

# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect about this prospectus 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 prospectus, together with the enclosed application form (as defined herein), 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.

A copy of this prospectus and the accompanying application form have been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Subject to the granting of listing of, and permission to deal in, the open offer shares (as defined herein) on GEM (as defined herein), the open offer shares will be accepted as eligible securities by HKSCC (as defined herein) for deposit, clearance and settlement in CCASS (as defined herein) with effect from the commencement date of dealings in the open offer shares or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange (as defined herein) on any trading day 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. You should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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**MEDIA NATION**  
INC.

**MediaNation Inc.**

*(Incorporated in the Cayman Islands with limited liability)*

**OPEN OFFER  
OF  
1,202,325,990 OPEN OFFER SHARES AT HK\$0.10 EACH  
ON THE BASIS OF  
TWO OPEN OFFER SHARES FOR EVERY ONE SHARE HELD  
PAYABLE IN FULL ON ACCEPTANCE**

**Financial adviser to MediaNation Inc.**

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

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The latest time for acceptance and payment for the open offer shares is 4:00 p.m. on Thursday, 24th July, 2003. The procedure for acceptance and payment is set out on pages 15 to 16 of this prospectus and in the application form.

As at the record date (as defined herein), 601,162,995 shares (as defined herein) were in issue. On the basis of two open offer shares (as defined herein) for every existing share held, 1,202,325,990 open offer shares are to be issued. SMI (as defined herein) and Warburg (as defined herein) have undertaken 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 (as defined herein). There is no minimum amount which must be raised in order for the open offer to proceed. The total subscription monies from the 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. The open offer is not underwritten. MediaNation has been advised by its legal adviser that there is no statutory requirement regarding a minimum subscription level under Cayman Islands law.

It should be noted that the existing shares have been dealt on an ex-entitlement basis to the open offer since 7th July, 2003. Such dealings in the shares will take place whilst the conditions to which the open offer are subject remain unfulfilled. A person dealing in ex-entitlement basis shares will accordingly bear the risk that the open offer may not become unconditional and may not proceed. Any person contemplating selling or purchasing existing shares during such period who is in doubt about his/her position is recommended to consult his/her professional adviser. Subject to the fulfillment of the conditions of the open offer, share certificates for all open offer shares are expected to be posted by 5th August, 2003 to the qualifying shareholders who have accepted and paid for the open offer shares. The open offer may or may not proceed. Shareholders and interested investors are reminded to exercise caution when dealing in the shares.

This prospectus will remain on the GEM Website ([www.hkgem.com](http://www.hkgem.com)) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

10th July, 2003

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## CHARACTERISTICS OF GEM

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**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 susceptible to high market volatility than securities traded on the stock market operated by the Stock Exchange prior to the establishment of GEM 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. 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

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

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## DEFINITIONS

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

“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”	the form of application for the open offer shares enclosed with this prospectus (subject as mentioned herein)
“associate”	shall have the same meaning ascribed to it under the GEM listing rules
“board”	the board of directors
“business day”	a day on which banks in Hong Kong are generally open for business (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.)
“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
“EGM”	the extraordinary general meeting of MediaNation convened on 10th July, 2003 at 10:00 a.m., at which the resolutions on the open offer, connected transaction and the general mandate to issue and repurchase shares were approved

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## DEFINITIONS

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“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
“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 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
“latest practicable date”	4th July, 2003, being the latest practicable date prior to the printing of this prospectus 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

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## DEFINITIONS

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“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 prospectus 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 and the pre-IPO share option plans
“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 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 documents”	this prospectus and the application form
“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
“record date”	10th July, 2003, the record date by reference to which entitlements to the open offer will be determined
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of MediaNation
“shareholder(s)”	holders of the shares

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## DEFINITIONS

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“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, 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, a controlling shareholder and a management shareholder of MediaNation



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## EXPECTED TIMETABLE

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2003

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
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 prospectus is in respect of Hong Kong time.

