assets (advertising licence rights) of the Group's outdoor advertising business. In assessing the value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflects the then current market assessment of the time value of money and the risks specific to the assets. As a result of the assessment, the Group recognised an impairment charge of approximately HK\$28,798,000 for the year ended 31st December 2002 (2001: nil) against the advertising licence rights.

13 Fixed assets — Group

	Leasehold improvements	Furniture, fixtures and equipment	Production equipment	Motor vehicles	Advertising display panels	Construction- in-progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1st January 2002	16,650	22,170	5,479	3,436	16,680	3,856	68,271
Transfer	—	—	—	—	3,856	(3,856)	—
Additions	5,436	2,259	242	988	20,575	6,690	36,190
Disposals	(1,240)	(2,393)	—	—	—	—	(3,633)
At 31st December 2002	20,846	22,036	5,721	4,424	41,111	6,690	100,828
Accumulated depreciation and impairment							
At 1st January 2002	5,665	7,519	2,394	1,253	368	—	17,199
Charge for the year	6,366	4,141	2,344	651	2,274	—	15,776
Disposals	(1,169)	(1,099)	—	—	—	—	(2,268)
Impairment charge (Note 4)	—	1,083	—	—	—	—	1,083
At 31st December 2002	10,862	11,644	4,738	1,904	2,642	—	31,790
Net book value							
At 31st December 2002	9,984	10,392	983	2,520	38,469	6,690	69,038
At 31st December 2001	10,985	14,651	3,085	2,183	16,312	3,856	51,072

The impairment charge on the fixed assets arose from the closure of the i-Result business (Note 3).

The construction-in-progress of approximately HK\$6,690,000 will be contributed to Top Result Kiosk (Shanghai) Development Co., Ltd. (“Shanghai Kiosk”) as part of the Group’s capital contributions (Note 18(iii)).

14 Investment deposit placed with a joint venture partner — Group

The amount of approximately HK\$28,291,000 (2001: HK\$8,727,000) represents a refundable security deposit of RMB30,000,000 placed with a joint venture partner of Shanghai Top Result Metro Advertising Co. Ltd. (“Shanghai Metro”) (2001: Beijing Top Result Metro Advertising Co., Ltd. (“BJ Metro”)) 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 for 15 years. The deposit is refundable to the Group in three annual installments of RMB10,000,000 (approximately HK\$9,984,000) each commencing from the sixth anniversary of the agency agreement through offsetting concession fees payable to the joint venture partner. Subsequent to the balance sheet date, as agreed with the joint venture partner, part of this deposit amounting to RMB15,000,000 was temporarily used to offset a portion of the concession fees payable (included in accrued liabilities and other payables) at 31st December 2002. The total amount of the concession fees payable as at 31st December 2002 was approximately HK\$28,537,000 (RMB29,200,000) and will be replenished by the Group during 2003.

15 Long-term deposits — Group

The long-term deposit of HK\$35,000,000 (2001: HK\$62,219,000) represents amounts placed with a business partner, Kowloon Motor Bus Company (1933) Limited (2001: Kowloon Motor Bus Company (1933) Limited and Shanghai Metro), as a security deposit for the due performance and observance by a subsidiary of the Company of the terms of a media rental 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 will be refunded to the subsidiary upon the expiration of the relevant media rental contract on 31st October 2004.

16 Deposits for intangible assets — Group

As at 31st December 2002, the Group has paid approximately HK\$74,511,000 (2001: HK\$36,041,000) to a subsidiary of the joint venture partner of China Kiosk Development Limited (“China Kiosk”) for the purpose of acquiring the rights to place advertisements on specially designed newspaper kiosks (2001: the subsidiary of the joint venture partner and a third party advertising rights owner). The Group will contribute this deposit for intangible assets as part of its capital contributions to Shanghai Kiosk. As at the date of this report, Shanghai Kiosk is in the process of obtaining the official business licence for placing advertisements on the kiosks and registering its share capital (Note 18(iii)).

17 Deposits for fixed assets — Group

As at 31st December 2002, the Group has paid approximately HK\$27,715,000 (2001: nil) to two independent third parties for acquiring certain advertising display panels. Deposits amounting to approximately HK\$16,927,000 will be contributed to Shanghai Kiosk as part of the Group’s capital contributions (Note 18(iii)).

18 Investments in subsidiaries — Company

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2,804	2,804
Amounts due from subsidiaries	<u>675,489</u>	<u>289,271</u>
	678,293	292,075
Less: provision for impairment losses and doubtful debts	<u>(210,782)</u>	<u>—</u>
	<u><u>467,511</u></u>	<u><u>292,075</u></u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The following is a list of the subsidiaries at 31st December 2002:

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 profit to the Group	Principal activities
				Directly	Indirectly		
				%	%	%	
Top Result Promotion Limited ("Top Result")	Hong Kong 18th July 1991	HK\$1,000,000	Company with limited liability	100	—	100	Provide media advertising services
Top Result Interactive Limited	The Cayman Islands 16th December 1999	US\$124	Company with limited liability	100	—	100	Investment holding
i-Result Media Limited	Hong Kong 29th March 2000	US\$2	Company with limited liability	—	100	100	Provide media advertising services
i-Result (Beijing) Technology Development Co., Ltd. ("IRT") (Note (i))	The PRC 19th February 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 (i))	The PRC 9th March 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 (ii))	The PRC 22nd February 1994	RMB99,600,000	Cooperative joint venture	—	99.5	80	Provide media advertising services
Digital Photo Limited	Hong Kong 6th July 1998	HK\$200,000	Company with limited liability	—	51	51	Provide large scale digital colour printing services
Top Photo Imaging Company Limited	The PRC 2nd November 1999	US\$400,000	Equity joint venture	—	45.9	45.9	Provide large scale digital colour printing services
China Kiosk Development Limited ("China Kiosk") (Note (iii))	Hong Kong 20th June 2001	HK\$1,000	Company with limited liability	—	80	80	Investment holding
Top Result Kiosk (Shanghai) Development Co. Ltd. ("Shanghai Kiosk") (Note (iii))	The PRC 9th April 2002	—	Wholly-foreign-owned enterprise	—	80	80	Develop and manage media assets
Shanghai Top Result Metro Advertising Co. Ltd. ("Shanghai Metro") (Note (iv))	The PRC 20th February 2002	RMB16,000,000	Cooperative joint venture	—	50	90	Provide media advertising services

- (i) IRT is a wholly-foreign-owned enterprise established in the PRC for a period of 20 years up to February 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 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 amortised over the joint venture contract period of ten years. As a result of the closure of the i-Result business (Note 3), full impairment loss was made against the carrying amount of unamortised goodwill of approximately HK\$927,000 in the current year.

- (ii) Beijing Joint Venture is a Sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to February 2009. Pursuant to the joint venture agreement and the supplemental agreement, dated 10th December 1993 and 24th May 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 licence. Thereafter, Top Result is entitled to 80% of the distributable profit of Beijing Joint Venture. During the year, Beijing Joint Venture distributed the profits for the years from 1998 to 2001. The dividends to the joint venture partner amounted to approximately HK\$5,421,000 and was partially settled through offsetting the amount due from the joint venture partner.

Upon the expiry of the joint venture agreement, 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.

- (iii) On 29th October 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% beneficial equity interest. Under the agreement, China Kiosk established a wholly-foreign-owned enterprise, Shanghai Kiosk, in Shanghai for a period of 20 years up to April 2022, to expand the street furniture (newspaper kiosk) business in the PRC. The Group was required to provide an investment of US\$12,500,000 (approximately HK\$97,500,000). The Group will contribute to Shanghai Kiosk the deposits for intangible assets of approximately HK\$74,511,000 (Note 16), the deposits for fixed assets of approximately HK\$16,927,000 (Note 17) and fixed assets (construction-in-progress) of approximately HK\$6,690,000 (Note 13) as the Group's capital contribution of approximately HK\$97,500,000 and a working capital loan of approximately HK\$628,000. As at the date of this report, Shanghai Kiosk is in the process of obtaining the official business licence for placing advertisements on the kiosks and registering its share capital.
- (iv) Shanghai Metro is a sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to February 2017. Pursuant to the joint venture agreement dated 5th September 2000, which was amended on 8th December 2001, the Group contributed RMB14,800,000 (approximately HK\$13,956,000). The amount contributed to Shanghai Metro includes RMB8,000,000 (approximately HK\$7,544,000) which represents 50% of the registered capital while the remaining RMB6,800,000 (approximately HK\$6,412,000) represents a working capital loan advanced by the Group. The Chinese joint venture partner contributed the remaining portion of the registered capital by way of contributing advertising display panels amounting to RMB8,000,000 (approximately HK\$7,544,000). The Group is entitled to 90% of the distributable profits of Shanghai Metro but is required to bear 50% of the operating losses of Shanghai Metro.

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

19 Investment in an associated company and amount due to an associated company — Group

	2002 HK\$'000	2001 HK\$'000 (Note 35)
Investment in an associated company		
Share of net assets	24,458	25,600
Goodwill on acquisition of an associated company		
Cost	20,280	20,280
Accumulated amortisation	<u>(4,957)</u>	<u>(3,689)</u>
	<u>39,781</u>	<u>42,191</u>
Amount due to an associated company	<u>32,936</u>	<u>18,324</u>

The amount due to an associated company is unsecured, non-interest bearing and has no fixed terms of repayment except for an amount of approximately HK\$16,658,000 which bears interest at 3% per annum and has a credit term of 45 days from the date of invoice.

