Annual Report 2003

MEDIANATION
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 of MediaNation Inc. (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to 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.

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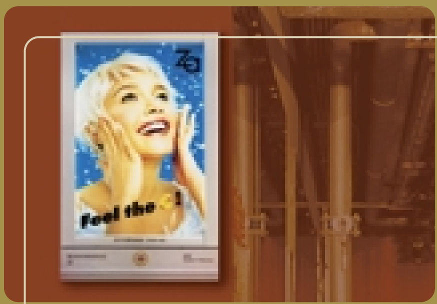
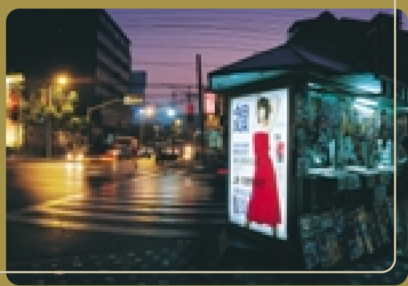
Corporate Profile





MediaNation Inc. is a leading advertising company, which has built up one of the largest public transport advertising display networks in the People's Republic of China (the "PRC") and Hong Kong.

The Company is well established. Its roots go back to 1992, when the founders saw the huge potential for outdoor advertising in Hong Kong and the PRC. In 1996, a holding company was incorporated which offered advertising services through its subsidiaries.

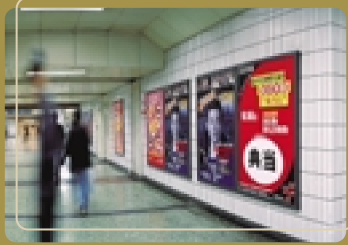
The Company is listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong.

MediaNation Inc. is now established as a major force in outdoor advertising in its chosen markets.

Major Chinese cities in which the Company has contracts with public transport authorities include Beijing, Shanghai, Guangzhou, Wuhan, Tianjin, Hangzhou, Qingdao and Chengdu.

Corporate Profile

The Company has the exclusive rights to advertising display sites on approximately 16,000 buses in 15 major cities in the PRC and approximately 4,000 buses in Hong Kong. The metro systems media advertising is a fast growing business in the PRC. The Company has contracts with metro lines operated in Beijing and Shanghai. From this strong and expanding base, the Company is also seeking new advertising opportunities, and is expanding into other formats such as newspaper kiosks and other forms of "street furniture".



An Expanding Market

Although one of the oldest forms of mediums, outdoor display remains a key form of advertising with advantages that cannot be matched by television or newspaper advertising. This is especially true in terms of the visual impact, which makes this form of presentation so effective. The rapidly growing consumer market in the PRC will ensure a strong demand for advertising.

The creative use of prominent displays in heavily trafficked locations provides advertisers with a powerful platform to build brand awareness and drive home marketing messages.

Compared to other forms of advertising, it is cost effective, generates repetitive viewing and reaches potential customers close to points of sale.

The exciting and endless possibilities for presentation offered by this form of display will ensure that it remains a key tool in advertising campaigns. Clients are becoming ever more sophisticated in their presentations, and are encouraged by the growing amount of research data that reinforces the effectiveness of outdoor displays. New technologies also widening creative opportunities, will, in turn, attract new customers.

The key outdoor advertising media are :

Buses

No. of buses	As of 31/12/2003	As of 31/12/2002
- in the PRC	18,615	20,336
- in Hong Kong	4,043	4,947
- Total no. of cities in the PRC including Hong Kong with bus advertising operation	16	16

Note: As of end of February 2004, the number of buses in the PRC is reduced to 16,320 as a result of efforts to streamline the bus media portfolio.

MediaNation Inc. operates the largest bus advertising network in Pan China. Bus ads are the best way to capture the attention of today's highly mobile consumers, because they move with them. Buses are an intrinsic part of the daily lives of the entire community, from children to housewives, workers to senior executives. Regardless of the traffic condition, buses are highly visible and are almost impossible to ignore. Their size and movement make them attention-grabbers on the street. And thanks to their mobility, it takes only a few buses to deliver full population coverage in comparatively less densely populated cities.


Canon
IXUS i

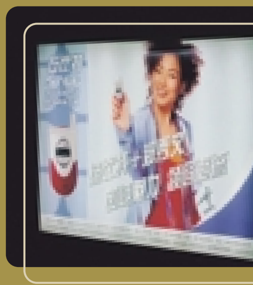

http://www.izzue.com


DURACELL

Metro

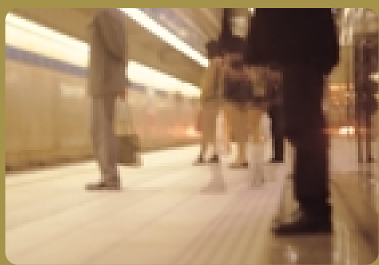
No. of display panels in Shanghai Metro	As of 31/12/2003	As of 31/12/2002
- physical no.of panels	3,403	3,270
- in standard media equivalent (see note below)	2,217	2,041
No. of display panels in Beijing Metro	24,971	24,950

Note : Standard Media is defined as a 12-sheet light box in the hall of a grade A station of Line 2, e.g. Zhong Shan Park Station. Other display panels are converted to Standard Media based on relative advertising value.

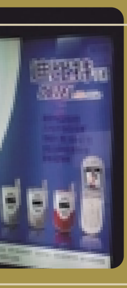


Metro advertising is a shining star among all outdoor media, and an obvious choice on every media plan. In view of its heavy and stable passenger flow of the system, metro advertising is an outdoor medium that can be quantitatively measured. Metro riders in the PRC are mobile working group, with solid purchasing power. They appreciate advertising as a valuable information and entertainment source during their journey. Advertisers have a captive audience, which enables them to repeatedly drive home their message.

With extensive facilities on the Beijing and Shanghai Metro Systems, the Company provides access to a hundred of thousands of potential client customers every day.




一号线
二号线
清凉舒爽
乐趣尽享




NOKIA
诺基亚

Street Furniture

As the PRC's major cities continue to modernize, there will be an increasing need for street furniture that enhances the quality of urban life both by improving a city's appearance and public amenities. MediaNation Inc. sees the value in tapping the street furniture sector, has expanding into this sector with the following projects.

City Showcase - Shanghai Newspaper Kiosk

MediaNation Inc. has the exclusive right to operate newspapers kiosks network in Shanghai.

Dynamic Showcase - First Aid Advertising Display

Our strategy to build a nationwide network of first aid light boxes commenced in Beijing, with the support of China General Chamber of Commerce and Red Cross.


今日风采
上海·东京同步流行
服饰

Dear stakeholders,

I am pleased to report that in its first full year of operation under the strengthened management led by chief executive officer Mr. Francis Chu, MediaNation has achieved a turn-around in its business and is now in a much healthier financial position with a positive cash flow, sustained since the second half of 2003.

The resilience of our key market of China was shown by the rapid recovery from the early SARS setback. By the end of 2003, GDP growth was running at 9 per cent, while growth in retail sales, which had dwindled to a record low in June, rebounded to 9 per cent for the year.