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

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# LETTER FROM THE BOARD

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**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

10th July, 2003

*To the shareholders*

Dear Sir or Madam,

**OPEN OFFER  
OF  
1,202,325,990 OPEN OFFER SHARES AT HK\$0.10 EACH  
ON THE BASIS OF  
TWO OPEN OFFER SHARES FOR EVERY ONE SHARE HELD  
PAYABLE IN FULL ON ACCEPTANCE**

### **INTRODUCTION**

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

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

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## LETTER FROM THE BOARD

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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 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 requirement regarding a minimum subscription level under Cayman Islands law.

On 24th June, 2003, a circular was despatched by MediaNation to its shareholders which contained certain information regarding, amongst other things, the open offer and the notice of the EGM. A copy of the document is available for inspection at the head office and principal place of business in Hong Kong of MediaNation at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong up to and including 24th July, 2003.

At the EGM held on 10th July, 2003, all resolutions in respect of the open offer, the connected transaction and the general mandate to issue and repurchase shares were approved. SMI and Warburg abstained from voting in respect of the resolutions on the open offer and the connected transaction at the EGM.

The purpose of this prospectus is to provide you with further information regarding the open offer, including information on dealings in and acceptance of the open offer shares, and certain financial and other information in respect of the group.

### DETAILS OF THE OPEN OFFER

#### Issue statistics

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

As at the latest practicable date, there are 60,749,630 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

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## LETTER FROM THE BOARD

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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 any such security holder to convert 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.

### **Qualifying shareholders**

MediaNation has sent the application forms to the qualifying shareholders only.

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.

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.

### **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 14% to the closing price of HK\$0.088 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 43% to the average closing price of HK\$0.070 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.

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## LETTER FROM THE BOARD

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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 MediaNation's 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 by it 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 have not been 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 has sent the prospectus to overseas shareholders for their information only.

### **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 application form. If the number of open offer shares applied for pursuant to the application form 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.

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## LETTER FROM THE BOARD

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### 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 being 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.

**In the event that all the conditions stated above are not fulfilled, the open offer will not proceed.**

The conditions referred to in items a, c and d above have been satisfied as at the date of the prospectus.

The open offer is not underwritten.

### IMPLICATIONS UNDER THE TAKEOVERS CODE

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.

# LETTER FROM THE BOARD

## SHAREHOLDING STRUCTURE AND 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)		Upon completion of the open offer (assuming no minority shareholders take up their assured entitlements)	
			<i>(Note 1)</i>		<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 &amp; 3)</i>
<b>Total</b>	<b><u>601,162,995</u></b>	<b><u>100.00</u></b>	<b><u>1,803,488,985</u></b>	<b><u>100.00</u></b>	<b><u>1,803,488,985</u></b>	<b><u>100.00</u></b>

*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.
- 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.

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## LETTER FROM THE BOARD

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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 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.



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## LETTER FROM THE BOARD

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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 OF THE OPEN OFFER

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 the overdue payables of MediaNation mentioned above will be fully repaid with the net proceeds of the open offer of approximately HK\$116.0 million.

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## LETTER FROM THE BOARD

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### 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 DEALINGS IN THE SHARES

Existing shares have been 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.**

### LISTINGS AND DEALINGS

Application has been 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.

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## LETTER FROM THE BOARD

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

### PROCEDURE FOR ACCEPTANCE AND PAYMENT

If you are a qualifying shareholder, an application form is enclosed with this prospectus, which entitles you to subscribe for any number of open offer shares but with your assured entitlements being limited to the number of open offer shares specified thereon. If you wish to apply for open offer shares, you must sign and lodge the application form in accordance with the instructions printed thereon, together with a remittance for the full amount payable on application, with MediaNation's branch share registrar 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 Thursday, 24th July, 2003. **All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and banker's cashier orders must be issued by, a bank in Hong Kong and made payable to "MEDIANATION INC." and crossed "ACCOUNT PAYEE ONLY". The application form is for use only by the qualifying shareholders to whom it is addressed and is not transferable.**

It should be noted that unless the application form, together with the appropriate remittance, has been lodged with MediaNation's branch share registrar 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 Thursday, 24th July, 2003, by you if you are a qualifying shareholder, your entitlements under the open offer will be deemed to have been declined.

