



**MEDIATION INC.**

Incorporated in the Cayman Islands with limited liability



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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*This report, for which the directors (the “Directors”) of MediaNation Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FINANCIAL HIGHLIGHTS

(HK'm)	For the three month period ended			QoQ	YoY
	30-Sep-03	30-Jun-03	30-Sep-02		
Turnover	102.2	87.9	100.5	16%	2%
EBITDA	3.1	(14.8)	(30.1)	121%	110%
Net Loss	(18.3)	(38.0)	(47.5)	52%	61%

The Group achieved significant operational and financial improvements in the third quarter. "Net loss attributable to shareholders" was significantly reduced to HK\$18.3 million from HK\$38.0 million in the second quarter this year and HK\$47.5 million in the third quarter last year, representing improvement of 52% and 61%, respectively. This was primarily due to substantial reduction in the Group's SG&A costs, together with strong profit contribution from its associate company Beijing Metro. The Group registered a HK\$102.2 million turnover in the third quarter this year, a slight increase of 2% over the same quarter last year. On a quarter-on-quarter basis, the Group's third quarter turnover increased by 16% from the second quarter, when business was negatively impacted by the SARS outbreak. The Group's year-to-date SG&A cost was HK\$79.5 million, being 32% lower than that in the same period last year. As a result, the Group recorded a positive EBITDA of HK\$3.1 million this quarter, which was a significant turnaround when compared to the HK\$14.8 million EBITDA loss in the second quarter this year and the HK\$30.1 million EBITDA loss in the same period last year.

## BUSINESS REVIEW AND OUTLOOK

The Group operates in two core business lines: bus advertising in the PRC and Hong Kong and metro system advertising in the PRC. The Group operates approximately 24,000 buses in 16 cities in the PRC and Hong Kong, the underground metro system in Beijing and two out of the three metro lines in Shanghai, offering national-wide network services to international and domestic renowned brands. The Group also expanded into the street furniture advertising business.

### China

#### *Bus Advertising*

PRC bus advertising turnover represented 51.6 % of the Group's total turnover in the third quarter 2003. PRC bus operations recorded HK\$52.7 million turnover in the third quarter this year, which was a 21.1% increase compared to HK\$43.5 million in the second quarter this year. PRC bus operations incurred losses of HK\$6.9 million and HK\$40.2 million for the three months and nine months ended 30th September 2003, respectively. However, compared to the "loss before minority interest" for the nine months last year of HK\$63.1 million, there was an improvement of 36.3%. This improvement was mainly attributable to the cost cutting efforts implemented by the management to improve the performance of the PRC bus operations.

As a result of the SARS outbreak in the PRC, the occupancy rate dropped to below 32% in the second quarter this year. The occupancy rates have improved to 38% in the third quarter. The Group is likely to continue to benefit from higher operating leverage by managing to achieve higher utilisation. At the same time, the Group has started to renegotiate bus contracts in some key PRC cities to ensure the best rates are secured going forward and reduce the number of unprofitable assets. The Group is prepared to give up unprofitable assets such as buses running on non-prime routes in the city or city outskirts. It will concentrate on buses running on prime-routes in the city centre area. The Group has recently completed contract restructuring with the Wuhan Bus Company. As a result, the Group managed to reduce the bus fleet on some routes and lower the total concession cost, which should enable this operation to achieve better financial results going forward. The Group is continuing such restructuring exercise with some other cities, which should further reduce the overall fixed cost base.