The growth in consumer spending, particularly in the increasingly affluent major cities, has led to a rapid broadening in the range of goods being promoted, which in turn has fuelled an advertising boom from which your company is perfectly placed to benefit.

As China's economy continues its fast pace of growth, it will remain the most buoyant in Asia, if not the world, and this must present us with still more opportunities for solid growth.

A year of progress

The year saw two areas of significant progress:

- A much improved financial position. The successful completion in August 2003 of a HK$120 million round of new funding has strengthened the Company's financial position . EBITDA became positive in the 2H of 2003.

- The building of stable management in depth with the addition and/or replacement of middle-level managers in key markets. As a result, almost all aspects and geographical areas of the Company's operations have shown marked improvements during the year.

With a stable and strengthened management, MediaNation is now focused on streamlining its bus media portfolio and keeping costs under control. Management has also started to look for profitable growth opportunities.

Going Forward

The Company has emerged from 2003 with a stable management team, a sustainable positive cash flow, and clear vision of the future.

The Company has been exploring new advertising media to further strengthen its portfolio besides launching newspaper kiosks and Red Cross first aid light boxes in Shanghai and across China. It will continue to search for fresh ideas to expand its outdoor media business.

Sun Qiang, Chang
Chairman

I am pleased to report a year of solid progress, which was achieved despite the adverse impact of the SARS outbreak in the PRC and Hong Kong. Although the Company felt the effect of this in the second quarter, when retail sales and advertising revenues were most affected, a fine effort by the management team saw a significant improvement in financial performance by the year-end.

It was also a year of internal transition, but one of noteworthy achievements. The Company's financial position has been greatly strengthened by improved results at most levels. EBITDA and cash flow have turned positive and there was a highly encouraging improvement in the bottom line. The Group now expects to sustain positive operating cash flows and we look forward to further improvements in 2004.

Highlights of the year

Metro operations in Beijing and Shanghai have shown promising growth. The associated company, Beijing Metro, continued to deliver strong financial performance in 2003 with profit contribution 35.3% higher than last year, while the turnover of Shanghai Metro increased by 30.5% over last year. We are confident that the momentum will continue to advance, and we are well-placed to take advantage of the long-term growth in the PRC advertising.

The year saw notable developments in the streamlining of our bus media portfolio by increasing our exposure in prime locations, but reviewing our position in the less productive areas. This enabled management to concentrate on high quality media assets and to substantially reduce our media rental costs.

Overhead costs have been significantly reduced. Selling, general and administrative expenses were cut by 36.6 %, and the company further benefited from a general tightening of controls over costs.

We have benefited from the restructuring of our internal organization to ensure better co-ordination and much improved internal efficiency. There is now a strong and committed management team in place, with an especially effective and stable middle management group, which can be counted on to build on the Company's achievements. There will be careful expansion of our sales and project management teams to further strengthen our position in the market place.

New projects

The Group is making progress in developing street furniture as a new and innovative advertising medium. In Shanghai we have established 700 newspaper kiosks and have introduced Red Cross first aid light boxes as unique outlets for advertising across China. The sales and marketing team has started to push advertising sales and initially has received favourable response from clients.

Our major efforts on the Red Cross boxes are being focused on the major cities, including Beijing, Shanghai, Guangzhou and Shenzhen, and they have secured a good response.

Moving forward

The Company is now in a solid position to consider prudent expansion. When appropriate opportunities are identified, the Group will consider further expanding its metro advertising network and prime bus routes in core cities in China to enhance its existing media network in the PRC.

While much has been achieved in 2003, much remains to be done before we are satisfied with the Company's overall results. We will continue to focus on revamping the core businesses of bus and metro advertising and I am confident that the Company will continue to grow in a healthy manner as we build on the progress made in 2003. With a stable management and a highly effective sales team in place, the marked improvement in 2003 is expected to continue going forward.

Francis Chu
CEO

Directors and Senior Management

Mr. Sun Qiang, Chang
Chairman

Mr. Sun Qiang, Chang, aged 47, became a non-executive director of the Company 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 Neuflize and Co., an investment bank and leveraged buyout firm in New York.

Mr. Chu Chung Hong, Francis
Executive Director

Mr. Chu Chung Hong, Francis, aged 48, became the Company's new chief executive officer and executive director in December 2002 and January 2003, respectively. He is also the authorized representative and the compliance officer of the Company. Mr. Chu joins the Company from advertising agency Lowe, where he was the managing director of its operations in the PRC. Mr. Chu has 26 years of experience in the advertising industry, having held senior management positions with Ogilvy & Mather Taiwan, Euro RSCG and FCB Megacom.

Mr. Cheung Leung Hong, Cliff
Non-Executive Director

Mr. Cheung Leung Hong, Cliff, aged 42, became a non-executive director of the Company in March 1998. He is the managing director and chief investment officer of PAMA Group and a member of its investment committee. PAMA Group, 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.

Ms. Ho Ming Yee
Non-Executive Director

Mr. Cheng Cheung Lun, Julian
Non-Executive Director

Ms. Chan Man Ki, Summerine
Non-Executive Director

Ms. Ho Ming Yee, aged 41, became a non-executive director of the Company and a member of the audit committee of the Company 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 6 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 master 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 30, became a non-executive director of the Company 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.

Ms. Chan Man Ki, Summerine (former name was Ms. Chan Sim Ngor, Summerine), aged 39, is one of the founders of the Group and became a non-executive director of the Company 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 is a graduate of the University of Hong Kong. Ms. Chan is the wife of Mr. Kam Ling who has resigned as a non-executive director and Vice Chairman of the Company in January 2004.

Mr. Johannes Schöter
Independent Non-Executive Director

Mr. Johannes Schöter, aged 48, became a non-executive director of the Company 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
Independent Non-Executive Director

Mr. Barry John Buttifant, aged 59, became a non-executive director of the Company 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 8 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, China Merchants DiChain (Asia) Limited and Global-Tech Appliances Inc. 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.