The following is the details of the associated company at 31st December 2002:

Name	Place and date of incorporation/ registration and operation	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
				Indirectly %	Group %	
Beijing Top Result Metro Advertising Co., Ltd. ("BJ Metro")	The PRC 28th April 1997	RMB35,000,000	Cooperative joint venture	100	38	Provide media advertising services

BJ Metro was formed under a cooperative joint venture agreement and a supplemental agreement dated 8th November 1996 and 6th April 1999 respectively. BJ Metro obtained its business licence on 11th June 1997 with a term of 18 years. The Group has contributed all the registered share capital of BJ Metro of RMB35,000,000 (approximately HK\$32,710,000) in previous years.

In addition, 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 1st January 2000, for the remaining tenure of the joint venture. The Group's share of distributable profit of BJ Metro for the year ended 31st December 2002 amounted to approximately HK\$12,869,000 (2001: HK\$11,212,000).

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 amortised over the joint venture period. The amortisation expense for the year ended 31st December 2002 amounted to approximately HK\$1,268,000 (2001: HK\$1,268,000) and was included in the share of profits less losses of associated companies.

The summary of financial information of BJ Metro based on the adjusted accounts prepared under the accounting principles generally accepted in Hong Kong for the year is as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance sheet		
Current assets	84,591	68,670
Non-current assets	23,314	26,052
Current liabilities	45,647	29,264
Profit and loss account		
Turnover	93,175	84,711
Profit before taxation	52,215	47,169
Profit after taxation	<u>33,864</u>	<u>29,502</u>

20 **Amount due from a senior executive — Group**

	Amount outstanding at 31st December 2002	Amount outstanding at 31st December 2001	Maximum amount outstanding during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
An Ning	<u>—</u>	<u>547</u>	<u>547</u>

The amount due from a senior executive represented a housing loan granted and was unsecured, non-interest bearing and repaid during the year.

21 **Trade receivables — Group**

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	61,911	107,194
Less: provision for doubtful debts	<u>(8,492)</u>	<u>(4,518)</u>
	<u>53,419</u>	<u>102,676</u>

At 31st December 2002, the aging analysis of trade receivables is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current	757	28,092
1-30 days	21,017	26,481
31-60 days	8,236	16,126
61-90 days	9,851	10,988
91-120 days	6,742	5,387
Over 120 days	<u>15,308</u>	<u>20,120</u>
	<u>61,911</u>	<u>107,194</u>

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

22 Bank balances and cash — Group

At 31st December 2002, bank balances and cash of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$21,005,000 (2001: 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 authorised to conduct foreign exchange business.

23 Trade payables — Group

At 31st December 2002, the aging analysis of trade payables based on due dates is as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Current	35,487	19,584
1-30 days	6,368	8,884
31-60 days	5,623	6,954
61-90 days	12,997	2,011
91-120 days	19,939	1,102
Over 120 days	<u>1,370</u>	<u>24,243</u>
	<u>81,784</u>	<u>62,778</u>

24 Long-term payables — Group

Long-term payables represent payables for the acquisition of advertising licences from bus operators in the PRC. The balances are unsecured, not repayable within one year and are non-interest bearing except for an amount of approximately HK\$460,000 (2001: HK\$7,402,000) which bears interest at 6.435% (2001: 6.435%) per annum.

25 Share capital

	<i>Note</i>	Authorised			
		Ordinary shares of US\$0.01 each		Ordinary shares of HK\$0.10 each	
		No. of shares	Amount <i>HK\$'000</i>	No. of shares	Amount <i>HK\$'000</i>
At 1st January 2001 and 31st December 2001		<u>50,000,000</u>	<u>3,880</u>	<u>—</u>	<u>—</u>
Cancellation of authorised ordinary share capital	(a)(i)	(50,000,000)	(3,880)	—	—
Increase in authorised ordinary share capital	(a)(i)	<u>—</u>	<u>—</u>	<u>5,000,000,000</u>	<u>500,000</u>
At 31st December 2002		<u>—</u>	<u>—</u>	<u>5,000,000,000</u>	<u>500,000</u>
	<i>Note</i>	Issued and fully paid			
		Ordinary shares of of US\$0.01 each		Ordinary shares of HK\$0.10 each	
		No. of shares	Amount <i>HK\$'000</i>	No. of shares	Amount <i>HK\$'000</i>
At 1st January 2001 and 31st December 2001		<u>12,390,657</u>	<u>961</u>	<u>—</u>	<u>—</u>
Repurchase and cancellation of ordinary shares	(a)(i)	(12,390,657)	(961)	—	—
Issue of ordinary shares	(a)(i)	—	—	12,390,657	1,239
Issue of ordinary shares through Capitalisation Issue	(a)(ii)	—	—	421,282,338	42,128
Issue of ordinary shares upon the Listing	(b)	—	—	171,386,000	17,139
Repurchase and cancellation of ordinary shares	(c)	<u>—</u>	<u>—</u>	<u>(3,896,000)</u>	<u>(390)</u>
As at 31st December 2002		<u>—</u>	<u>—</u>	<u>601,162,995</u>	<u>60,116</u>

- (a) Pursuant to resolutions passed by the shareholders of the Company on 8th January 2002:
- (i) the denomination of the share capital of the Company was converted from United States dollars to Hong Kong dollars (the “Shares Conversion”) through the following steps:
- the authorised share capital was increased from US\$500,000 to the aggregate of US\$500,000 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 US\$0.01 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 then automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and
 - the authorised but unissued shares of US\$0.01 each were cancelled.
- (ii) a sum of HK\$42,128,233.80 being part of the amount then standing to the credit of the share premium account of the Company was capitalised by issuing 421,282,338 shares (the “Capitalisation Issue”), credited as fully paid at par, to the holders of shares registered on the register of members of the Company on 8th January 2002 in proportion to their respective shareholdings.
- (b) On 24th January 2002, 171,386,000 ordinary 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 share issuing expenses. Accordingly, approximately HK\$428,465,000 was credited to the share premium account (Note 27) and the Company’s ordinary shares were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Listing”) on 24th January 2002.
- (c) During the year, the Company repurchased 3,896,000 ordinary shares of HK\$0.10 each in the GEM at a total cash consideration of approximately HK\$3,725,000. Accordingly, approximately HK\$3,335,000 was debited to the share premium account and approximately HK\$390,000 was transferred from accumulated losses to capital redemption reserve (Note 27). These shares were cancelled on repurchase.

26 Share options

Pre-IPO Share Options Plans

Pursuant to an Executive Share Option Plan (“Plan 1”) approved by the shareholders of the Company on 7th April 1995 and amended and restated on 9th June 2001, the board of directors may at its discretion within five years after 1st July 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 Capitalisation Issue is US\$0.038095 per share.

On 9th June 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 1st April 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 Capitalisation Issue is US\$0.171429 per share.

On 9th June 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 Capitalisation Issue is US\$0.206841 per share.

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.

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.

Post-IPO Share Option Scheme

On 8th January 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.

The principal purpose of the Share Option Scheme is to recognise the significant contributions of the full-time employees, executive directors, non-executive directors (including independent non-executive directors), any consultants or advisors of or to any members of the Group to the growth of the Group by rewarding them with opportunities to obtain ownership interests in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group’s long term success.

The subscription price under the Share Option Scheme will be determined by the Company’s board of directors and will be the highest of (i) the nominal value of a share, (ii) the closing price of the shares as stated in the Exchange’s daily quotation sheet on the date of grant, which must be a business day; and (iii) the average closing price of the shares as stated in the Exchange’s daily quotations sheets for the five business days immediately preceding the date of offer of the options. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Share Option Scheme) and to have taken effect when the duplicate of offer letter as described in the Share Option Scheme, comprising acceptance of the option is signed and returned by the grantee with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant.

The Share Option Scheme shall vest in respect of one third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is made until fully vested and expiring on not less than three years nor more than ten years from the date of offer.

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

	Plan 1 at exercise price of US\$0.038095	Plan 2 at exercise price of US\$0.171429	Plan 3 at exercise price of US\$0.206841	Options granted under Share Option Scheme at exercise price of HK\$0.89
At 1st January 2002	15,711,150	21,000,000	28,554,750	—
Granted during the year	—	—	—	5,000,000
Retired during the year*	<u>(653,310)</u>	<u>(2,380,000)</u>	<u>—</u>	<u>(493,000)</u>
At 31st December 2002	<u>15,057,840</u>	<u>18,620,000</u>	<u>28,554,750</u>	<u>4,507,000</u>

* During the year, the 653,310 unvested share options under Plan 1 and the 2,380,000 unvested share options under Plan 2 held respectively by two and five employees were retired and returned to the option pool.

During the year, the 493,000 unvested share options under Share Option Scheme held by three employees were retired and returned to the option pool available for granting.