#### *Metro System Advertising*

Shanghai Metro advertising turnover represented 14.5% of the Group's total turnover in the third quarter 2003. The combined turnover of Shanghai Metro Line 2 and Line 3 was of HK\$14.8 million in the third quarter 2003. This represents a 7% improvement over the HK\$13.8 million achieved in the second quarter 2003. Shanghai Metro incurred a net loss of HK\$2.6 million in the third quarter, compared to the losses of HK\$4.8 million and HK\$3.2 million in the first and the second quarters of 2003, respectively. Shanghai Metro Line 2 contributed to the majority of the media rental income for this business unit. The average revenue for Line 2 is higher than that for Line 3. The Group expects the average revenue for Line 3 to catch up as the passenger flow is increasing and the quality of the media assets has improved. The Group is currently seeking government approvals on installing outdoor billboards alongside the elevated lines to enhance the quality of the media assets on Line 3. The combined occupancy rate in the third quarter for Line 2 and 3 was around 40%. The Group has successfully reduced the discount level and hence improved the effective price. The focus will now be more on the occupancy. With higher occupancy for both lines, the Group expects to further reduce losses and turn around the Shanghai Metro operation in the near future.

The associated company, Beijing Metro, continued to deliver strong financial performance in the third quarter 2003. The media rental revenue was HK\$27.5 million and HK\$70.3 million for the three months and nine months ended 30th September 2003, respectively. The Group's "share of net profit (after taxation)" of Beijing Metro was HK\$4.3 million and HK\$10.3 million for the three months and nine months ended 30th September 2003, respectively. The nine months results represented an improvement of 32.1% compared to "share of net profit (after taxation)" of HK\$7.8 million in the same period of 2002. Due to its dominant position with the Beijing underground media assets, the Group expects Beijing Metro to continue to deliver strong results going forward.

## **Hong Kong**

Hong Kong bus advertising turnover represented 26.2% of the Group's total turnover in the third quarter 2003. The Group operates bus advertising business as a sales agency for New World First Bus Services Limited ("NWFB") and The Kowloon Motor Bus Company (1933) Limited in Hong Kong. The operation generated revenue of HK\$26.8 million and HK\$61.4 million for the three months and nine months ended 30th September 2003, respectively. Due to depressing economic condition and the SARS outbreak in Hong Kong, the Hong Kong bus advertising revenue has been adversely impacted. As the costs are fixed based on the minimum guaranteed rental agreements, Hong Kong bus advertising operation incurred a loss of HK\$5.2 million for the third quarter and HK\$36.4 million year-to-date. However, the quarterly losses narrowed from HK\$18.7 million and HK\$12.5 million in the first and second quarter, respectively, as a result of the improved sales team performance.

The licence agreement between Top Result Promotion Ltd., a wholly owned subsidiary of the Group and NWFB expired on 31st July 2003. After serious consideration, the Group decided not to renew the licence agreement for sound commercial reasons. Since this operation has been loss making, discontinuing this business would not have any negative financial effect on the Group.

With an expectation of improving economic conditions in Hong Kong and with an effective sales team in place, the results of Hong Kong bus operation are expected to continue its improving trend.

## **Street Furniture**

The progress of the Shanghai Newspaper Kiosk project has been slower than expected. However, the Group is aggressively lobbying for advertising license approvals for the project from the government authorities and the Group expects to receive the relevant approvals shortly. About 700 newspaper kiosks have been installed in the streets of Shanghai, 200 of which are in the process of being relocated to better locations in order to maximize the returns by achieving higher advertising revenue. The Group will then continue to install another 300 to complete the installation on the initial 1,000. The sales and marketing team is ready to push the sales immediately after getting the advertising license approvals.

Regarding the Red Cross first aid in-mall advertising project, the Group has installed approximately 2,900 advertising light boxes across China and 87% of the installed boxes are of improved design, which is less bulky and more appealing to advertisers. The Group decided to focus on outlets that are not populated by other advertising media such as schools, and focus on the major cities, including Beijing, Shanghai, Guangzhou and Shenzhen. Although the installation plan was slowed down by the SARS outbreak, the project received good response from advertisers and the sales team has secured substantial advertising orders from clients in recent months.

These two projects incurred start-up losses of approximately HK\$2.1 million and HK\$7.5 million for the three months and nine months ended 30th September 2003, respectively. Management is working on developing synergy with the two project teams.