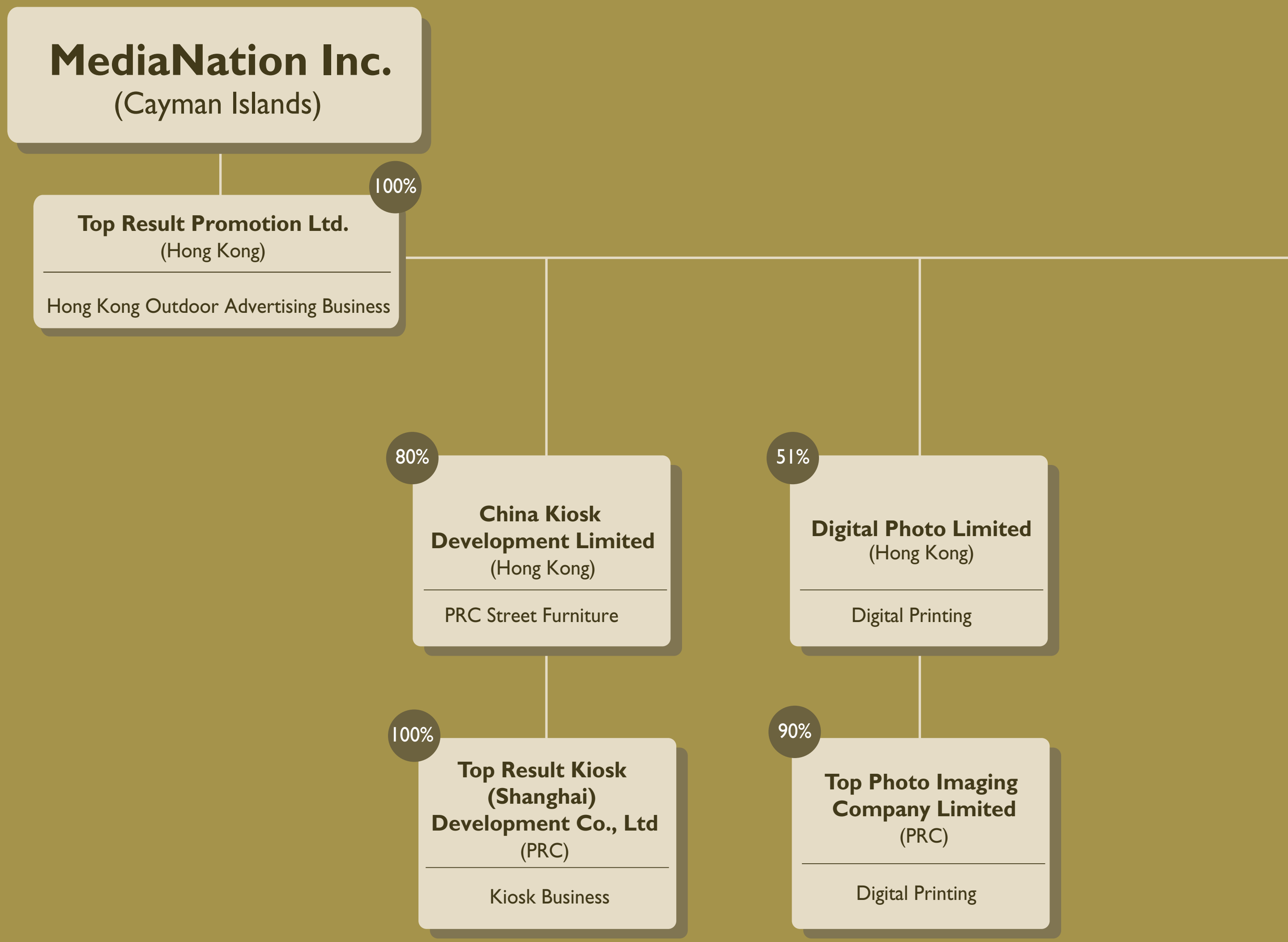
Ms. Mo Li Yan
Chief Operation Officer

Ms. Mo Li Yan, aged 52, is currently the chief operation officer of the Group, with a focus on the PRC operations. Ms. Mo also plays an active role in government lobbying. Ms. Mo was a government official for more than 20 years, and previously held senior positions in various government departments including: Central Commission of Discipline and Inspection of Chinese Communist Party; the Ministry of Domestic Trade; General Corporation of China Material Development Investment and General Corporation of China Storage and Transportation. Ms. Mo is a diploma holder of psychics, as well as the recipient of a master of business administration degree from Beijing University.

Mr. Yuen Kam Sun, Joe
Chief Financial Officer

Mr. Yuen Kam Sun, Joe, aged 40, joined the Group as chief financial officer in March 2001. He previously worked for three years in Shanghai as financial controller of Dongling Trading Corporation, the first Sino-foreign joint venture company approved by the State Council of the PRC in 1997 to conduct general import & export trading business. Prior to that, he worked for Asian Industries Division of Continental Grain Company for four years focused on PRC operations. Mr. Yuen has a bachelor degree in social science from Chinese University of Hong Kong and has a master degree in commerce from University of New South Wales, Australia. He is a full member of the Certified Practicing Accountants (Australia) since 1996.

Corporate Structure



80%

Beijing Top Result Public Transportation Advertising Co., Ltd
(PRC)

PRC Outdoor Advertising

38%

Beijing Top Result Metro Advertising Co., Ltd
(PRC)

Metro Advertising Business in Beijing

90%

Shanghai Top Result Metro Advertising Co., Ltd
(PRC)

Metro Advertising Business in Shanghai

BOARD OF DIRECTORS

Executive Director
Mr. Chu Chung Hong, Francis

Non-Executive Directors
Mr. Sun Qiang, Chang
Mr. Cheung Leung Hong, Cliff
Ms.Ho Ming Yee
Mr. Cheng Cheung Lun, Julian
Ms.Chan Man Ki, Summerine

Independent Non-Executive Directors
Mr. Schöter, Johannes
Mr. Barry John Buttifant

COMPANY SECRETARY

Mr. Yuen Kam Sun, Joe (CPA (Aust))

QUALIFIED ACCOUNTANT

Mr. Cheng Ka Chung, Michael (AHKSA)

COMPLIANCE OFFICER

Mr. Chu Chung Hong, Francis

AUDIT COMMITTEE

Mr. Schöter, Johannes
Mr. Barry John Buttifant
Ms. Ho Ming Yee

AUTHORISED REPRESENTATIVES

Mr. Chu Chung Hong, Francis
Mr. Yuen Kam Sun, Joe

SPONSOR

Deutsche Bank AG, Hong Kong Branch
55th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
33/F, Cheung Kong Center
2 Queen's Road, Central,
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 3507-9, 35th Floor
The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citic Ka Wah Bank Limited
Standard Chartered Bank
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Hopewell Centre,
183 Queen's Road East,
Hong Kong

WEBSITE ADDRESS

www.medianationinc.com

STOCK CODE

8160

FINANCIAL HIGHLIGHTS

(HK'm)	For the three months ended 31-Mar-03	30-Jun 03	30-Sep-03	31-Dec-03	For the year ended 31-Dec-03	31-Dec-02	YoY Fav/ (unfav)
Turnover	76.2	87.9	102.2	109.3	375.6	370.7	1.3%
SG&A	(28.2)	(25.4)	(25.9)	(31.4)	(110.9)	(174.9)	36.6%
Adjusted EBITDA before one-time provisions (as defined under the section Adjusted EBITDA)	(24.8)	(14.5)	3.4	11.8	(24.1)	(123.3)	80.5%
Net loss before one-time provisions	(46.2)	(38.0)	(18.3)	(13.5)	(116.0)	(216.0)	46.3%
Net loss	(46.2)	(38.0)	(18.3)	(41.3)	(143.8)	(252.8)	43.1%

The Group achieved significant operational and financial improvements in the year 2003 despite the adverse impact of SARS in the second quarter. Net loss was significantly narrowed to HK$143.8 million from HK$252.8 million in 2002, a 43.1% reduction. This was due to substantial reduction in the direct costs and SG&A. Turnover for the year was HK$375.6 million, a slight increase of 1.3% year-on-year. There was a 36.6% reduction in SG&A to HK$110.9 million, mainly because of tightened cost controls and reduction in staff headcount. "Adjusted EBITDA before one-time provisions" continued to improve and turned positive in the third quarter of 2003. Excluding the one-time provisions for impairment of intangible assets and onerous contract, the EBITDA was positive HK$11.8 million in the fourth quarter.