27 Reserves

	Share premium HK\$'000 (Note (iii))	Translation reserve HK\$'000	Capital reserve HK\$'000 (Note (i) and (iii))	Retained profits/ accumulated losses) HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
Group						
At 1st January 2001	300,721	1,668	883	16,336	—	319,608
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	(100)	—	—	—	(100)
Profit for the year	—	—	—	3,461	—	3,461
At 1st January 2002	300,721	1,568	883	19,797	—	322,969
Shares issued in the Capitalisation Issue (Note 25(a)(ii))	(42,128)	—	—	—	—	(42,128)
Ordinary shares issued in the Shares Conversion	(278)	—	—	—	—	(278)
Premium on issue of new shares upon the Listing (Note 25(b))	428,465	—	—	—	—	428,465
Share issuing expenses	(47,935)	—	—	—	—	(47,935)
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	276	—	—	—	276
Repurchase and cancellation of shares (Note 25(c))	(3,335)	—	—	(390)	390	(3,335)
Loss for the year	—	—	—	(252,783)	—	(252,783)
At 31st December 2002	<u>635,510</u>	<u>1,844</u>	<u>883</u>	<u>(233,376)</u>	<u>390</u>	<u>405,251</u>
The Company and subsidiaries	300,721	1,568	883	10,481	—	313,653
Associated companies	—	—	—	9,316	—	9,316
At 31st December 2001	<u>300,721</u>	<u>1,568</u>	<u>883</u>	<u>19,797</u>	<u>—</u>	<u>322,969</u>
The Company and subsidiaries	635,510	1,844	883	(240,283)	390	398,344
Associated companies	—	—	—	6,907	—	6,907
At 31st December 2002	<u>635,510</u>	<u>1,844</u>	<u>883</u>	<u>(233,376)</u>	<u>390</u>	<u>405,251</u>
Company						
At 1st January 2001	300,721	—	2,687	(5,981)	—	297,427
Loss for the year	—	—	—	(206)	—	(206)
At 1st January 2002	300,721	—	2,687	(6,187)	—	297,221
Shares issued in the Capitalisation Issue (Note 25(a)(ii))	(42,128)	—	—	—	—	(42,128)
Ordinary shares issued in the Shares Conversion	(278)	—	—	—	—	(278)
Premium on issue of new shares upon the Listing (Note 25(b))	428,465	—	—	—	—	428,465
Share issuing expenses	(47,935)	—	—	—	—	(47,935)
Repurchase and cancellation of shares (Note 25 (c))	(3,335)	—	—	(390)	390	(3,335)
Loss for the year	—	—	—	(226,759)	—	(226,759)
At 31st December 2002	<u>635,510</u>	<u>—</u>	<u>2,687</u>	<u>(233,336)</u>	<u>390</u>	<u>405,251</u>

- (i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation 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 reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

- (ii) 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 31st December 2002, no transfer was made by the subsidiaries (2001: nil).
- (iii) 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. At 31st December 2002, in the opinion of the directors, the Company has no reserves available for distribution to its shareholders.

28 Deferred taxation

Deferred taxation mainly represents the taxation effect of accelerated depreciation of fixed assets for taxation purpose and tax losses carried forward.

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\$62,114,000 and HK\$106,810,000 (2001: HK\$43,578,000 and HK\$243,000), respectively, which are subject to the agreement by relevant tax authorities. There were no other significant unprovided deferred tax liabilities at 31st December 2002.

29 Notes to consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to net cash outflow used in operations:

	2002	As restated
	<i>HK\$'000</i>	<i>2001</i>
		<i>HK\$'000</i>
		<i>(Note 35)</i>
(Loss)/profit before taxation	(254,607)	13,993
Provision for doubtful debts		
Trade receivables	6,200	1,142
Deposits and other receivables	8,906	—
Depreciation	15,776	10,196
Loss/(gain) on disposals of fixed assets	1,320	(4,573)
Loss on disposals of intangible assets	112	141
Impairment loss on fixed assets	1,083	—
Impairment loss on intangible assets	35,710	—
Amortisation of intangible assets	70,226	64,704
Amortisation of goodwill on acquisition of an associated company	1,268	1,268
Share of profits less losses of associated companies	(19,842)	(17,798)
Interest income	(3,259)	(1,553)
Interest expense	8,853	14,412
	<hr/>	<hr/>
Operating (loss)/profit before working capital changes	(128,254)	81,932
Decrease/(increase) in prepayments, deposits and other receivables	13,101	(27,124)
Decrease in amounts due from related companies	416	1,904
Decrease/(increase) in amount due from a senior executive	547	(547)
Increase in inventories	(227)	(1,452)
Decrease/(increase) in trade receivables	43,057	(25,301)
Decrease/(increase) in trade payables, accrued liabilities and other payables	15,145	(19,728)
Decrease in deferred income	(8,262)	(26,715)
Increase in amount due to a joint venture partner	264	—
Increase in amounts due to related companies	96	709
Increase/(decrease) in amount due to an associated company	14,612	(18,026)
Decrease in amount due to a director	—	(120)
	<hr/>	<hr/>
Net cash outflow used in operations	<u>(49,505)</u>	<u>(34,468)</u>

(b) *Analysis of changes in financing during the year*

	Loans from financial institutions		Loan from a third party		Short-term bank loans		Obligations under finance leases		Convertible loan notes	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	27,032	4,342	19,500	—	56,602	47,150	944	—	116,960	—
Proceeds from issuance of convertible loan notes	—	—	—	—	—	—	—	—	—	116,960
New bank loans repayable within one year	—	—	—	—	—	56,602	—	—	—	—
Increase in loans from financial institutions	—	22,690	—	—	—	—	—	—	—	—
New loan from a third party	—	—	—	19,500	—	—	—	—	—	—
Increase through acquisition of a subsidiary	—	—	—	—	—	—	—	2,237	—	—
Repayment of convertible loan notes	—	—	—	—	—	—	—	—	(116,960)	—
Repayment of borrowings	(27,032)	—	(19,500)	—	(56,602)	(47,150)	—	—	—	—
Repayment of principal portion of obligations under finance leases	—	—	—	—	—	—	(944)	(1,293)	—	—
At 31st December	<u>—</u>	<u>27,032</u>	<u>—</u>	<u>19,500</u>	<u>—</u>	<u>56,602</u>	<u>—</u>	<u>944</u>	<u>—</u>	<u>116,960</u>

(c) *Analysis of balances of cash and cash equivalents*

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	30,613	18,916
Less: Non-cash and cash equivalents*	(1,783)	(1,227)
Bank overdraft	<u>(91)</u>	<u>—</u>
	<u>28,739</u>	<u>17,689</u>

* At 31st December 2002, pursuant to the arrangement with a business partner, bank balances of approximately HK\$1,783,000 (2001: HK\$1,227,000) 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.

(d) *Major non-cash transactions*

During the year certain fixed assets (advertising display panels) of approximately HK\$7,544,000 (RMB8,000,000) were acquired through the capital injection from a joint venture partner of Shanghai Metro (Note 18(iv)).

30 Commitments

(a) *Capital commitments for fixed assets — Group*

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised and contracted for	<u>9,103</u>	<u>2,132</u>

(b) *Capital commitments for investment — Group*

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised and contracted for	<u>3,725</u>	<u>—</u>

(c) *Commitments under operating leases*

- (i) At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	12,210	13,173	1,626	—
Later than one year and not later than five years	11,673	11,649	1,396	—
Later than five years	<u>158</u>	<u>2,698</u>	<u>—</u>	<u>—</u>
	<u>24,041</u>	<u>27,520</u>	<u>3,022</u>	<u>—</u>

- (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. At 31st December 2002, the Group had future aggregate minimum concession fee payments under the aforementioned contracts as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	237,000	215,000
Later than one year and not later than five years	515,000	565,000
Later than five years	<u>854,000</u>	<u>876,000</u>
	<u>1,606,000</u>	<u>1,656,000</u>

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) 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) for each year over the remaining joint venture period until 2015 (Note 19).

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.

- (a) During the year, the Group undertook the following significant related party transactions, which were carried out in the normal course of the Group's business:

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Income			
Production income from High Tech Company	(i)	62	512
Costs and expenses			
Production costs charged by High Tech Company	(i)	8,589	10,005
Sub-contracting fees charged by Pro Photo Processing Limited ("PP")	(ii)	24	450
Administrative expenses charged by PP	(ii)	<u>558</u>	<u>672</u>

- (i) An ex-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 were determined based on the outsourcing agreement entered into between the two parties in June 1999.

- (ii) PP is a minority shareholder of Digital Photo Limited. Sub-contracting fees charged by PP were determined based on terms as agreed between the two parties. Administrative expenses charged by PP were determined based on cost recovery.

- (b) Save as disclosed in other notes to the accounts, balances with a joint venture partner and related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

32 Retirement benefit obligation

The Group has participated in the defined contribution Mandatory Provident Fund (the “MPF Scheme”) in Hong Kong since 1st December 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 profit and loss account 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\$650,000 (2001: HK\$1,341,000) after deduction of forfeited voluntary contributions of approximately HK\$522,000 (2001: HK\$48,000).

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. During the year, the subsidiaries contributed approximately HK\$2,741,000 (2001: HK\$1,196,000).

33 Credit facilities

Aggregate credit facilities at 31st December 2002 were approximately HK\$15,000,000 (2001: HK\$111,082,000), all of which were unutilised at the same date (2001: HK\$7,968,000). The facilities are secured by a floating charge on certain of the Group’s trade receivables, both present and future.

34 Subsequent event

Save as disclosed in other notes to the accounts, the following significant event took place subsequent to 31st December 2002 and up to the date of this report:

In March 2003, two substantial shareholders, Warburg Pincus Ventures, L.P. and SMI Investors (PAPE II) Limited have advanced HK\$20,000,000 each (totaling HK\$40,000,000) to the Company as unsecured loans with an interest at 8% per annum. The Company shall repay the loans on 31st March 2004 or within five business days after the date on which all the proceeds of the proposed fund raising exercise of the Company (as referred to Note 1(a)(iii)) are actually received by the Company, whichever is the earlier. Part of the proceeds received was used to repay a short-term loan amounting to HK\$8,000,000 advanced by a related company of Warburg Pincus Ventures, L.P. in February 2003.

35 Comparative figures

Certain of the 2001 comparative figures have been reclassified to conform to the current year’s presentation and in accordance with the new presentation and disclosure requirements under the newly adopted SSAPs as disclosed in Note 1.