## **Business outlook**

Management of the Group has been focusing on revamping the core businesses of bus and metro operations by strategically concentrating on the media assets of higher profit potential and increasing occupancy of these media assets. In order to enhance investment returns, the Group has streamlined the media assets by undertaking necessary contract restructuring. The Group has also focused its efforts to ensure successful implementation of the street furniture projects.

The Group is cautious about business expansions at this time. When appropriate opportunities are identified, the Group would consider further expansion of its metro advertising network and prime bus routes in core cities in China to enhance its existing media network. The main focus is to maximize revenues and profits from existing assets by improving revenues and controlling costs.

The SARS effect is fading off. The SARS outbreak created a challenging operating environment, primary in the second quarter this year. In the recent months, the Group has seen a strong rebound in the post-SARS advertising market, as evidenced by increased advertising orders on hand.

With a stable management team and a more effective sales team in place, the marked improvement in the third quarter is expected to continue for the rest of this year and going forward. As the EBITDA has already turned positive in the third quarter, the Group is expecting to sustain positive operating cash flows, before working capital movements, on a monthly basis in the near future.

## **FINANCIAL REVIEW**

### **Revenue and Profitability**

The Group recorded turnover of approximately HK\$102.2 million for the three months ended 30th September 2003 which represented a slight increase of 1.7% as compared to approximately HK\$100.5 million for the corresponding period last year. For the nine months result, the recorded turnover was HK\$266.3 million, which represented a decrease of 4.7% as compared to approximately HK\$279.5 million for the corresponding period last year. Total turnover generated from the Hong Kong business for the nine-month period decreased from approximately HK\$79.6 million last year to HK\$62.0 million this year, which represented a drop of 22.1%. Total turnover generated from the PRC business for the nine-month period increased from approximately HK\$200.0 million last year to HK\$204.4 million this year, which represented an increase of 2.2%.

Turnover increased by 16.3%, or HK\$14.3 million to HK\$102.2 million for the three months ended 30th September 2003 from HK\$87.9 million for the three months ended 30th June 2003. The increase was mainly due to the improvement of performance for the metro system advertising and the bus advertising business.

Total turnover for the nine months ended 30th September 2003 was generated from: (i) bus advertising of approximately HK\$222.9 million (83.7% of total turnover); (ii) metro system advertising of approximately HK\$40.0 million (15.0% of total turnover); (iii) i-Result business of approximately HK\$0.3 million (0.1% of total turnover); and (iv) other operations of approximately HK\$3.2 million (1.2% of total turnover).

Cost of revenue for the three months and nine months ended 30th September 2003 decreased by 9.9% and 1.7% to HK\$99.1 million and HK\$299.2 million from HK\$110.0 million and HK\$304.2 million for the corresponding periods last year, respectively. The decrease for the three months ended was mainly due to the reduction of amortisation and concession fee while the decrease for the nine months ended was due to the reduction of production cost (printing, posting and de-posting).

For the nine months ended 30th September 2003, the Group suffered a gross loss of approximately HK\$32.9 million, which represented an increase of 33.2% as compared to approximately HK\$24.7 million for the corresponding period last year. The deterioration of gross margin was mainly attributable to the lower level of revenue compared to the same period last year despite the reduction in direct costs by 1.7%.

A gross profit of HK\$3.2 million was noted for the three months ended 30th September 2003 due to the improvement of performance during the period.

Selling, general and administrative expenses for the three months and nine months ended 30th September 2003 decreased by 38.2% and 32.0% to HK\$25.9 million and HK\$79.5 million respectively, from HK\$41.9 million and HK\$116.9 million for the corresponding periods last year. The decrease was mainly a result of tightening expense control and partly a result of the closure of i-Result business.