BUSINESS REVIEW AND OUTLOOK

The Group operates two core business lines: bus advertising and metro system advertising. Advertising are carried on approximately 20,000 buses in 16 cities in the PRC including Hong Kong, plus the entire underground metro system in Beijing city center and two metro lines in Shanghai, offering national-wide network services to international and domestic renowned brands. There has also been an expansion into street furniture advertising business in recent years.

	For the year ended 31st December					
	2003			2002		
	Hong Kong	The PRC	Total	Hong Kong	The PRC	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER						
Metro system advertising	—	55,446	55,446	—	43,727	43,727
Bus advertising	87,566	228,197	315,763	103,762	215,188	318,950
i-Result business	318	—	318	4,224	3,617	7,841
Other operations	—	4,041	4,041	—	154	154
Total turnover	87,884	287,684	375,568	107,986	262,686	370,672

CHINA

BUS ADVERTISING

PRC bus advertising turnover represented 45.7% of the Group's total turnover in 2003. PRC bus advertising operations recorded HK$47.0 million turnover in the fourth quarter, which was a 1.1% and 7.3% increase compared to HK$46.5 million in the third quarter of 2003 and HK$43.8 million in the fourth quarter of 2002. The advertising turnover increased from HK$164.4 million in 2002 to HK$171.8 million in 2003, a growth of 4.5% achieved in spite of a streamlined bus portfolio. PRC bus operations incurred losses of HK$21.2 million in the fourth quarter of 2003, an improvement of 66.7% over the same period one year ago. The full year 2003 recorded a loss of HK$61.4 million, which represented an improvement of 51.6% as compared with 2002. This improvement was mainly attributable to the cost cutting efforts implemented by the management to improve the performance of the PRC bus operations.

During the year, the Group renegotiated bus contracts in some key PRC cities, resulting in a substantial reduction in media rental costs. The Group also terminated some unprofitable contracts relating to buses running on non-prime routes in the city or city outskirts. The recently completed contract restructuring in Wuhan and Shanghai reduced the buses of less-premium routes, resulting in a lowering of the total concession cost. The reduced fixed cost base should enable this operation to achieve better financial results in the future. The Group will continue to explore possibilities for contract restructuring in other cities to further reduce the cost base, though such restructuring exercise is now largely completed. The current strategy is to concentrate on buses running on prime-routes in the city center area. With a better quality bus media portfolio, the Group is likely to benefit from higher operating leverage by managing to achieve higher utilization in the future. The average occupancy rate was around 36% in 2003.

METRO SYSTEM ADVERTISING

Shanghai metro advertising turnover represented 13.7% of the Group's total turnover in 2003. The combined media turnover of Shanghai Metro Line 2 and Line 3 was of HK$14.0 million in the fourth quarter, which represented growth of 91.8% as compared to HK$7.3 million in the same period in 2002. The advertising turnover in 2003 was HK$51.3 million, representing a 30.5% improvement over the HK$39.3 million achieved in 2002. Shanghai metro incurred a small loss of HK$0.9 million in the fourth quarter and a loss of HK$11.5 million in the full year 2003, which represented improvement of 95.4% and 59.4% for the corresponding periods in 2002. Currently, Shanghai Metro Line 2 contributed to the majority of the media rental income for this business unit. Lobbying for government approvals to install outdoor billboards alongside the elevated lines to enhance the media portfolio of Line 3 proved a lengthy process. Recently, the Group has successfully obtained the necessary approval to install outdoor billboards in selected stations as a pilot scheme. Together with increasing passenger flow and the improving recognition among advertisers of the media effectiveness, the Group expects a significant improvement in future revenues from Line 3. A reduction in discount levels improved the effective selling price in 2003. The average occupancy rate was around 40% in 2003 and the Group will continue to work on improving the occupancy rate. 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 fourth quarter of 2003. The advertising turnover was HK$25.6 million and HK$95.9 million for the fourth quarter and full year of 2003 respectively, which represented growth of 9.5% and 11.0% over the corresponding period in 2002. The Group's "share of net profit (after taxation)" of Beijing Metro was HK$5.4 million and HK$15.7 million for the fourth quarter and full year of 2003, an improvement of 42.1% and 35.3% over the corresponding periods in 2002.

i-RESULT

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 as mentioned in the last year annual report, published in March 2003.

In the process of closing down the operation of i-Result in this year, the net loss incurred amounted to HK$0.3 million for the year 2003.

HONG KONG

Hong Kong bus advertising turnover represented 20.0% of the Group's total turnover in 2003. During the year, the Group operated in Hong Kong as a bus advertising sales agency for New World First Bus Services Limited ("NWFB") and The Kowloon Motor Bus Company (1933) Limited ("KMB"). Fourth quarter revenues of HK$16.9 million were 20.0% behind the same period in 2002. The advertising turnover for full year 2003 was HK$60.5 million, a decline of 27.9% on 2002. The business has been loss making in recent years due to the economic recession in Hong Kong and the operation was further hit by the SARS outbreak in early 2003. After careful consideration, the Group decided not to renew the licence agreement with NWFB that expired on 31st July 2003. The current licence agreement with KMB will expire in late 2004 and the Group is prudently exploring different options and will consider contract renewal only if it is commercially viable, a provision for onerous contract amounting to HK$13.8 million has been made in the 2003 accounts. Excluding this provision, the Hong Kong bus advertising operation incurred a loss of HK$2.5 million and HK$38.8 million for the fourth quarter and full year of 2003, respectively. This was an improvement of 70.6% as compared to the fourth quarter of 2002 but a decline of 18.3% as compared to the full year of 2002.

STREET FURNITURE

The Shanghai Newspaper Kiosk project finally received the advertising license approvals from the government authorities in December 2003 for about 700 newspaper kiosks installed in the streets of Shanghai. A small number of the these kiosks are in the process of being relocated to better locations in order to achieve higher advertising revenue. Recently, the sales and marketing team has started to push advertising sales and initial response from clients has been favourable. The Group aims to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in 2004.

The Group has installed approximately 2,800 Red Cross first aid advertising light boxes across China, most of which are of improved design, which is less bulky and more appealing to advertisers. The focus has been on outlets that are not populated by other advertising media such as schools, and the group has targeted 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. In 2004, additional light boxes will be installed to enhance the school media network.

These two projects incurred start-up losses of approximately HK$3.2 million and HK$10.5 million for the fourth quarter and full year of 2003, respectively.

BUSINESS OUTLOOK

In 2003, the management of the Group focused on revamping the core businesses of bus and metro advertising by improving sales efficiency. The Group successfully streamlined the bus media assets by undertaking necessary contract restructuring to reduce media rental cost. With a strong and stable management team, the marked improvement in the latter half of the year is expected to continue.