All cheques or banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of MediaNation. Any application form in respect of which the cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the qualifying shareholders under the open offer will be deemed to have been declined.

If the conditions of the open offer are not fulfilled in accordance with the section headed "Other terms and conditions of the open offer" in this prospectus, the monies received in respect of acceptances of the open offer shares will be refunded, without interest, by cheques made out to the relevant applicants (or, in the case of joint applicants, to the first-named qualifying shareholder) and crossed "Account Payee Only", in each case by ordinary post at the risk of such qualifying shareholders to their addresses as specified in MediaNation's register of members on or before Tuesday, 5th August, 2003.

No action has been taken to permit the offering of the open offer shares or the distribution of any of the prospectus documents in any territory other than Hong Kong. Accordingly, overseas shareholders receiving the prospectus or the application form should not treat it as an offer or invitation to apply for the open offer shares. No application for the open offer shares will be accepted from any overseas shareholders. MediaNation reserves the right to refuse to accept any application for

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## LETTER FROM THE BOARD

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the open offer shares where it believes or has reason to believe that such application is made by or on behalf of an overseas shareholder. Moreover, no person receiving the prospectus or the application form in any territory outside Hong Kong may treat it as an offer or invitation to apply for the open offer shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. It is the responsibility of anyone outside Hong Kong wishing to make an application for the open offer shares to satisfy himself or herself as to the observance of the laws and regulations of all relevant jurisdiction, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such jurisdiction in connection therewith. No application for the open offer shares will be accepted from any person whose registered address is in a place outside Hong Kong as at the record date where in the directors' opinion the open offer shares may not be offered without compliance with registration and/or other legal or regulatory requirements. MediaNation reserves the right to refuse to accept any application for the open offer shares where it believes that doing so would violate any applicable securities or other laws or regulations of any jurisdiction.

### **SHARE CERTIFICATES FOR THE OPEN OFFER SHARES**

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 before 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.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of MediaNation has been closed from Wednesday, 9th July, 2003 to Thursday, 10th July, 2003, being the date of this prospectus, both dates inclusive, in order to determine the entitlements to the open offer, during which period no transfer of shares could be registered.

### **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.

### **ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS**

The number of shares comprised in the outstanding options will be adjusted in accordance with the terms of the pre-IPO share option plans and the share option scheme upon the open offer becoming unconditional. MediaNation will notify the holders of the share options of the required adjustment(s) as soon as practicable.

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## LETTER FROM THE BOARD

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### PROGRESS IN ACHIEVING 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 concessions in new cities or our existing cities.

Install additional advertising displays in metro advertising systems in the Shanghai metro.

Invest in a new digital printing machine.

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

#### **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 has 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 has 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 has been used for this purpose. The group will further reassess the feasibility of the investment. Any future investment in a new digital printing machine, if any, will be funded from internally generated funds of MediaNation.

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 has been used for this purpose because the software is being developed in-house.

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## LETTER FROM THE BOARD

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### **Business objectives as stated in the listing prospectus**

#### *Introduce new media formats*

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

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

### **Current progress to date**

In September 2002, the group launched a pilot campaign to promote the advertising panels on about 200 kiosks and received a 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 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 them with a further HK\$5.9 million 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 whether the first phase of the project is successful and proposes to finance such expansion plan, if any, using cash flow generated from the first phase of the project and internally generated cash flow of the group.

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.

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## LETTER FROM THE BOARD

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### **Business objectives as stated in the listing prospectus**

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**

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.

As announced in the announcement dated 10th February, 2003, the group decided to discontinue this operation.

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

Building 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 for the group in the future. Although the metro system in Shanghai is still in the start-up process, 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 increasing its 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 the 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:

	<b>As stated in the listing prospectus HK\$' million</b>	<b>Actual amount used up to 31st March, 2003 HK\$' million</b>	<b>Further amount to be used in 2003 HK\$' million</b>
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. It was announced in the announcement dated 10th February, 2003 issued by MediaNation that MediaNation has ceased its i-Results operations.
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 has 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.