36 Approval of accounts

The accounts were approved by the board of directors on 27th March 2003.

5. UNAUDITED FIRST QUARTER RESULTS

The following is the unaudited condensed consolidated results of the group for the three months ended 31st March 2003, extracted from the first quarterly report for the period:

Condensed Consolidated Income Statement

	<i>Note</i>	For the three months ended 31st March	
		2003 <i>HK\$'000</i> <i>(Unaudited)</i>	2002 <i>HK\$'000</i> <i>(Unaudited)</i>
Turnover	2	76,175	79,473
Cost of sales		<u>(96,182)</u>	<u>(87,428)</u>
Gross loss		(20,007)	(7,955)
Other revenue		88	962
Selling, general and administrative expenses		<u>(28,172)</u>	<u>(34,578)</u>
Operating loss		(48,091)	(41,571)
Finance costs		<u>(207)</u>	<u>(4,694)</u>
		(48,298)	(46,265)
Share of profits less losses of an associated company		<u>2,624</u>	<u>2,814</u>
Loss before taxation		(45,674)	(43,451)
Taxation			
— The Company and subsidiaries		—	(103)
— An associated company		<u>(954)</u>	<u>(929)</u>
	3	<u>(954)</u>	<u>(1,032)</u>
Loss after taxation but before minority interests		(46,628)	(44,483)
Minority interests		<u>474</u>	<u>5,689</u>
Net loss attributable to shareholders		<u>(46,154)</u>	<u>(38,794)</u>
Loss per share (HK cents)			
— Basic	4	7.68	6.94
— Diluted	4	<u>N/A</u>	<u>N/A</u>

Notes:

1. **Basis of presentation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

The accounts have been prepared on a going concern basis, the validity of which depends on the availability of necessary financial resources. The Group incurred a substantial loss that resulted in a substantial cash outflow during the year ended 31st December 2002 and had net current liabilities of approximately HK\$96,036,000 as at 31st December 2002, as well as commitments that are payable in the next twelve months. The following steps have been taken to ensure the Group has sufficient financial resources to meet its liabilities as they fall due during the year ended 31st December 2003.

- (i) In March 2003, two substantial shareholders, Warburg Pincus Ventures, L.P. and SMI Investors (PAPE II) Limited, advanced HK\$20 million each (totaling HK\$40 million) to the Company in the form of unsecured loans. Under the terms of the shareholders' loans, the Company shall repay the loans on 31st March 2004 or within five business days after the date on which all the proceeds of the proposed fund raising exercise of the Company (as referred to in (iii) below) are actually received by the Company, whichever the earlier.
- (ii) The Group has taken various measures, including but not limited to the changes in its management team (including the appointment of a new Chief Executive Officer) and the discontinuation of the loss making i-Result business in December 2002 as detailed in its public announcement dated 10th February 2003. These measures are intended to improve the cash flow position of the Group.
- (iii) The Company is now considering several possible fund raising arrangements so as to support its future operations for at least the next twelve months. In January 2003, the Company appointed Anglo Chinese Corporate Finance, Limited to advise it on the alternative strategies for raising additional capital, which includes the possibility of an open offer (as mentioned in the Company's public announcement dated 10th February 2003). In the event that the Company proceeds with an open offer and subject to obtaining the necessary shareholders' approval, the two abovementioned shareholders have undertaken that they will take up the shares offered thereunder. An announcement setting out the particulars of the fund raising exercise will be issued by the Company as soon as practicable.
- (iv) If the Company does not proceed with an open offer as mentioned in (iii) above or if the open offer is not completed, the Company intends to obtain alternative funding in order to meet its financial obligations as and when they fall due. The two abovementioned shareholders have indicated that they would be willing to give their support to the Company based upon terms agreeable to them and where it would be practicable to do so.

The directors are of opinion that it is appropriate for the Group's accounts to be prepared on the going concern basis in view of the foregoing measures to enhance the Group's financial resources.

The financial statements of the Group are unaudited, but have been reviewed by the audit committee of the Company.

2. Turnover, revenue and segment information

The Group is principally engaged in the provision of outdoor advertising media services in Hong Kong and the PRC. Revenues recognized during the period are as follows:

	For the three months ended 31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Media rental	62,040	67,375
Production income	12,952	9,373
Agency commission income	1,183	2,527
Media consultancy services income	<u>—</u>	<u>198</u>
Total turnover	76,175	79,473
Interest income from bank deposits	<u>88</u>	<u>962</u>
Total revenue	<u><u>76,263</u></u>	<u><u>80,435</u></u>

The Group's turnover and revenues analysed by business segments and geographical locations for three months ended 31st March 2003 and 2002 are as follows:

	For the three months ended 31st March					
	The PRC		Hong Kong		Total	
	2003	2002	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Metro system advertising	11,505	11,984	—	—	11,505	11,984
Bus advertising	49,498	47,906	13,645	18,577	63,143	66,483
i-Result business	—	599	209	407	209	1,006
Other operations	<u>1,318</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,318</u>	<u>—</u>
Total turnover	62,321	60,489	13,854	18,984	76,175	79,473
Interest income from bank deposits	<u>35</u>	<u>31</u>	<u>53</u>	<u>931</u>	<u>88</u>	<u>962</u>
	<u><u>62,356</u></u>	<u><u>60,520</u></u>	<u><u>13,907</u></u>	<u><u>19,915</u></u>	<u><u>76,263</u></u>	<u><u>80,435</u></u>

3. Income tax expense

No provision for Hong Kong profits tax has been provided for as the Group had no estimated assessable profits for the three months ended 31st March 2003 and 2002.

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax ("EIT") on their taxable income at a combined national and local tax rate of 33% (2002: 33%). Taxation on overseas profits 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 represents:

	For the three months ended 31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation - PRC EIT	<u>—</u>	<u>103</u>
Share of taxation attributable to:		
An associated company	<u>954</u>	<u>929</u>
	<u><u>954</u></u>	<u><u>1,032</u></u>

4. Loss per share

Pursuant to resolutions passed by the shareholders of the Company on 8th January 2002:

- (i) the denomination of the ordinary share capital of the Company was effectively converted from United States dollars to Hong Kong dollars (the "Shares Conversion") through the following steps:
- the authorised share capital was increased from US\$500,000 to the aggregate of US\$500,000 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 of the Company in proportion to their respective shareholdings in the Company;
 - the Company repurchased from such shareholders all the shares of US\$0.01 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 then automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and
 - the authorised but unissued shares of US\$0.01 each were cancelled.
- (ii) the sum of HK\$42,128,233.80 being part of the amount then standing to the credit of the share premium account of the Company was capitalised by issuing 421,282,338 shares ("Capitalisation Issue"), credited as fully paid at par, to the holders of shares registered on the register of members of the Company on 8th January 2002 in proportion to their respective shareholdings.

As a result of the Capitalisation Issue described above, the 421,282,338 ordinary shares issued prior to the Company's initial public offering of its shares in January 2002 are included in the calculation of the weighted average number of shares as if those shares had been in issue since 1st January 2002 and had been outstanding throughout the three months ended 31st March 2002.

(a) *Basic loss per share*

The calculation of basic loss per share for the three months ended 31st March 2003 is based on the Group's net loss attributable to shareholders of approximately HK\$46,154,000 (2002: HK\$38,794,000) and the weighted average of 601,162,995 ordinary shares in issue during the three months ended 31st March 2003 (2002: weighted average of 559,356,000 ordinary shares after the Capitalisation Issue).

(b) *Diluted loss per share*

The diluted loss per share for the three months ended 31st March 2003 and 2002 is not presented because the effect of the assumed conversion of all potential dilutive ordinary shares is anti-dilutive.

5. **Reserves**

Movements in reserves of the Group for the three months ended 31st March 2003 and 2002 were as follows:

	Share premium HK\$'000 (Note (iii))	Translation reserve HK\$'000	Capital reserve* HK\$'000 (Note (i) and (iii))	Retained profits/ (Accumulated losses) HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 2002 (Audited)	300,721	1,568	883	19,797	—	322,969
Shares issued in the Capitalisation Issue	(42,128)	—	—	—	—	(42,128)
Ordinary shares issued in the Shares Conversion Premium on issue of new shares upon the listing of shares on GEM	(278)	—	—	—	—	(278)
Share issuing expenses	428,465	—	—	—	—	428,465
Exchange difference arising from the translation of accounts of foreign subsidiaries	(51,604)	—	—	—	—	(51,604)
Loss for the period	—	131	—	—	—	131
	—	—	—	(38,794)	—	(38,794)
As at 31st March 2002 (Unaudited)	<u>635,176</u>	<u>1,699</u>	<u>883</u>	<u>(18,997)</u>	<u>—</u>	<u>618,761</u>
As at 1st January 2003 (Audited)	635,510	1,844	883	(233,376)	390	405,251
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	(57)	—	—	—	(57)
Loss for the period	—	—	—	(46,154)	—	(46,154)
As at 31st March 2003 (Unaudited)	<u>635,510</u>	<u>1,787</u>	<u>883</u>	<u>(279,530)</u>	<u>390</u>	<u>359,040</u>

- (i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation 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 reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

- (ii) 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 three months ended 31st March 2003, no transfer was made by the subsidiaries (2002: nil).
- (iii) 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. At 31st March 2003, in the opinion of the directors, the Company has no reserves available for distribution to its shareholders.

6. Comparative figures

Certain of the 2002 comparative figures have been reclassified to conform to the current year's presentation.

6. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET ASSETS VALUE OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net assets value of the group is based on the audited consolidated balance sheet of the group as at 31st December, 2002, the unaudited results for the three months ended 31st March, 2003, the effect of the transactions thereafter and adjustment to reflect the effect of the open offer:

	<i>HK\$'000</i>
Audited consolidated net assets of the group as at 31st December, 2002	465,367
Less: Unaudited loss attributable to the shareholders for the three months ended 31st March, 2003	(46,154)
Less: Unaudited movements in translation reserve of the group for the three months ended 31st March, 2003	(57)
Add: Estimated net proceeds from the open offer	<u>116,000</u>
Unaudited pro forma adjusted consolidated net asset value immediately following the open offer	<u>535,156</u>
Unaudited pro forma adjusted consolidated net asset value per share immediately prior to the open offer based on 601,162,995 shares in issue as at the latest practicable date	<u>HK69.7 cents</u>
Unaudited pro forma adjusted consolidated net asset value per share immediately following the open offer based on 1,803,488,985 shares in issue as enlarged by the issue of the open offer shares	<u>HK29.7 cents</u>

7. MATERIAL ADVERSE CHANGE

The directors are not aware of any material adverse change in the financial or trading position of the group since 31st December, 2002, the date to which the latest published audited financial statements of the group were made up.

This appendix serves as an explanatory statement, as required by the GEM listing rules, to provide shareholders information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the new repurchase mandate as referred to in the subsection headed “General mandates to issue and repurchase shares” on page 22 of this circular.

INTRODUCTION

The GEM listing rules permit companies with listing on GEM to repurchase their own securities, subject to certain restrictions as set out in chapter 13 of the GEM listing rules, on GEM. At the EGM, notice of which is set out on pages 108 to 112 of this circular, an ordinary resolution will be proposed to grant to the directors authority to repurchase shares up to 10 per cent. of the issued share capital of MediaNation as at the date of such ordinary resolution as enlarged by the issue of open offer shares pursuant to the open offer or if the open offer is not completed, on the date of the passing of such ordinary resolution (“repurchase mandate”). The existing general mandate granted to the directors to repurchase shares pursuant to the ordinary resolution set out in paragraph 5 of the notice convening the annual general meeting dated 27th March, 2003 shall be revoked upon the passing of the resolution granting the repurchase mandate.

SHARE CAPITAL OUTSTANDING

As at the latest practicable date, the aggregate nominal amount of the issued share capital of MediaNation was HK\$60,116,299 comprising 601,162,995 shares. As at the latest practicable date, no warrants were in issue. Assuming that none of the outstanding share options are exercised prior to the EGM, immediately upon the issue of the open offer shares, the aggregate nominal amount of the issued share capital of MediaNation will be HK\$180,348,898 comprising 1,803,488,985 shares.

On the basis that no further shares are issued or repurchased prior to the EGM, and subject to the passing of the relevant ordinary resolution approving the repurchase mandate, MediaNation would be allowed under the repurchase mandate to repurchase a maximum of 180,348,898 shares, being 10 per cent. of the aggregate amount of the issued shares as enlarged by the issue of the open offer shares pursuant to the open offer.

REASON FOR REPURCHASES

The directors currently have no intention of repurchasing securities of MediaNation. However, the directors believe that it is in the best interests of MediaNation and the shareholders to have a general authority from the shareholders to enable the directors to repurchase the shares on the market at appropriate times. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of MediaNation and its assets and/or its earnings per share and will only be made when the directors believe that such repurchases will benefit MediaNation and the shareholders.

FUNDING OF REPURCHASE

In repurchasing securities, MediaNation may only apply funds legally available for such purpose in accordance with its memorandum of association and its articles of association and the applicable laws of the Cayman Islands and the GEM listing rules. MediaNation may not purchase securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

According to the laws of the Cayman Islands as currently in force, MediaNation may, if so authorized by its articles of association, purchase its own securities out of capital, as well as out of funds available for distribution or dividend (which includes sums standing to the credit of the share premium account) or out of the proceeds of a fresh issue of securities. However, a payment out of capital is not lawful unless immediately following the date on which the payment is proposed to be made, MediaNation is due to pay its debts as they fall due in the ordinary course of business.

The exercise of the repurchase mandate in full will have a material adverse impact on the working capital or gearing position of MediaNation as compared with that disclosed in its most recent published audited accounts as at 31st December, 2002 contained in its annual report.

Should there be a change on the working capital or gearing position of MediaNation if the repurchase mandate is exercised in full, the directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of MediaNation or the gearing level which in the opinion of the directors are from time to time appropriate for MediaNation.

DISCLOSURE OF INTEREST

None of the directors nor, to the best of their knowledge having made all reasonable enquiries, any of his, or her respective associates, has a present intention to sell securities to MediaNation, or has undertaken not to do so, if the repurchase mandate is approved by the shareholders.

No connected person of MediaNation has notified MediaNation that he, or she has a present intention to sell securities to MediaNation, or has undertaken not to do so, in the event that MediaNation is authorised to make repurchases of its own securities.

UNDERTAKING OF THE DIRECTORS

The directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM listing rules, the memorandum of association and articles of association of MediaNation, the applicable laws of the Cayman Islands and other applicable laws, rules and regulations.

SHARE REPURCHASES MADE BY MEDIATION

Neither MediaNation nor any of its subsidiaries had repurchased any shares (whether on GEM or otherwise) in the six months preceding the latest practicable date.

SHARE PRICES

The highest and lowest prices at which the shares have been traded on GEM during each of the previous twelve months preceding the latest practicable date were as follows:

	per share	
	Highest	Lowest
	<i>HK\$</i>	<i>HK\$</i>
2002		
July	1.050	0.550
August	0.620	0.230
September	0.280	0.142
October	0.243	0.098
November	0.199	0.140
December	0.140	0.140
2003		
January	0.140	0.140
February	0.140	0.067
March	0.075	0.055
April	0.075	0.067
May	0.075	0.069
June (up to the latest practicable date)	0.092	0.075

GENERAL

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the repurchasing company increases, such increase will be treated as an acquisition of voting rights for the purposes of the Takeovers Code. As a result, a shareholder or a group of shareholders, acting in concert with each other could, depending on the level of increase of the shareholders' interest, obtain or consolidate control of MediaNation and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code.

The directors have no intention to exercise the repurchase mandate to such an extent that will result in a requirement of a shareholder, or group of shareholders acting in concert, to make a general offer under the Takeovers Code. As at the latest practicable date, the directors are not aware of any such obligations to make a mandatory offer in accordance with rule 26 of the Takeovers Code arising upon exercise in full of the repurchase mandate.

Any purchase of shares which results in the amount of shares held by the public being reduced to less than 25 per cent. could only be implemented with the agreement of the Stock Exchange. Except in extraordinary circumstances, such agreement would not normally be given by the Stock Exchange.

1. DIRECTORS

(i) *Particulars of directors***Address***Chairman***Name**

Mr. Sun Qiang, Chang

Unit B, 38th Floor

The Valverde

11 May Road

Mid-Levels

Hong Kong

*Executive director***Name**

Mr. Chu Chung Hong, Francis

No. 6, 165 Guiping Road

Xuhui District

Shanghai 200233

China

*Non-executive directors***Name**

Mr. Kam Ling

Flat F, 22nd Floor

Tower II Vista Paradiso

2 Hang Ming Street

Ma On Shan, Shatin

New Territories

Hong Kong

Ms. Chan Sim Ngor, Summerine

Flat F, 22nd Floor

Tower II Vista Paradiso

2 Hang Ming Street

Ma On Shan, Shatin

New Territories

Hong Kong

Mr. Cheung Leung Hong, Cliff

Flat A, 30th Floor

The Mayfair

1 May Road

Mid-Levels

Hong Kong

Name

Ms. Ho Ming Yee
149 Waterloo Road
Kowloon
Hong Kong

Mr. Cheng Cheung Lun, Julian
Flat C, 15th Floor
Po Garden
9 Brewin Path
Hong Kong

*Independent non-executive directors***Name**

Mr. Johannes Schöter
11A, Block A
Pearl Garden
7A Conduit Road
Hong Kong

Mr. Barry John Buttifant
12D Amber Garden
70-72 Kennedy Road
Hong Kong

*(ii) Background of directors***Chairman**

Mr. Sun Qiang, Chang, aged 46, became a non-executive director of MediaNation in September 1996 and became the Chairman 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 Neuflyze and Co., an investment bank and leveraged buyout firm in New York.

Executive director

Mr. Chu Chung Hong, Francis, aged 47, became the MediaNation's new chief executive officer and executive director in December 2002 and January 2003, respectively. He is also the authorised representative and the compliance officer of MediaNation. Mr. Chu joins MediaNation from advertising agency, Lowe, where he was the managing director of its operations in the PRC. Mr. Chu has 24 years of experience in the advertising industry, having held senior management positions with Ogilvy & Mather Taiwan, Euro RSCG and FCB Megacom. In his two years of service with Lowe, Mr. Chu built their PRC division into a business with annual billings of US\$60 million and a staff of 125 people.

Non-executive directors

Mr. Cheung Leung Hong, Cliff, aged 41, became a non-executive director of MediaNation in March 1998. He is the managing director and chief investment officer of PAMA Group and a member of its investment committee. PAMA Group, 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 The 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 holds the Chartered Financial Analyst designation and is a graduate of the University of Hong Kong.