The EBITDA turned positive in the third quarter of 2003 and as this looks sustainable, the business should continue to generate positive operating cash flow in the future. This will further strengthen the financial resources of the Group. When appropriate opportunities are identified, the Group would cautiously consider further expansion of its metro advertising network and prime bus routes in core cities in China to enhance its existing media network.

Given the improving global economy, business outlook of year 2004 is promising. The management is seeing stronger demands for advertising media in the PRC and Hong Kong. Sales contracts secured so far in the early part of 2004 have been very encouraging. The Group anticipates to experience a year of high growth in the outdoor advertising market in 2004.

FINANCIAL REVIEW

REVENUE AND PROFITABILITY

The Group recorded turnover of approximately HK$375.6 million for the year ended 31st December 2003, which represented a slight increase of 1.3% as compared to approximately HK$370.7 million for the previous year. Total turnover generated from the Hong Kong business decreased from approximately HK$108.0 million in 2002 to HK$87.9 million in 2003, a drop of 18.6% mainly due to the expiry of the contract with NWFB in July 2003. Total turnover generated from the PRC business increased by 9.5% from approximately HK$262.7 million in 2002 to HK$287.7 million in 2003. Despite the downsized bus media portfolios in the PRC and Hong Kong, the Group was still able to achieve a slightly increase in turnover.

Total turnover for the year ended 31st December 2003 was generated from: (i) bus advertising of approximately HK$315.8 million (84.0% of total turnover); (ii) metro system advertising of approximately HK$55.4 million (14.8% of total turnover); and (iii) other operations of HK$4.4 million (1.2% of total turnover).

Cost of sales for the year ended 31st December 2003 decreased by 7.3% from approximately HK$426.6 million in 2002 to approximately HK$395.4 million in 2003. The decrease was mainly due to the reduction of concession fees resulting from the contract restructuring exercise of the PRC bus operation and the expiry of NWFB bus advertising agreement in Hong Kong.

For the year ended 31st December 2003, the Group suffered a gross loss of approximately HK$19.9 million (2002: a gross loss of approximately HK$55.9 million). The reduction in gross loss as compared to the prior year was mainly due to the reduction in cost of sales.

Selling, general and administrative expenses for the year ended 31st December 2003 decreased by 36.6% from approximately HK$174.9 million in 2002 to HK$110.9 million in 2003. The decrease for the year ended 31st December 2003 was mainly due to tightened cost controls and a HK$33.1 million reduction in staff cost.

IMPAIRMENT OF ASSETS

For the year ended 31st December 2003, the Group performed an assessment of the recoverable value of its fixed and intangible assets. The assessment was based on value in use of the assets as determined at the cash generating unit based on the present value of estimated future cash flows. As a result of this assessment, a provision for assets impairment of HK$14.1 million was recognised in respect of the Group's intangible assets. The provision was in relation to the advertising license rights in certain cities of the PRC bus advertising operation that have changes in circumstances due to the contract restructuring exercise.

FINANCE COSTS

Finance costs for the year decreased to HK$1.6 million from HK$8.9 million in 2002, mainly due to the lower level of borrowing in 2003 as a result of the successful completion of the Open Offer in August 2003.

SHARE OF PROFIT OF AN ASSOCIATED COMPANY

Share of profit of an associated company before taxation coming from Beijing Metro increased from approximately HK$18.6 million in 2002 to HK$23.3 million in 2003. Beijing Metro demonstrated continuing improvement and achieved higher profit in 2003.

TAXATION

No provision for Hong Kong profits tax has been provided as the Group had no estimated assessable profit in Hong Kong for the year (2002: 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% (2002: 33%). The Group's taxation consists primarily of approximately HK$7.6 million EIT levied on profits from an associated company where the EIT rate is 33%.

MINORITY INTERESTS

Minority interests in the Group's results were substantially decreased from approximately HK$9.2 million in 2002 to approximately HK$0.1 million in 2003.

Pursuant to general accounting practice, where a subsidiary reports losses, the minority interest presented in the consolidated profit and loss account should reflect an appropriate share of those losses. However, if the recognition of the minority share of such losses results in a debit balance for the minority interest in the consolidated balance sheet, such debit balance should be recognised only if there is a binding obligation on minority shareholders to make good losses incurred which they are able to meet. During the year, the excess of the losses attributable to the minority of the subsidiaries in Beijing and Shanghai, namely Beijing Top Result and Shanghai Metro over the minority interest in the equity of the Beijing Top Result and Shanghai Metro was charged against the Group, amounting to HK$14.3 million and HK$5.8 million respectively.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

As a result of the above, the Group suffered a net loss for the year ended 31st December 2003 of approximately HK$143.8 million (2002: a net loss of approximately HK$252.8 million).

ADJUSTED EBITDA

Adjusted EBITDA represents loss from operations excluding (i) depreciation of fixed assets; (ii) amortisation of intangible assets; (iii) interest income and expense; (iv) tax but including the Group's proportional share of EBITDA (with the same definition) from its associated company. The Group uses adjusted EBITDA to measure its performance:-

	For the year ended 31st December 2003	For the year ended 31st December 2002
	HK$ million	HK$ million
Adjusted EBITDA	(51.9)	(160.3)
Adjusted EBITDA before one-time provisions	(24.1)	(123.3)

FINANCIAL RESOURCES, SECURITY AND LIQUIDITY

The Group had net assets of approximately HK$438.3 million as at 31st December 2003 (2002: HK$465.4 million), including cash and bank balances of approximately HK$55.3 million (2002: HK$30.6 million) and pledged bank deposits of approximately HK$0.2 million (2002: HK$0.2 million).

The Group had no outstanding borrowing as at 31st December 2003 (2002: approximately HK$0.1 million). During the year, the Group had repaid: (i) short-term bank loans of approximately HK$0.1 million; (ii) shareholders' loan of approximately HK$60.0 million and (iii) short-term loan from a related company of Warburg Pincus Ventures, L.P. of approximately HK$8.0 million.

The gearing ratio, defined as the ratio of total liabilities to total assets, was 30.0% as at 31st December 2003, compared to 33.0% as at 31st December 2002.

PLEDGE OF ASSETS

As at 31st December 2003, the Group had a pledged bank deposit of HK$0.2 million in connection to a letter of guarantee given to a landlord. Save as disclosed, the Group did not have any pledged assets.

ASSETS

The total assets of the Group decreased by 9.2% from approximately HK$695.8 million in 2002 to HK$631.5 million in 2003. The majority of the non-current assets are intangible assets of advertising license rights. The management took a conservative approach in the assessment of the recoverable value of the Group's intangible assets and made a provision for impairment of approximately HK$14.1 million in the accounts of 2003.

MATERIAL INVESTMENTS/ACQUISITIONS/DISPOSALS

The Group made no material acquisition or disposal during the year. As at 31st December 2003, the Group had no future plans for material investments or capital assets.

EMPLOYEES

As at 31st December 2003, the Group had 507 (2002: 730) employees. Total employee remuneration, including that of the directors, for the year ended 31st December 2003 amounted to approximately HK$57.2 million (2002: HK$91.3 million). The substantial decrease in employee remuneration was mainly due to closure of i-Result businesses and tightened cost control measures. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, the Group also has a medical scheme and a share option scheme for directors and employees.