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## LETTER FROM THE BOARD

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### 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.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this prospectus.

By order of the board of  
**MediaNation Inc.**  
**Sun Qiang, Chang**  
*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 31st May, 2003, being the latest practicable date for the purpose of this indebtedness statement, the group had total liabilities of approximately HK\$260.2 million, comprising accounts payable of approximately HK\$63.3 million, long-term payables of approximately HK\$11.9 million, accrued liabilities and other payables of approximately HK\$52.1 million, deferred income of approximately HK\$64.9 million, short term loans from shareholders of approximately HK\$60.0 million and other current liabilities of approximately HK\$8.0 million.

*Contingent liabilities*

As at 31st May, 2003, being the latest practicable date for the purpose of this indebtedness statement, MediaNation had no material contingent liabilities.

*Security*

As at 31st May, 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 31st May, 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>	<b>For the year ended</b>	
		<b>31st December</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<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><u>(252,783)</u></u>	<u><u>3,461</u></u>
Dividend	8	<u><u>—</u></u>	<u><u>—</u></u>
(Loss)/earnings per share (HK cents)			
— Basic	9	(42.68)	0.80
— Diluted	9	<u><u>N/A</u></u>	<u><u>0.76</u></u>

**Consolidated balance sheet**

	<i>Note(s)</i>	<b>As at 31st December</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Note 35)</i>
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
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>
<b>Net current liabilities</b>		<u>(96,036)</u>	<u>(173,566)</u>
<b>Total assets less current liabilities</b>		<u>477,777</u>	<u>379,311</u>

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

**Balance sheet**

		<b>As at 31st December</b>	
		<b>2002</b>	<b>2001</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current asset</b>			
Investments in subsidiaries	18	467,511	292,075
<b>Current assets</b>			
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>
<b>Current liabilities</b>			
Accrued liabilities and other payables		3,206	11,352
Convertible loan notes		—	116,960
		<u>3,206</u>	<u>128,312</u>
<b>Net current (liabilities)/assets</b>		<u>(2,144)</u>	<u>6,107</u>
<b>Total assets less current liabilities</b>		<u>465,367</u>	<u>298,182</u>
Financed by:			
<b>Capital and reserves</b>			
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>	<b>For the year ended</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<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><u>465,367</u></u>	<u><u>323,930</u></u>



## Consolidated cash flow statement

	<i>Note</i>	<b>For the year ended</b>	
		<b>31st December</b>	
		<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<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>	<b>For the year ended</b>	
		<b>31st December</b>	
		<b>2002</b>	<b>2001</b>
		<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)
Net cash inflow from financing		<u>196,415</u>	<u>138,335</u>
Increase in cash and cash equivalents		11,028	6,322
Cash and cash equivalents at 1st January		17,689	11,346
Effect of foreign exchange rates changes		<u>22</u>	<u>21</u>
Cash and cash equivalents at 31st December	29(c)	<u><u>28,739</u></u>	<u><u>17,689</u></u>

## 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:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>		
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>
<b>Other revenue</b>		
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 outdoormachine 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> )	(7,995)	—
Operating loss	(29,471)	(16,836)
Finance costs	—	—
Loss before taxation	(29,471)	(16,836)
Taxation	(2)	(4)
Loss after taxation	(29,473)	(16,840)
Minority interests	—	(3)
Net loss	<u>(29,473)</u>	<u>(16,843)</u>
Net operating cash outflow	(5,789)	(22,585)
Net investing cash outflow	(1,813)	(6,047)
Net financing cash outflow	—	—
Total net cash outflow	<u>(7,602)</u>	<u>(28,632)</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>(3,857)</u>	<u>20,984</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
	HK\$'000	HK\$'000
<b>Crediting</b>		
Gain on disposals of fixed assets	—	4,573
<b>Charging</b>		
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)**

	<b>2002</b>	<b>2001</b>
	<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	1,732	1,160
	<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 <i>HK\$'000</i>	2001 <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>11,755</u>	<u>3,672</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:

	<b>2002</b>	<b>2001</b>
	<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 - contractual payment	<u>194</u>	<u>—</u>
<b>Total</b>	<b><u>5,683</u></b>	<b><u>3,872</u></b>

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

	<b>Number of individuals</b>	
	<b>2002</b>	<b>2001</b>
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>
<b>Total</b>	<b><u>3</u></b>	<b><u>3</u></b>

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
<b>Cost</b>							
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
<b>Accumulated depreciation and impairment</b>							
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
<b>Net book value</b>							
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(ii)).