#### **Finance Costs**

Finance cost for the three months and six months ended 30th September 2003 decreased to HK\$0.3 million and HK\$1.6 million from HK\$0.5 million and HK\$8.3 million last year respectively mainly due to lower level of borrowings this year.

#### **Share of Profits of an Associated Company**

Share of profit of an associated company before taxation increased from approximately HK\$5.3 million and HK\$12.2 million for the three months and nine months ended 30th September 2002 to HK\$6.7 million and HK\$15.8 million for corresponding periods this year. Beijing Metro demonstrated continuing improvement and achieved higher revenue during the current period.

#### **Net Loss Attributable to Shareholders**

As a result of the above factors, the Group suffered a net loss for the three months and nine months ended 30th September 2003 of approximately HK\$18.3 million and HK\$102.5 million respectively as compared to net losses of approximately HK\$47.5 million and HK\$125.7 million for the corresponding periods last year. The net loss for the three months ended 30th September 2003 was reduced by HK\$19.7 million from HK\$38.0 million for the three months ended 30th June 2003.

#### **Earning before Interest, Tax, Depreciation and Amortisation (EBITDA)**

The EBITDA for the three months ended 30th September 2003 increased to a HK\$3.1 million profit from a loss of HK\$30.1 million last year. The EBITDA for the nine months ended 30th September 2003 also improved to loss of HK\$37.0 million from loss of HK\$68 million last year.

## FINANCIAL RESULTS

The directors of MediaNation Inc. (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 30th September 2003 together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

	Note(s)	For the three months ended 30th September		For the nine months ended 30th September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	102,240	100,452	266,316	279,474
Cost of revenue		(99,088)	(110,033)	(299,178)	(304,207)
Gross (loss) profit		3,152	(9,581)	(32,862)	(24,733)
Other income (expense), net		71	(188)	247	3,097
Selling, general and administrative expenses		(25,914)	(41,883)	(79,452)	(116,949)
Provision for impairment of intangible assets		—	(5,985)	—	(5,985)
Loss from operations		(22,691)	(57,637)	(112,067)	(144,570)
Finance costs		(261)	(461)	(1,553)	(8,298)
		(22,952)	(58,098)	(113,620)	(152,868)
Share of profits of associated companies		6,645	5,285	15,815	12,177
Loss before taxation		(16,307)	(52,813)	(97,805)	(140,691)
Income tax (expense) write-back					
— Group		—	402	—	297
— Associated companies		(2,298)	(1,848)	(5,516)	(4,332)
	3	(2,298)	(1,446)	(5,516)	(4,035)
Loss after tax but before minority interests		(18,605)	(54,259)	(103,321)	(144,726)
Minority interests		280	6,737	817	19,025
Net loss attributable to shareholders		(18,325)	(47,522)	(102,504)	(125,701)
Loss per share (HK cents)					
— Basic	4	1.39	7.90	12.15	21.33
— Diluted	4	N/A	N/A	N/A	N/A



## NOTES:

### 1. Basis of presentation

The financial statements 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”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. They have been prepared under the historical cost convention.

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

### 2. Turnover, revenues and segment information

The Group is principally engaged in the provision of outdoor advertising media services in the People’s Republic of China (the “PRC”) and Hong Kong. Turnover and revenues comprised:

	For the three months ended 30th September		For the nine months ended 30th September	
	2003 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)
Media rental	79,017	78,300	208,671	219,029
Production income	22,080	19,586	54,355	53,564
Agency commission income	1,143	2,367	3,290	6,178
Media consultancy services income	—	199	—	703
Total turnover	102,240	100,452	266,316	279,474
Interest income from bank deposits	71	497	247	1,952
Total revenue	102,311	100,949	266,563	281,426

An analysis of the Group's turnover and revenues by business segments and geographical locations for the nine months ended 30th September 2003 and 2002 is as follows:

	For the nine months ended 30th September					
	2003			2002		
	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>TURNOVER</b>						
Metro system advertising	—	39,950	39,950	—	34,622	34,622
Bus advertising	61,651	161,215	222,866	78,098	162,343	240,441
i-Result business	305	—	305	1,463	2,926	4,389
Other operation	—	3,195	3,195	—	22	22
Total turnover	61,956	204,360	266,316	79,561	199,913	279,474
Interest income from bank deposits	113	134	247	1,810	142	1,952
	62,069	204,494	266,563	81,371	200,055	281,426

### 3. Income tax expense

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the three months and nine months ended 30th September 2003 (2002: Nil).