Mr. Kam Ling, aged 40, is a non-executive director of MediaNation. Mr. Kam was previously the head of the PRC Division of Dun & Bradstreet Technology and Memorex Telex China prior to joining MediaNation in March 1997 as senior vice president of corporate development. He was promoted to the chief executive officer of MediaNation in July 2000 and became a non-executive director in December 2002. He has been instrumental in developing the group. He has over 15 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 38, is one of the founders of the group and became a non-executive director of MediaNation in December 2002. 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 16 years of PRC advertising experience and is a graduate of the University of Hong Kong. Ms. Chan is the wife of Mr. Kam Ling.

Ms. Ho Ming Yee, aged 40, became a non-executive director of MediaNation and a member of the audit committee of MediaNation in September 2002. Ms. Ho joined PAMA Group (Hong Kong) Limited in March 1995. As a director of direct investment, she is responsible for PAMA Group's private equity investment activities in North Asia. Prior to joining PAMA Group, Ms. Ho worked for HSBC Private Equity Management Limited for nearly six years, where she was responsible for acquiring new investments and monitoring portfolio companies in the Asia Pacific region. She had also previously worked for Lazard Asia Asset Management managing listed investments in the region. Ms. Ho obtained a masters of business administration degree in finance and accounting from the University of California, Los Angeles.

Mr. Cheng Cheung Lun, Julian, aged 29, became a non-executive director of MediaNation in March 2003. Mr. Cheng has been with Warburg Pincus group since 2000. He received his bachelor of arts degree from Harvard University. Prior to joining Warburg Pincus group, he worked with Salomon Smith Barney and Deutsche Bank in Hong Kong.

Independent non-executive directors

Mr. Johannes Schöter, aged 47, became a non-executive director of MediaNation in July 2002. He is also the managing partner of Victoria Capital Limited in Hong Kong. Victoria Capital is a corporate finance advisory firm with main activities in merger and acquisition, fundraising and asset management. Mr. Schöter joined Deutsche Bank AG (“DB”) in 1979 after his graduation from university and became the chief representative of DB in Beijing in 1983 till 1988. Mr. Schöter returned to Germany afterwards and joined the Duisburg branch of DB as general manager. In 1991 Mr. Schöter was appointed as the general manager of Tokyo branch of DB. Mr. Schöter became the general manager of DB for China, Hong Kong and Macau in 1995 before he founded Victoria Capital in 1998 together with a partner. Mr. Schöter holds a master degree in business administration from the Augsburg University in 1978.

Mr. Barry John Buttifant, aged 58, became a non-executive director of MediaNation in June 2003. He is the adviser to the board of directors of Wo Kee Hong (Holdings) Ltd. (“WKHHL”). He has over 30 years of experience in corporate and financial management and has lived in Hong Kong for over 24 years. Prior to joining WKHHL, he was the managing director of IDT International Limited for over eight years and had worked for Sime Darby Hong Kong Limited and Polly Peck Group for more than 11 years in the capacity as finance director and managing director, respectively during the period. He is also an independent non-executive director of Giordano International Limited, Daiwa Associate Holdings Limited and China Merchants DiChain (Asia) Limited. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is also a fellow member of the Chartered Management Institute, the Hong Kong Management Association and the Hong Kong Institute of Directors.

2. DISCLOSURE OF INTERESTS OF DIRECTORS**Directors’ interests in share capital**

As at the latest practicable date, the interests and short positions of the directors and the chief executive of MediaNation in the shares, underlying shares and debentures of MediaNation and its associated corporations (as defined in Part XV of the SFO) which were required to be notified to MediaNation and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM listing rules, relating to securities transaction by directors, to be notified to MediaNation and the Stock Exchange

(other than options which have been granted under any pre-IPO share option plans of MediaNation to certain directors of MediaNation, details of such options are set out in the paragraph headed “Pre-IPO share option plans” below) were as follows:

Name of director/chief executive	Number of issued ordinary shares of HK\$0.10 each in MediaNation held and nature of interests					Capacity	Approximate percentage of holding	Total
	Personal interests	Family interests	Corporate interests	Other interests				
Mr. Chu Chung Hong, Francis	2,467,000	—	—	—	—	Beneficial owner	0.4%	2,467,000
Ms. Chan Sim Ngor, Summerine	26,252,118	—	—	—	—	Beneficial owner	4.4%	26,252,118

Other than as disclosed above and in the paragraph headed “Pre-IPO share option plans” below, as at the latest practicable date, none of the directors, chief executive or their associates had any personal, family, corporate or other interests and short positions in the shares, underlying shares or debentures of MediaNation or any of its associated corporations and none of the directors, chief executive or any of their respective spouses or children under the age of 18 were granted any right, and MediaNation had not made any arrangement enabling any of them, to subscribe for any shares or debentures of MediaNation.

Directors’ rights to acquire shares in MediaNation

Pre-IPO share option plans

Prior to the listing of the shares on GEM, the board was authorized, at its absolute discretion, to grant the pre-IPO share options to certain directors and employees of the group to subscribe for ordinary shares in MediaNation under the terms of several pre-IPO share options plans.

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 MediaNation as at the latest practicable date were as follows:

Name of director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at the latest practicable date
Ms. Chan Sim Ngor, Summerine	1st July, 1997	1st July, 1998 to 30th June, 2007 ⁽¹⁾	0.038095	2,712,500
	1st April, 2000	1st April, 2001 to 31st March, 2010 ⁽¹⁾	0.038095	2,275,000

Name of director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at the latest practicable date
	1st April, 2000	1st April, 2001 to 31st March, 2010 ⁽¹⁾	0.171429	2,835,000
	1st September, 2000	1st September, 2001 to 31st August, 2010 ⁽¹⁾	0.038095	1,715,000
	5th May, 2001	5th May, 2002 to 4th May, 2011 ⁽¹⁾	0.171429	2,450,000
	9th June, 2001	9th June, 2001 to 8th June, 2011 ⁽²⁾	0.206841	19,036,535
Mr. Kam Ling	1st July, 1997	1st July, 1998 to 30th June, 2007 ⁽¹⁾	0.038095	1,750,000
	1st April, 2000	1st April, 2001 to 31st March, 2010 ⁽¹⁾	0.038095	1,750,000
	1st September, 2000	1st September, 2001 to 31st August, 2010 ⁽¹⁾	0.038095	1,925,000
	5th May, 2001	5th May, 2002 to 4th May, 2011 ⁽¹⁾	0.171429	6,125,000

(1) Each of these pre-IPO 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 upon which the offer of the option is accepted until fully vested and expiring on the tenth anniversary from the date of offer.

(2) Each of these pre-IPO options was fully vested upon its grant and may be exercised at any time during the period commencing on the respective date upon which the offer of the option is accepted and expiring on the tenth anniversary from the date of offer.

As at latest practicable date, a total of 8,390,270 options under the pre-IPO share option plans had lapsed.

Save as disclosed above, as at the latest practicable date, no pre-IPO share options were granted or agreed to be granted by the MediaNation and no further options will be offered or granted by MediaNation under any of the pre-IPO share options plans to any directors.

Share option scheme

On 8th January, 2002, MediaNation conditionally adopted a further 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 shares on GEM on 24th January, 2002.

The principal purpose of the share option scheme is to recognise the significant contributions of the full-time employees, executive directors, non-executive directors (including independent non-

executive directors), any consultants or advisors of or to any members of the group to the growth of the group by rewarding them with opportunities to obtain ownership interests in MediaNation and to further motivate and give incentives to these persons to continue to contribute to the group's long term success.

The share option scheme shall vest in respect of one-third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is accepted until fully vested and expiring not earlier than the third anniversary but not later than the tenth anniversary from the date of offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

MediaNation granted options on 10th July, 2002 to 5 senior management staff and 24 employees to purchase 5,000,000 ordinary shares of MediaNation under share option scheme at the exercise price of HK\$0.89 per share. These options are exercisable in the period from 10th July, 2003 to 9th July, 2012. As at the latest practicable date, a total of 704,000 options under the share option scheme had lapsed.

Save as disclosed above, at no time up to the latest practicable date, was MediaNation or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares, or debentures of MediaNation 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 any shares or debentures of MediaNation, or had exercised any such right as at the latest practicable date.

As at the latest practicable date, no share options were agreed to be granted by MediaNation under the share option scheme.

3. COMPETING INTEREST

PAMA Group Inc. ("PAMA Group") is the general partner in PAMA I and PAMA II, which are two private equity funds managed by PAMA Group. PAMA II owns PAMA. PAMA I 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 was formerly a non-executive director of MediaNation. On 2nd September 2002, Mr. Andersen, Dee Allen resigned as a non-executive director and a member of the audit committee of MediaNation. PAMA Group is a wholly owned subsidiary of PAMA Investment Holdings Limited ("PIHL"). Mr. Cheung Leung Hong, Cliff, a non-executive director of MediaNation, 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 the latest practicable date, none of the directors or the management shareholders of MediaNation or their respective associates had any interest in any business that directly or indirectly competes with the business of the group or have or may have any other conflicts of interest with the group pursuant to rule 11.04 of the GEM listing rules.

4. SUBSTANTIAL SHAREHOLDERS

As at the latest practicable date, so far as is known to the directors, the following persons had interests or short positions in the shares or underlying shares of MediaNation which would fall to be disclosed to MediaNation under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of MediaNation or any other members of the group (other than those interests of directors disclosed above):

The Company

Name of shareholder	Number of shares	Capacity	Approximate percentage of the total number of share in issue
SMI Investors (PAPE II) Limited	159,130,088	Beneficial owner	26.5%
Warburg Pincus Ventures, L.P.,	159,130,088	Beneficial owner	26.5%
Southfield Investment Pte Ltd.	46,750,010	Beneficial owner	7.8%

China Kiosk Development Limited

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Qumbet Street Furniture Development Limited (previously known as Grand Source Investments Limited)	20	20%

Top Photo Imaging Company Limited

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Shanghai Jinxin Mould Manufacturing Company Limited	N/A ^(Note 1)	10%

Digital Photo Limited

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Pro Photo Processing Limited	98,000	49%

Beijing Top Result Public Transportation Advertising Co., Ltd.