FOREIGN CURRENCY TRANSLATION AND TREASURY POLICIES

All transactions of the Group are denominated in Hong Kong dollars, Renminbi or United States dollars. As the exchange rates of these currencies were stable during the year, no hedging or other alternatives had been implemented. The Group considers that the only potential currency exposure is in Renminbi as the majority of the Group's revenue is derived inside the PRC and is denominated in Renminbi. Currently, the market does not anticipate any material devaluation pressure on Renminbi in the near future and therefore the management believes the Group has no significant currency exposure.

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

CONTINGENT LIABILITIES

As at 31st December 2003, the Company has no material contingent liabilities.

Set out below is a comparison between the Group's actual business progress to date and its business objectives as set out in the prospectus dated 14th January 2002.

Business objectives as stated in the listing prospectus:	Actual business progress to date:
Maintain and strengthen market leadership position	
Expand the bus-advertising network in China by acquiring additional concessions in new cities or our existing cities.	In June 2002, the Group entered into a new bus advertising concession contract in respect of about 2,800 buses under exclusive agency arrangement in Qingdao.
Install additional advertising displays in metro advertising systems in the Shanghai metro	The Group has largely completed the media assets development of Shanghai Metro Line 2 and the media assets development in the platforms and ticketing halls of Shanghai Metro Line 3.
Invest in new digital printing machine	In view of the decrease in media sales that resulted in a decrease in production volume, the project has been put on hold. The Group will further reassess the feasibility of the investment in the future.
Develop and implement proprietary Enterprise Resource Planning software ("ERP"), named Media Inventory Management System ("MIMS") to enhance ability to accumulate and analyze data relating to the business	Instead of engaging external vendors, the Group used in-house resources to develop the software and has largely completed the programming. Trial runs have been implemented on different media assets.
Introduce new media formats	
Roll out the street furniture project - newspaper kiosks in the PRC	The Group has installed approximately 700 newspaper kiosks, of which approximately 400 are equipped with advertising display panels. The Group experienced certain delays with the 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. 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.

Business objectives as stated in the listing prospectus:	Actual business progress to date:
Install and market first aid light boxes in shopping malls in the PRC	The Group has installed approximately 2,800 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 a higher priority given by management to the implementation of the kiosk project. The Group decided to focus on outlets such as schools that are not populated by other advertising media, and in major cities of Beijing, Shanghai, Guangzhou and Shenzhen. It is intended that a network of approximately 5,000 advertising light boxes in aggregate will be completed by the end of 2004.
Upgrade and begin marketing New World First Bus Services Limited's (NWFB) bus shelters	Continue to market the NWFB's bus shelters to advertisers
Begin development of new mobile broadcasting display units such as LEDs and LCDs in existing bus and metro media portfolio in the PRC	The project has been put on hold and will be re-visited when the Group improves its performance and is able to deploy resources to work on this project.
Provide integrated outdoor advertising	
Further develop and improve the outdoor services media database for i-Result	As announced in the announcement dated 10th February 2003, the Group decided to discontinue this operation.
Selectively pursue acquisitions	
Selectively pursue acquisitions of high quality assets and outdoor advertising related businesses	The Group has no current plan to use the IPO proceeds in pursuing this objective but will consider using cash flow generated by operation or using other funding alternatives to finance acquisition if the Group can identify suitable acquisition targets.

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:

	As stated in the prospectus & supplemental prospectus	Actual amount used up to 31st December 2003	Further amount to be used
	HK$ million	HK$ million	HK$ million
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	25.8	0.2
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	—
	394.0	390.4	3.6

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 intends to use the remaining listing proceeds of HK$3.6 million for expansion of its street furniture business.

OPEN OFFER

The net proceeds raised from the Open Offer in August 2003 were 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:

	As stated in the prospectus for the Open Offer dated 10th July 2003	Actual amount used up to 31st December 2003	Further amount to be used
	HK$ million	HK$ million	HK$ million
Repayment of certain existing debts from independent third parties including overdue media rental fees	50.3	36.2	14.1
Repayment of outstanding investment commitments for investment buses in China acquired during 2001	5.7	3.8	1.9
Repayment of shareholders' loan advanced by SMI and Warburg	60.0	60.0	—
	116.0	100.0	16.0

The remaining net proceeds from the Open Offer as at 31st December 2003 was approximately HK$16.0 million.

The directors present their report together with the audited accounts of MediaNation Inc. (hereinafter as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are shown as Note 18 to the accounts.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by geographical and business segment is set out in Note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2003 are set out in the consolidated profit and loss account.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2003.

INTANGIBLE ASSETS

Details of movements in the intangible assets of the Group during the year ended 31st December 2003 are set out in Note 12 to the accounts.

FIXED ASSETS

Details of the movement in fixed assets of the Group during the year ended 31st December 2003 are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31st December 2003 are set out in Note 25 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31st December 2003 are set out in Note 27 to the accounts.

DISTRIBUTABLE RESERVES

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

As at 31st December 2003, in the opinion of the directors, the Company has no reserves available for distribution to its shareholders.

RETIREMENT BENEFIT OBLIGATION

Particulars of retirement benefit obligation of the Group are set out in Note 32 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major customers and suppliers during the year ended 31st December 2003 are set out below:

CUSTOMERS

For the year ended 31st December 2003, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The largest customers represented 2.3% (2002: 1.9%) of the Group's total turnover.

The Group has over 1,300 customers spreading over a diverse range of industries such as food and beverage, pharmaceutical, telecoms and consumer products. At no time during the year ended 31st December 2003 have the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's issued share capital had a beneficial interest in these major customers.

SUPPLIERS

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

The largest supplier for the year ended 31st December 2003 represented 7.9% (2002: 12.7%) of the Group's total production expenses (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 28.0% (2002: 45.6%) of the Group's total expenses for the year.

At 31st December 2003, Mr. Hui Yick Hun, Patrick, a former non-executive director, had a beneficial interest in High Tech Company, one of the five largest suppliers of the Group. All transactions between the Group and the supplier concerned were carried out on normal commercial terms. Save as disclosed above, at no time during the year ended 31st December 2003 did the directors, their associates or any shareholder of the Company, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any beneficial interest in the five largest suppliers of the Group.

DIRECTORS

The directors of the Company who held office during the year ended 31st December 2003 and up to the date of this report were:

EXECUTIVE DIRECTOR:

Mr. Chu Chung Hong, Francis	(Appointed on 3rd January 2003)

NON-EXECUTIVE DIRECTORS:

Mr. Sun Qiang, Chang *(Chairman)*	
Mr. Cheung Leung Hong, Cliff	
Ms. Ho Ming Yee	
Ms. Chan Man Ki, Summerine	
Mr. Kam Ling	(Resigned on 25th January 2004)
Mr. Cheng Cheung Lun, Julian	(Appointed on 11th March 2003)
Mr. Li Chun, Daniel	(Resigned on 11th March 2003)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Liu Hong Ru	(Resigned on 10th June 2003)
Mr. Barry John Buttifant	(Appointed on 10th June 2003)
Mr. Schöter, Johannes	

In accordance with Article 112 of the Company's Articles of Association, one-third of the directors of the Company, including the non-executive directors, will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive directors were not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

EXECUTIVE DIRECTOR

Mr. Chu Chung Hong, Francis entered into a service agreement with the Company for an initial term of two years commencing from 2nd December 2002, and will continue thereafter until terminated by either party not less than six months' written notice or payment of salary in lieu thereof to the other party, such notice to expire no earlier than 30th November 2004.