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax on their taxable income for the period at a combined national and local tax rate of 33% ("EIT") (2002: 33%). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The amount of taxation charge to the consolidated profit and loss account represents:

	For the three months ended 30th September		For the nine months ended 30th September	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Current taxation — PRC EIT (refund)	—	(402)	—	(297)
Share of taxation attributable to an associated company	2,298	1,848	5,516	4,332
	2,298	1,446	5,516	4,035

#### 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 Capitalization 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 and nine months ended 30th September 2002.

- (iii) In August 2003, 1,202,325,990 shares of HK\$0.10 each were issued to the public by way of an open offer, for a total consideration of approximately HK\$120.2 million before related issuing expenses. These ordinary shares are included in the calculation of weighted average number of shares for the period under review.

##### (a) Basic loss per share

The calculation of basic loss per share for the three months and nine months ended 30th September 2003 is based on the Group's net loss attributable to shareholders of approximately HK\$18,325,000 and HK\$102,504,000 respectively (three months ended 30th September 2002: approximately HK\$47,522,000; nine months ended 30th September 2002: approximately HK\$125,701,000), divided by the weighted average number of approximately 1,319,945,000 and 843,390,000 ordinary shares outstanding during the respective periods (three months ended 30th September 2002, approximately 601,261,000 ordinary shares; nine months ended 30th September 2002: approximately 589,329,000 ordinary shares). As at 30th September 2003, there were 1,803,488,985 shares in issue, following the completion of the open offer in August 2003.

##### (b) Diluted loss per share

No diluted loss per share for the three months and nine months ended 30th September 2003 and 2002 is 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 nine months ended 30th September 2003 and 2002 were as follows:

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve* HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 2002 (Audited)	300,721	1,568	883	19,797	—	322,969
Capitalization Issue	(42,128)	—	—	—	—	(42,128)
Share issued pursuant to a share adjustment	(278)	—	—	—	—	(278)
Premium on issue of new shares upon listing of shares on GEM	428,465	—	—	—	—	428,465
Write-off of share issuance expenses	(51,604)	—	—	—	—	(51,604)
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	282	—	—	—	282
Repurchase of shares	(3,335)	—	—	(390)	390	(3,335)
Loss for the period	—	—	—	(125,701)	—	(125,701)
As at 30th September 2002 (Unaudited)	631,841	1,850	883	(106,294)	390	528,670
As at 1st January 2003 (Audited)	635,510	1,844	883	(233,376)	390	405,251
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	226	—	—	—	226
Write-off of share issuance expenses pursuant to an open offer	(3,225)	—	—	—	—	(3,225)
Loss for the period	—	—	—	(102,504)	—	(102,504)
As at 30th September 2003 (Unaudited)	632,285	2,070	883	(335,880)	390	299,748

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 by the board of directors of the subsidiaries. During the nine months ended 30th September 2003 and 2002, no transfer was made by the subsidiaries to these statutory reserves.

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

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 30th September 2003, in the opinion of the Directors, the Company has no reserves available for distribution to its shareholders.