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Beijing Public Transportation Advertising Corporation	N/A ^(Note 2)	20% ^(Note 3)

Shanghai Top Result Metro Advertising Co., Ltd.

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Shanghai Metro Advertising Corporation Limited	N/A ^(Note 4)	10% ^(Note 5)

China Outdoor Data Centre Company Limited

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
Beijing Zhong Tian Economic Information & Consultant Company Limited	N/A ^(Note 6)	43% ^(Note 7)

Notes:

1. Top Photo Imaging Company Limited, a non-wholly owned subsidiary of MediaNation, is an equity joint venture established in the PRC. Accordingly, any reference to the number of shares held by its shareholder is not applicable.
2. Beijing Top Result Public Transportation Advertising Co., Ltd. ("Beijing Joint Venture"), a non-wholly owned subsidiary of MediaNation, is a sino-foreign cooperative joint venture established in the PRC. Accordingly, any reference to the number of shares held by its shareholder is not applicable.
3. Pursuant to the joint venture agreement and the supplemental agreement, dated 10th December, 1993 and 24th May, 1995 respectively, the group 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 licence. Thereafter, the group is entitled to 80% of the distributable profit of Beijing Joint Venture.

4. Shanghai Top Result Metro Advertising Co., Ltd. (“Shanghai Metro”), a non-wholly owned subsidiary of MediaNation, is a sino-foreign cooperative joint venture established in the PRC. Accordingly, any reference to the number of shares held by its shareholder is not applicable.
5. Pursuant to the joint venture agreement dated 5th September, 2000, which was amended on 8th December, 2001, the group is entitled to 90% of the distributable profit of Shanghai Metro but is required to bear 50% of the operating losses of Shanghai Metro. Upon the expiry of the joint venture agreement, Shanghai Metro Advertising Corporation Limited will be entitled to all fixed assets of Shanghai Metro and the group will be entitled to 50% of the remaining net assets.
6. China Outdoor Data Centre Company Limited (“CODC”), a non-wholly owned subsidiary of MediaNation, is a sino-foreign cooperative joint venture established in the PRC. Accordingly, any reference to the number of shares held by its shareholder is not applicable.
7. Pursuant to the joint venture agreement dated 8th July, 2000, Beijing Zhong Tian Economic Information & Consultant Company Limited was not required to make any capital contribution into CODC. 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.

Save as disclosed above, and as far as the directors are aware, as at the latest practicable date, no person (other than the directors of MediaNation) had an interest or short position in the shares or underlying shares of MediaNation which would fall to be disclosed to MediaNation under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of MediaNation or any other members of the group.

5. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE OPEN OFFER

Head office and principal place of business	Rooms 3507-9, 35th Floor The Center 99 Queen's Road Central Hong Kong
Registered office	P.O. Box 309 Ugland House George Town Grand Cayman Cayman Islands
Auditors	PricewaterhouseCoopers 33rd Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
Legal adviser	<i>As to Hong Kong Law</i> Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong <i>As to Cayman Islands Law</i> Maples and Calder Asia Suite 1504, One International Finance Centre 1 Harbour View Street Hong Kong
Financial adviser	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Limited Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands

Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1901-5, 19th Floor Hopewell Centre 183 Queen's Road East Hong Kong
Company secretary	Yuen Kam Sun, Joe <i>CPA (Aust)</i>
Qualified accountant	Cheung Ka Chung, Michael <i>AHKSA</i>
Compliance officer	Chu Chung Hong, Francis
Authorised representatives	Chu Chung Hong, Francis Yuen Kam Sun, Joe
Audit committee	Johannes Schöter Barry John Buttifant Ho Ming Yee
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited One Queen's Road Central Hong Kong Citic Ka Wah Bank Limited 232 Des Voeux Road Central Hong Kong Bank of China Bank of China Tower 1 Garden Road Central Hong Kong Standard Chartered Bank 15th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong

6. MATERIAL CONTRACTS

The following contracts have been entered into by the group within the two years immediately preceding the date of this circular and are or may be material:

- (i) a subscription agreement dated 28th February, 2001 entered into between Summerine Media Inc. (now known as MediaNation), as issuer, and Gavast Estates, as subscriber, pursuant to which Summerine Media Inc. (now known as MediaNation) has agreed to issue, and Gavast Estates has agreed to subscribe for, one, or at Summerine Media Inc. (now known as MediaNation)'s option, two convertible loan notes in the aggregate principal amount of up to US\$15,000,000 and a supplemental agreement relating to both loan notes dated 31st December, 2001 whereby Gavast Estates agreed not to request for a conversion of shares during the first six months immediately following the listing date on which shares were listed on GEM;
- (ii) an agreement for the acquisition of the entire issued and paid up share capital of Top Result Interactive dated 30th June, 2001 entered into between Ms. Chan Sim Ngor, Summerine, Mr. Hui Yick Hun, Patrick, Mr. Leung Shu Kai, Philip, PAMA, SADIF and Warburg (collectively the "Vendors"), as vendors, and MediaNation, as purchaser, pursuant to which the Vendors agreed to sell, and MediaNation agreed to purchase, the entire issued and paid up share capital of Top Result Interactive Limited in consideration for the allotment and issue by MediaNation of 61 shares, 30 shares, 15 shares, 367 shares, 160 shares and 367 shares, all of US\$0.01 each credited as fully paid, to Ms. Chan Sim Ngor, Summerine, Mr. Hui Yick Hun, Patrick, Mr. Leung Shu Kai, Philip, PAMA, Simon Asia Direct Investment Fund, L.P. and Warburg, respectively;
- (iii) a shareholders' agreement dated 29th October, 2001 entered into between Top Result, Grand Source Investments Limited and Urban Decoration Elements (Shenzhen) Company Limited with regard to the financing, operation and management of a joint venture company and its future subsidiary to further the group's street furniture advertising business in Shanghai;
- (iv) a loan agreement dated 18th December, 2001 (the "E2-Capital Loan Agreement") entered into between Top Result Promotion Limited, as borrower, and E2-Capital Limited, as lender, pursuant to which E2-Capital Limited has agreed to advance a loan facility of a principal amount of up to HK\$20,000,000 at an interest rate of 8.0% per annum to Top Result Promotion Limited for the purpose of financing its general working capital requirements, such principal amount, together with the interests accrued thereon and all other sums payable by Top Result Promotion Limited to E2-Capital Limited under the E2-Capital Loan Agreement shall be repaid in one lump sum on (i) the date falling three months from the date of the making of the drawing; or (ii) the date on which MediaNation receives the net proceeds of an initial public offering of the shares, whichever is the earlier;

- (v) a deed of guarantee dated 18th December, 2001 executed by each of MediaNation, Ms. Chan Sim Ngor, Summerine, Mr. Kam Ling and Mr. Hui Yick Hun, Patrick in favour of E2-Capital to secure the payment by Top Result Promotion Limited of the principal amount of up to HK\$20,000,000 advanced by E2-Capital Limited pursuant to the E2-Capital Loan Agreement, together with the interests accrued thereon and all other sums payable by Top Result Promotion Limited to E2-Capital Limited thereunder;
- (vi) a loan agreement dated 19th December, 2001 entered into between Top Result Promotion Limited, as borrower, and Everpower Investment Limited, as lender, pursuant to which Everpower Investment Limited has agreed to advance a loan facility of a principal amount of HK\$19,500,000 at an interest rate of 8.0% per annum to Top Result Promotion Limited for a period of 90 days from the date of drawdown;
- (vii) an indemnity dated 11th January, 2002 given by PAMA, Warburg, Southfield Investment Pte. Ltd., Simon Asia Entrepreneurial Capital Management LDC, Ms. Chan Sim Ngor, Summerine, Mr. Hui Yick Hun, Patrick and Mr. Leung Shu Kai, Philip in favour of the group;
- (viii) the underwriting agreement dated 11th January, 2002 regarding the public offer of 27,097,000 shares to the public in Hong Kong on 17th January, 2002;
- (ix) the shareholder's loan agreement dated 14th March, 2003 between MediaNation and SMI pursuant to which SMI has agreed to advance an unsecured loan in the amount of HK\$20 million to MediaNation;
- (x) the shareholder's loan agreement dated 14th March, 2003 between MediaNation and Warburg pursuant to which Warburg has agreed to advance an unsecured loan in the amount of HK\$20 million to MediaNation;
- (xi) the shareholder's loan agreement dated 20th May, 2003 between MediaNation and SMI pursuant to which SMI has agreed to advance an unsecured loan in the amount of HK\$10 million to MediaNation;
- (xii) the shareholder's loan agreement dated 20th May, 2003 between MediaNation and Warburg pursuant to which Warburg has agreed to advance an unsecured loan in the amount of HK\$10 million to MediaNation; and
- (xiii) the undertaking given by SMI on 26th March, 2003 and Warburg on 27th March, 2003 to MediaNation to accept the open offer in respect of the shares held by them, and apply for all excess open offer shares not taken up by other qualifying shareholders.

Save as aforesaid, no material contracts (not being contract entered into in the ordinary course of business carried on by the group) have been entered into by any member of the group within the two years preceding the date of this circular.