## 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 %		
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:

	<b>2002</b>	<b>2001</b>
	<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

	<b>Amount outstanding at 31st December 2002</b>	<b>Amount outstanding at 31st December 2001</b>	<b>Maximum amount outstanding during the year</b>
	<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

	<b>2002</b>	<b>2001</b>
	<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:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<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><u>61,911</u></u>	<u><u>107,194</u></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:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<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><u>81,784</u></u>	<u><u>62,778</u></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:

<b>Period since date of grant</b>	<b>Portion of shares comprised in options which become exercisable</b>
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:

	<b>Plan 1 at exercise price of US\$0.038095</b>	<b>Plan 2 at exercise price of US\$0.171429</b>	<b>Plan 3 at exercise price of US\$0.206841</b>	<b>Options granted under Share Option Scheme at exercise price of HK\$0.89</b>
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
<b>Group</b>						
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>
<b>Company</b>						
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:

	<b>2002</b>	<b>As restated</b>
	<i>HK\$'000</i>	<b>2001</b>
		<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	<u>8,853</u>	<u>14,412</u>
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	<u>—</u>	<u>(120)</u>
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

	<b>2002</b>	<b>2001</b>
	<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

	<b>2002</b>	<b>2001</b>
	<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:

	<b>Land and buildings</b>		<b>Others</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<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:

	<b>2002</b>	<b>2001</b>
	<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>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
<b>Income</b>			
Production income from High Tech Company	(i)	62	512
<b>Costs and expenses</b>			
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>	<b>For the three months ended 31st March</b>	
		<b>2003</b> <i>HK\$'000</i> <i>(Unaudited)</i>	<b>2002</b> <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
	HK\$'000	HK\$'000
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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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:

	<b>For the three months ended</b>	
	<b>31st March</b>	
	<b>2003</b>	<b>2002</b>
	<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 <i>HK\$'000</i> <i>(Note (iii))</i>	Translation reserve <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i> <i>(Note (i)</i> <i>and (iii))</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	(278)	—	—	—	—	(278)
Premium on issue of new shares upon the listing of shares on GEM	428,465	—	—	—	—	428,465
Share issuing expenses	(51,604)	—	—	—	—	(51,604)
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	131	—	—	—	131
Loss for the period	—	—	—	(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><u>535,156</u></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><u>HK69.7 cents</u></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><u>HK29.7 cents</u></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.

**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 from the Joseph H. Lauder Institute of Management and International Studies at the University of Pennsylvania and a bachelor of arts degree in English literature from the Beijing Foreign Languages Institute. 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 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.

**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 and a bachelor of science degree in industrial engineering from Stanford University.

*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 and fundraising. 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 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 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 <sup>(1)</sup>	0.038095	2,712,500
	1st April, 2000	1st April, 2001 to 31st March, 2010 <sup>(1)</sup>	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 <sup>(1)</sup>	0.171429	2,835,000
	1st September, 2000	1st September, 2001 to 31st August, 2010 <sup>(1)</sup>	0.038095	1,715,000
	5th May, 2001	5th May, 2002 to 4th May, 2011 <sup>(1)</sup>	0.171429	2,450,000
	9th June, 2001	9th June, 2001 to 8th June, 2011 <sup>(2)</sup>	0.206841	19,036,535
Mr. Kam Ling	1st July, 1997	1st July, 1998 to 30th June, 2007 <sup>(1)</sup>	0.038095	1,750,000
	1st April, 2000	1st April, 2001 to 31st March, 2010 <sup>(1)</sup>	0.038095	1,750,000
	1st September, 2000	1st September, 2001 to 31st August, 2010 <sup>(1)</sup>	0.038095	1,925,000
	5th May, 2001	5th May, 2002 to 4th May, 2011 <sup>(1)</sup>	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 have lapsed.