## USE OF PROCEEDS

### GEM Listing

The net listing proceeds raised from the listing of the Group on the GEM on 24th January 2002 was approximately HK\$394.0 million. The net proceeds have been applied to implement various objectives as set out in the prospectus dated 14th January 2002, the supplemental prospectus dated 22nd January 2002 (collectively the “Prospectus”) as follows:

	<b>As stated in the prospectus &amp; supplemental prospectus</b> <i>HK\$ million</i>	<b>Actual amount used up to 30th September 2003</b> <i>HK\$ million</i>	<b>Further amount to be used in 2003</b> <i>HK\$ million</i>
Development of printing and Media Inventory Management System	7.0	—	—
Expansion of street furniture business:			
— newspaper kiosks	120.0	70.3	3.4
— 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	25.7	0.3
Expansion of the i-Result database	5.0	1.4	—
Repayment of certain existing debts to Gavast Estates	120.0	117.0	—
Repayment of certain existing debts from Everpower and E2-Capital	39.0	39.8	—
Working capital and operating losses	3.0	136.1	—
	<b>394.0</b>	<b>390.3</b>	<b>3.7</b>

As previously disclosed, 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\$3.7 million for expansion of its street furniture business.

## Open Offer

The net proceeds raised from the Open Offer in August 2003 was HK\$116.0 million. The net proceeds have been applied to implement various objectives as set out in the prospectus dated 10th July 2003 as follows:

	<b>As stated in the prospectus for open offer dated 10th July 2003</b>	<b>Actual amount used up to 30th September 2003</b>	<b>Further amount to be used</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Repayment of certain existing debts from independent third parties including overdue media rental fees	50.3	11.9	38.4
Repayment of outstanding investment commitments for investment buses in China acquired during 2001	5.7	—	5.7
Repayment of shareholders' loan advanced by SMI and Warburg	60.0	60.0	—
	116.0	71.9	44.1

## INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the nine months ended 30th September 2003 (2002: nil).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30th September 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors pursuant to Rule 5.40 of the GEM Listing Rules (other than options which have been granted under any Pre-IPO share option plans of the Company to certain Directors, details of such options are set out in the paragraph headed "Pre-IPO Share Options Plans" below), were as follows:

Name of Director/ chief executive	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interests					Capacity	Total	Approximate percentage of the total number of shares in issue
	Personal interests	Family interests	Corporate interests	Other interests				
Mr. Chu Chung Hong, Francis	7,401,000	—	—	—	Beneficial Owner	7,401,000	0.4%	
Ms. Chan Sim Ngor, Summerine	26,252,118	—	—	—	Beneficial Owner	26,252,118	1.5%	
	33,653,118	—	—	—		33,653,118		

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Options Plans" below, as at 30th September 2003, 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 the Company 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 the Company had not made any arrangement enabling any of them, to subscribe for any shares or debentures of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

### Pre-IPO Share Options Plans

Prior to the listing of the Company's shares on GEM, the board was authorized, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to certain directors and employees of the Group to subscribe for ordinary shares in the Company under the terms of several share option plans (the "Pre-IPO Share Options Plans").

Under the terms of the Pre-IPO Share Options Plans, details of the Pre-IPO Share Options granted to and held by the Directors as at 30th September 2003 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at 30th September 2003
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
	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) These Pre-IPO Options were 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.

During the nine months ended 30th September 2003, a total number of 5,356,960 options under the Pre-IPO Shares Options Plans had lapsed. No options were granted nor exercised during the period.

Pending adjustments on the relevant Pre-IPO Share Options are to be made in accordance with the terms of the Pre-IPO Share Options Plans as a result of the open offer stated in the Company's prospectus dated 10th July 2003.

Save as disclosed above, during the nine months ended 30th September 2003, no Pre-IPO Share Options were granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under any of the Pre-IPO Share Options Plans to any Directors.



## 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 of the Company’s 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 member 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 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 on not less than third year 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.

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 30th September 2003 were as follows:

<b>Name of Director</b>	<b>Date of offer</b>	<b>Exercise price HK\$</b>	<b>Outstanding as at 30th September 2003</b>
Mr. Chu Chung Hong, Francis	13th August 2003	0.119	3,000,000

During the nine months ended 30th September 2003, a total number of 773,000 options under the Share Option Scheme lapsed and 17,500,000 options granted but no options were exercised during the period.