NON-EXECUTIVE DIRECTORS

Each of Mr. Kam Ling and Ms. Chan Man Ki, Summerine entered into a consultancy agreement with the Company commencing from 2nd December 2002 and expiring on 30th June 2004. On 25th January 2004, service agreement with Mr. Kam Ling was terminated following his resignation on that date.

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

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out in the section - Directors and Senior Management of the annual report.

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

As at 31st December 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:

	Number of issued ordinary shares of HK$0.10 each in the Company held and nature of interests						
Name of Director/ chief executive	Personal interests	Family interests	Corporate interests	Other interests	Capacity	Total	Approximate percentage of the total number of shares in issue
Mr. Chu Chung Hong, Francis	7,401,000	–	–	–	Beneficial Owner	7,401,000	0.4%
Ms. Chan Man Ki, Summerine	26,252,118	–	–	–	Beneficial Owner	26,252,118	1.5%
Mr. Barry John Buttifant	1,000,000	–	–	–	Beneficial Owner	1,000,000	0.06%
	34,653,118	–	–	–		34,653,118	

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Options Plans" below, as at 31st December 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 authorised, 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 31st December 2003 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price US$[3]	Outstanding as at 31st December 2003[3]
Ms. Chan Man Ki, Summerine	1st July 1997	1st July 1998 to 30th June 2007[1]	0.038095	2,712,500
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.038095	2,275,000
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.171429	2,835,000
	1st September 2000	1st September 2001 to 31st August 2010[1]	0.038095	1,715,000
	5th May 2001	5th May 2002 to 4th May 2011[1]	0.171429	2,450,000
	9th June 2001	9th June 2001 to 8th June 2011[2]	0.206841	19,036,535
Mr. Kam Ling (The options have lapsed following Mr. Kam's resignation on 25th January 2004)	1st July 1997	1st July 1998 to 30th June 2007[1]	0.038095	1,750,000
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.038095	1,750,000
	1st September 2000	1st September 2001 to 31st August 2010[1]	0.038095	1,925,000
	5th May 2001	5th May 2002 to 4th May 2011[1]	0.171429	6,125,000

(1) Each of these Pre-IPO Options shall vest in respect of one-third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is accepted until fully vested and expiring on the tenth anniversary from the date of offer.

(2) 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.

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

During the year ended 31st December 2003, a total number of 5,916,960[3] options under the Pre-IPO Shares Options Plans had lapsed. No options were granted nor exercised during the year.

Save as disclosed above, during the year ended 31st December 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 of the Company.

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 maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option scheme of the Company shall initially not exceed 10% of the issued share capital of the Company excluding, for this purpose, shares issued on the exercise of options under the Share Option Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the issued share capital of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the Share Option Scheme when aggregate with shares to be issued under any other share option scheme of the Group, may be increased by the board of directors provided that the shares to be issued upon the exercise of all outstanding options does not exceed 30% of the issued share capital from time to time.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company from time to time.

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 the shares, (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.

The Company granted options on 10th July 2002 to 5 senior management staffs and 24 employees to purchase 5,000,000[(1)] ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.89[(1)] per share. These options are exercisable in the period from 10th July 2003 to 9th July 2012.

The Company granted options on 13th August 2003 to 3 senior management staffs and 14 employees to purchase 17,500,000 ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.119 per share. These options are exercisable in the period from 13th August 2004 to 12th August 2013.

As at 31st December 2003, options to subscribe for 773,000[(1)] ordinary shares under Share Options Scheme lapsed as a result of the cessation of employment with employees. During the year ended 31st December 2003, none of these options had been exercised.

(1) 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 stated in the Company's prospectus dated 10th July 2003.

Details of the movements in share options under the Share Option Scheme of the Company are set out in Note 26 to the accounts.

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 31st December 2003 were as follows:

Name of Director	Date of offer	Exercise price HK$	Outstanding as at 31st December 2003
Mr. Chu Chung Hong, Francis	13th August 2003	0.119	3,000,000

Save as disclosed above, at no time during the year ended 31st December 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 year ended 31st December 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 31st December 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):

Name of shareholder	Number of shares of HK$0.10 each in the Company held	Capacity	Approximate percentage of the total number of shares in issue
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 31st December 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 31st December 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 31st December 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 31st December 2003.

Pursuant to an 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 31st December 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.

CONNECTED TRANSACTIONS

As disclosed in the section headed "Waivers from compliance with the GEM Listing Rules and the Companies Ordinance" in the prospectus of the Company dated 14th January 2002, the Group has entered into the following continuing connected transactions as defined under the GEM Listing Rules:-

Mr. Hui Yick Hun, Patrick, a former non-executive director of the Company, is a partner in High Tech Company. Mr. Hui was removed as a director of the Company on 19th December 2002. Pursuant to an outsourcing contract entered into between Top Result Promotion Limited ("Top Result"), a wholly-owned subsidiary of the Company, and High Tech Company dated 1st June 1999 (the "Outsourcing Contract"), High Tech Company has agreed to provide certain posting and deposting services (more specifically set out in Schedule 1 of the Outsourcing Contract) to Top Result with effect from 1st June 1999 until 31st October 2004. The fee payable under the Outsourcing Contract is calculated by reference to the cost of production and amounted to HK$4,552,000 for the year ended 31st December 2003 (2002: HK$8,589,000).

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

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

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

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

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

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

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

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

The independent non-executive directors of the Company reviewed the Connected Transactions and were of the opinion that the Connected Transactions were entered into:

(a) in the ordinary and usual course of the Company's business;

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

(c) in accordance with the Outsourcing Contract, on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" above, there were no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year ended 31st December 2003.

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. Four meetings were held during the year ended 31st December 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year ended 31st December 2003.