Save as disclosed above, as at the latest practicable date, no 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 1,126,000 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 SMI. 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**

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Capacity</b>	<b>Approximate percentage of the total number of share in issue</b>
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**

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

**Top Photo Imaging Company Limited**

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Approximate percentage of the total number of share in issue</b>
Shanghai Jinxin Mould Manufacturing Company Limited	N/A <sup>(Note 1)</sup>	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 <sup>(Note 2)</sup>	20% <sup>(Note 3)</sup>

**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 <sup>(Note 4)</sup>	10% <sup>(Note 5)</sup>

**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 <sup>(Note 6)</sup>	43% <sup>(Note 7)</sup>

*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, 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

<b>Head office and principal place of business</b>	Rooms 3507-9, 35th Floor The Center 99 Queen's Road Central Hong Kong
<b>Registered office</b>	P.O. Box 309 Ugland House George Town Grand Cayman Cayman Islands
<b>Auditors</b>	PricewaterhouseCoopers <i>Certified Public Accountants</i> 33rd Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Legal adviser</b>	<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
<b>Sponsor</b>	Deutsche Bank AG, Hong Kong Branch 55th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Financial adviser</b>	Anglo Chinese Corporate Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong

<b>Principal share registrar and transfer office</b>	Bank of Butterfield International (Cayman) Limited Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Computershare Hong Kong Investor Services Limited Rooms 1901-5, 19th Floor Hopewell Centre 183 Queen's Road East Hong Kong
<b>Company secretary</b>	Yuen Kam Sun, Joe <i>CPA (Aust)</i>
<b>Qualified accountant</b>	Cheng Ka Chung, Michael <i>AHKSA</i>
<b>Compliance officer</b>	Chu Chung Hong, Francis
<b>Authorised representatives</b>	Chu Chung Hong, Francis Yuen Kam Sun, Joe
<b>Audit committee</b>	Johannes Schöter Barry John Buttifant Ho Ming Yee
<b>Principal bankers</b>	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 prospectus 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) a shareholders' agreement dated 29th October, 2001 entered into between Top Result Promotion Limited, 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;
- (iii) 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;
- (iv) 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;
- (v) 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;
- (vi) 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;

- (vii) 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;
- (viii) 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;
- (ix) 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;
- (x) 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;
- (xi) 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
- (xii) 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 prospectus.

## 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.

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 the sponsor, held 8,000 shares in the capital of MediaNation. Apart from this interest, neither the sponsor, 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 the sponsor, or its associates as a result of the successful outcome of the transaction; or
- (iii) any competing interest with the business of the group.

The sponsor, has entered into a sponsorship agreement with MediaNation, whereby for a fee, the sponsor, 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. MISCELLANEOUS

- (a) The company secretary of MediaNation is Mr. Yuen Kam Sun, Joe (*CPA (Aust)*).
- (b) MediaNation established an audit committee on 10th September, 2001 and formulated its written terms of reference in compliance with rules 5.23 to 5.25 of the GEM listing rules. Currently, members of the audit committee of MediaNation comprise of Mr. Johannes Schöter, Mr. Barry John Buttifant, both of whom are independent non-executive directors and Ms. Ho Ming Yee, a non-executive director. The audit committee is chaired by Mr. Johannes Schöter. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the group.
- (c) The registered office of MediaNation is at P.O. Box 309, Ugland 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.

- (d) 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.
- (e) 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) 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.
- (f) The English text of this prospectus shall prevail over its respective Chinese texts.

## 12. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of this prospectus and the application form have been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance.

## 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 24th 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 director's service contract referred to in the paragraph headed "Service contracts" in this appendix; and
- (e) the circular of MediaNation dated 24th June, 2003 relating to, *inter alia*, the open offer.