Pending adjustments on the relevant Post-IPO Share Options are to be made in accordance with the terms of the Share Option Scheme as a result of the Open Offer.

Save as disclosed above, at no time during the nine months ended 30th September 2003 was the Company 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 debt security of the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18, had any right to subscribe for any shares or debentures of the Company, or had exercised any such right during the nine months ended 30th September 2003.

The Directors consider it is inappropriate to value the options granted as a number of factors, such as the timing of exercise of options, which is crucial for the valuation, cannot be determined. Also given the trading volume of the shares of the Company since its listing on GEM, it is not appropriate to come up with a meaningful expected volatility for the calculation of the option value. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful and would also be misleading to the shareholders.

## **SUBSTANTIAL SHAREHOLDERS HAVING INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

So far as is known to any Director or chief executive of the Company, as at 30th September 2003, the following substantial shareholders of the Company (within the meaning of the GEM Listing Rules) had interests or short positions in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO (other than those interests of Directors disclosed above):

<b>Name of shareholder</b>	<b>Number of shares of HK\$0.10 each in the Company held</b>	<b>Capacity</b>	<b>Approximate percentage of the total number of shares in issue</b>
SMI Investors (PAPE II) Limited ("PAMA")	718,428,083	Beneficial Owner	39.8%
Warburg Pincus Ventures, L.P. ("Warburg Pincus")	718,428,083	Beneficial Owner	39.8 %

Save as disclosed above, and as far as the Directors are aware, as at 30th September 2003, no other substantial shareholders had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

## **OTHER PERSONS HAVING INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

So far as is known to any Director or chief executive of the Company, as at 30th September 2003, no other persons (other than those interests of Directors and substantial shareholders disclosed above and interests of persons as recorded in the register to be kept under section 336 of the SFO pursuant to Division 5 of Part XV of the SFO) had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

## **SPONSOR'S INTEREST**

As updated and notified by the Company's sponsor, Deutsche Bank AG, Hong Kong Branch (the "Sponsor"), one employee of the Sponsor held 8,000 shares in the capital of the Company as at 30th September 2003. 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) had any interest in the share capital of the Company as at 30th September 2003.

Pursuant to the agreement dated 23rd January 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 4th January 2002 until 31st December 2004.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

PAMA Group Inc. ("PAMA Group") is the general partner in PAMA I and PAMA II, which are two private equity funds managed by PAMA Group. PAMA II owns PAMA. PAMA I has investments in various businesses including Texon International Limited ("Texon"). Texon is a competitor of the Group in the Hong Kong bus shelter market. PAMA I has two nominees appointed to the board of Texon, one of whom is Mr. Andersen, Dee Allen who was formerly a non-executive director of the Company. On 2nd September 2002, Mr. Andersen, Dee Allen resigned as a non-executive director and a member of the audit committee of the Company. PAMA Group is a wholly owned subsidiary of PAMA Investment Holdings Limited ("PIHL"). Mr. Cheung Leung Hong, Cliff, a non-executive director of the Company, is a shareholder of PIHL and has an indirect interest of less than 0.5% in the share capital of Texon.

Save as disclosed above, as at 30th September 2003, none of the Directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "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. The primary duties of the Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Committee comprised a non-executive Director, Ms. Ho Ming Yee and two independent non-executive Directors, namely Mr. Schöter, Johannes (the Chairman of the Committee) and Mr. Barry John Buttifant.

The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

## **BOARD PRACTICES AND PROCEDURE**

In the opinion of the Directors, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period ended 30th September 2003.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the nine months ended 30th September 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed security.

By Order of the Board  
**Sun Qiang, Chang**  
*Chairman*

Hong Kong, 10th November 2003