7. SERVICE CONTRACTS

Mr. Chu Chung Hong Francis, an executive director of MediaNation, has entered into a service agreement with MediaNation. The service agreement commenced on 1st December, 2002 and shall continue for an initial term of two years. The agreement can be terminated by either party giving not less than six months' written notice or payment of salary in lieu thereof, such notice to expire no earlier than 30th November, 2004. Mr. Chu is entitled to annual salary (including housing allowance) of HK\$1,768,000 per annum for the period from 1st December, 2002 to 31st December, 2003, and HK\$1,948,000 per annum thereafter. He may also be entitled to receive discretionary bonus payment each year subject to MediaNation achieving certain specified financial performance to be decided by the executive committee of the board.

Each of Mr. Kam Ling and Ms. Chan Sim Ngor, Summarine has also entered into a consultancy services agreement with MediaNation. These agreements commenced on 2nd December, 2002 and will continue until 30th June, 2004. Both Mr. Kam and Ms. Chan are entitled to consulting fees of HK\$100,000 per annum under the agreements.

Save as disclosed above, none of the directors has any existing or proposed service contract with any member of the group excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. EXPENSES

The expenses in connection with the open offer, including financial advisory fees, printing, registration, translation and legal charges are estimated to amount to approximately HK\$4.2 million and are payable by MediaNation.

9. INTEREST OF SPONSOR

As confirmed by MediaNation's sponsor, Deutsche Bank AG, Hong Kong branch as at 31st March, 2003, one employee of Deutsche Bank AG held 8,000 shares in the capital of MediaNation. Apart from his interests, neither Deutsche Bank AG nor its directors or employees or associates (as referred to in note 3 to rule 6.35 of the GEM listing rules) have or, as a result of the transaction, may have:

- (i) any interests in any class of securities of MediaNation or any other company in the group (including options or rights to subscribe for such securities);
- (ii) any material benefit expected to accrue to Deutsche Bank AG or its associates as a result of the successful outcome of the transaction; and
- (iii) any competing interest with the business of the group.

Deutsche Bank AG has entered into a sponsorship agreement with MediaNation, whereby for a fee, Deutsche Bank AG will act as MediaNation's continuing sponsor for the purpose of chapter 6 of the GEM listing rules up to 31st December, 2004.

10. LITIGATION

No member of the group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened against any member of the group.

11. CONSENTS AND QUALIFICATIONS

Each of Anglo Chinese and Altus Capital has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its name (as the case may be) in the form and context in which it appears.

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
Anglo Chinese Corporate Finance, Limited	Deemed license corporation under the SFO
Altus Capital Limited	Deemed license corporation under the SFO

12. MISCELLANEOUS

- (a) The secretary of MediaNation is Mr. Yuen Kam Sun, Joe (*CPA (Aust)*).
- (b) The registered office of MediaNation is at P.O. Box 309, Uglan House, George Town, Grand Cayman, Cayman Islands and the head office and principal place of business of MediaNation in Hong Kong is at Rooms 3507-09, 35th Floor, the Center, 99 Queen's Road Central, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of MediaNation is Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) Save as disclosed in this circular:
 - (i) none of the directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the group taken as a whole;
 - (ii) none of the directors has any direct or indirect interest in any assets which they have, since 31st December, 2002 the date to which the latest published audited consolidated financial statement of MediaNation were made up, acquired, disposed of by or leased to, any member of the group, or are proposed to be acquired, disposed of by, or leased to, any member of the group;

- (iii) the directors are not aware of any person who was, as at the latest practicable date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of MediaNation or any of its subsidiaries; and
- (iv) save for the options, no share or loan capital of MediaNation or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (e) The English texts of this circular and the proxy forms shall prevail over their respective Chinese texts.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of MediaNation in Hong Kong at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong up to and including 8th July, 2003:

- (a) the memorandum of association and articles of association of MediaNation;
- (b) the annual reports of MediaNation for the two financial years ended 31st December, 2001 and 31st December, 2002 and financial report of MediaNation for the financial period ended 31st March, 2003;
- (c) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (d) the directors' service contracts referred to in the paragraph headed "Service contracts" in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



MEDIA NATION
INC.

MediaNation Inc.

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of MediaNation Inc. (the “Company”) will be held at Rooms 3507-09, 35th Floor, The Center, 99 Queen’s Road Central, Hong Kong on 10th July, 2003 at 10:00 a.m. for the purpose of considering and, if though fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT**, conditional upon: (i) the listing committee of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment of the Open Offer Shares (as defined below)) and not having revoked, the listing of, and permission to deal in, the Open Offer Shares issued under the Open Offer (as defined below); (ii) the delivery to The Stock Exchange of Hong Kong Limited and registration with the Registrar of Companies in Hong Kong, respectively, of one duly signed copy of each of the prospectus (the “Prospectus”) to be issued by the Company in relation to the Open Offer and the related application forms and otherwise in compliance with the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Companies Ordinance (Chapter 32 of the Laws of Hong Kong); and (iii) the posting of the Prospectus and the related application forms to the Qualifying Shareholders (as defined below) and the posting of the Prospectus to the Overseas Shareholders (as defined below) for information only:
 - (i) the issue of not less than 1,202,325,990 ordinary shares of HK\$0.10 each in the share capital of the Company (the “Open Offer Shares”) by way of open offer (“Open Offer”) at HK\$0.10 per Open Offer Share by the Company to those shareholders (the “Qualifying Shareholders”) whose names appear on the register of members of the Company at the close of business on 10th July, 2003 (the “Record Date”), other than shareholders whose addresses as shown on the register of members of the Company on the Record Date are outside Hong Kong (“Overseas Shareholders”), in the proportion of two Open Offer Shares for every ordinary share of HK\$0.10 each held on the Record Date or otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated 24th June, 2003 (the “Circular”, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), be and is hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (ii) the directors of the Company (the “Directors”) be and are hereby authorised to allot and issue the Open Offer Shares in the manner aforesaid under and in connection with the Open Offer and to do such acts and things and execute such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to any or all the transactions contemplated in this resolution and the Circular and in particular, the Directors be authorised to make such exclusions or other arrangements as the Directors may deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory applicable to the Company.”
2. “**THAT**, subject to the passing of, and the fulfillment of the conditions set out in, resolution numbered 1 set out in the Notice of which this resolution forms part, the undertaking given by SMI Investors (PAPE II) Limited and Warburg Pincus Ventures, L.P. to accept the Open Offer (as defined in resolution numbered 1 set out in the Notice of which this resolution forms part) in respect of the shares of HK\$0.10 each in the Company held by them, and to apply for all excess Open Offer Shares (as defined in resolution numbered 1 set out in the Notice of which this resolution forms part) not taken up by the other Qualifying Shareholders (as defined in resolution numbered 1 set out in the Notice of which this resolution forms part), be and is hereby approved and accepted.”
3. “**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 exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued ordinary shares of HK\$0.10 each in the capital of the Company (the “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 authorize 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

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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 arrangements providing for allotment of Shares in lieu of the whole or part of a dividend of Shares in accordance with the articles of association of the Company,

shall not exceed the aggregate of:

- (A) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of the Open Offer Shares (as defined below) or if the Open Offer (as defined below) is not completed, on the date of the passing of this resolution; and
- (B) an amount representing the aggregate nominal amount of any share capital of the Company repurchased by the Company pursuant to the mandate referred to in the ordinary resolution numbered 4 set out in the Notice of which this resolution forms part, provided that such value shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of the Open Offer Shares or if the Open Offer is not completed, on the date of the passing of this resolution,

and the said approval shall be limited accordingly; and

- (d) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with Shares as approved by the shareholders of the Company in the annual general meeting held on 12th May, 2003 to the extent not already exercised be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this resolution);
- (e) for the purposes of this resolution:

“Open Offer” and “Open Offer Shares” have the meanings ascribed to them in the circular of the Company dated 24th June, 2003;

“Relevant Period” means the period from the date on which this resolution is passed until whichever is the earliest of

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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 is revoked or varied by an ordinary resolution of the shareholders in general meeting;

“Rights Issue” means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members 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 recognized regulatory body or any stock exchange in any territory applicable to the Company).”

4. **“THAT,**

- (a) subject to paragraph (b) below and subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) of all the powers of the Company to repurchase ordinary shares of HK\$0.10 each in the capital of the Company (the “Shares”) on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which the Company is authorized to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution as enlarged by the allotment and issue of the Open Offer Shares (as defined below) or if the Open Offer (as defined below) is not completed, on the date of the passing of this resolution and the said approval shall be limited accordingly;
- (c) the general mandate granted to the Directors to exercise the powers of the Company to repurchase Shares as approved by the shareholders of the Company in the annual general meeting held on 12th May, 2003 to the extent not already exercised be and is hereby revoked (without prejudice to any valid exercise of such general mandate prior to the passing of this resolution);

NOTICE OF EXTRAORDINARY GENERAL MEETING

(d) for the purposes of this resolution:

“Open Offer” and “Open Offer Shares” have the meanings ascribed to them in the circular of the Company dated 24th June, 2003;

“Relevant Period” means the period from the date on which this resolution 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 is revoked or varied by an ordinary resolution of the shareholders in general meeting.”

By Order of the Board
MediaNation Inc.
Sun Qiang, Chang
Director

Hong Kong, 24th June, 2003

Principal place of business:

Rooms 3507-09

35th Floor

The Center

99 Queen's Road Central

Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with a power of attorney or other authority, (if any) under which it is signed, or a notarially certified copy of such power at authority must be deposited with the principal place of business of the Company, Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.