PRE-EMPTIVE RIGHTS

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

AUDITORS

PricewaterhouseCoopers retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By the order of the board

Sun Qiang, Chang
Chairman

Hong Kong, 22nd March 2004

PRICEWATERHOUSECOOPERS
羅兵咸永道會計師事務所

AUDITORS' REPORT TO THE SHAREHOLDERS OF MEDIANATION INC.
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts of MediaNation Inc. (the "Company") and its subsidiaries (together with the Company, collectively referred to as the "Group") on pages 46 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22nd March 2004

For the Year ended 31st December 2003

	Note(s)	2003 HK$'000	2002 HK$'000
Turnover	2	375,568	370,672
Cost of sales	31(a)	(395,430)	(426,593)
Gross loss		(19,862)	(55,921)
Other revenues	2	603	3,259
Selling, general and administrative expenses		(110,934)	(174,873)
Provision for onerous contract	4, 23	(13,760)	—
Impairment of assets	4	(14,065)	(36,793)
Operating loss	2, 4	(158,018)	(264,328)
Finance costs	5	(1,568)	(8,853)
Share of profit of an associated company	19	23,264	18,574
Loss before taxation		(136,322)	(254,607)
Taxation			
–The Company and subsidiaries		(34)	(442)
–An associated company		(7,565)	(6,973)
	6	(7,599)	(7,415)
Loss after taxation		(143,921)	(262,022)
Minority interests		146	9,239
Net loss attributable to shareholders	7	(143,775)	(252,783)
Dividend	8	—	—
Loss per share (HK cents)			
–Basic	9	(13.25)	(42.68)
–Diluted	9	N/A	N/A

As at 31st December 2003

	Note(s)	2003 HK$'000	2002 HK$'000
Non-current assets			
Intangible assets	12	236,899	298,730
Fixed assets	13	76,806	69,038
Investment deposit placed with a joint venture partner - non-current	14	14,145	28,291
Long-term deposits	15	35,000	35,000
Deposits for intangible assets	16	76,998	74,511
Deposits for fixed assets	17	13,544	27,715
Investment in an associated company	19	42,559	39,781
Other non-current assets		764	747
		496,715	573,813
Current assets			
Prepayments, deposits and other receivables		18,077	34,968
Inventories		4,732	2,741
Income tax recoverable		20	—
Trade receivables	20	56,462	53,419
Pledged bank deposits		241	241
Bank balances and cash	21, 29(c)	55,281	30,613
		134,813	121,982
Current liabilities			
Trade payables	22	63,685	81,784
Provisions, accrued liabilities and other payables	23	48,344	68,807
Deferred income		43,352	32,919
Amount due to an associated company	19	27,125	32,936
Amount due to a joint venture partner	31(b)	406	264
Amounts due to related companies	31(b)	1,091	1,169
Short-term bank loans, overdraft and other borrowings		—	91
Taxation payable		32	48
		184,035	218,018
Net current liabilities		(49,222)	(96,036)
Total assets less current liabilities		447,493	477,777

As at 31st December 2003

	Note(s)	2003	2002
		HK$'000	HK$'000
Financed by:			
Capital and reserves			
Share capital	25	180,349	60,116
Reserves	27	257,998	405,251
		438,347	465,367
Minority interests		3,450	476
Non-current liabilities			
Long-term payables	24	5,696	11,934
		447,493	477,777

Sun Qiang, Chang
Director

Chu Chung Hong, Francis
Director

As at 31st December 2003

	Note(s)	2003 HK$'000	2002 HK$'000
Non-current asset			
Investments in subsidiaries	18	421,334	467,511
Current assets			
Prepayments, deposits and other receivables		317	458
Bank balances and cash		18,731	604
		19,048	1,062
Current liabilities			
Accrued liabilities and other payables		2,035	3,206
Net current assets/(liabilities)		17,013	(2,144)
Total assets less current liabilities		438,347	465,367
Financed by:			
Capital and reserves			
Share capital	25	180,349	60,116
Reserves	27	257,998	405,251
		438,347	465,367

Sun Qiang, Chang
Director

Chu Chung Hong, Francis
Director

For the year ended 31st December 2003

	Note(s)	2003	2002
		HK$'000	HK$'000
Total equity as at 1st January		465,367	323,930
Issue of ordinary shares upon the Open Offer/Listing	25(b) & (d)	120,233	445,604
Share issuing expenses	27	(3,703)	(47,935)
Repurchase and cancellation of ordinary shares	25(c)	—	(3,725)
Net gains not recognised in the profit and loss account –Exchange difference arising from the translation of accounts of foreign subsidiaries	27	225	276
Net loss for the year	27	(143,775)	(252,783)
Total equity as at 31st December		438,347	465,367

For the year ended 31st December 2003

	Note(s)	2003	2002
		HK$'000	HK$'000
Net cash outflow used in operations	29(a)	(71,248)	(49,505)
Interest paid		(1,568)	(8,853)
Hong Kong profits tax refund		—	99
Overseas taxation paid		(70)	(3,048)
Net cash outflow used in operating activities		(72,886)	(61,307)
Investing activities			
Refund of investment deposit placed with a joint venture partner		—	20,157
Purchase of fixed assets		(6,971)	(28,646)
Proceeds from disposals of fixed assets		341	45
Payments for acquisition of intangible assets		(16,120)	(32,032)
Increase in long-term deposits		—	(2,500)
Payment for deposits for fixed assets		(1,139)	(27,715)
Payment for deposits for intangible assets		(2,487)	(43,185)
(Increase)/decrease in other non-current assets		(17)	1
Interest received		603	3,259
Decrease in long-term payables		(6,238)	(27,475)
Dividend received from an associated company		12,919	14,011
Net cash outflow from investing activities		(19,109)	(124,080)
Net cash outflow before financing		(91,995)	(185,387)

For the year ended 31st December 2003

	Note(s)	2003	2002
		HK$'000	HK$'000
Financing activities			
Dividends paid to minority shareholders		—	(2,116)
Repayment of convertible loan notes	29(b)	—	(116,960)
New loans repayable within one year	29(b)	68,000	—
Repayment of loans repayable within one year	29(b)	(68,000)	—
Repayment of borrowings	29(b)	—	(103,134)
Issue of new shares upon the Open Offer/Listing	25(b) & (d)	120,233	445,604
Share issuing expenses	25 (d)	(3,703)	(41,006)
Repurchase of shares	25(c)	—	(3,725)
Decrease in pledged bank deposits		—	19,252
Decrease/(increase) in restricted cash	29(c)	84	(556)
Repayment of principal portion of obligations under finance leases	29(b)	—	(944)
Net cash inflow from financing		116,614	196,415
Increase in cash and cash equivalents		24,619	11,028
Cash and cash equivalents at 1st January		28,739	17,689
Effect of foreign exchange rates changes		224	22
Cash and cash equivalents at 31st December	29(c)	53,582	28,739

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 Group incurred a loss of approximately HK$143,775,000 during the year ended 31st December 2003 and had net current liabilities of approximately HK$49,222,000 as at 31st December 2003, as well as commitments that are payable in the next twelve months as detailed in Note 30. The management considers the Group has sufficient financial resources to meet its liabilities as and when they fall due during the year ended 31st December 2004 and accordingly, the accounts have been prepared on a going concern basis.

In the current year, the Group adopted Statement of Standard Accounting Practice ("SSAP") 12 "Income Tax" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

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

(b) Group accounting

(i) Consolidation

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.

1 **PRINCIPAL ACCOUNTING POLICIES** - *continued*

(b) Group accounting - *continued*

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 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 company

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 the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company 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.

1 **PRINCIPAL ACCOUNTING POLICIES** - *continued*

(b) Group accounting - *continued*

(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 sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account are translated using the average rate during the year. 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 license rights

Advertising license rights represent license fees paid for the acquisition of exclusive rights of advertising on certain buses in the PRC. These fees are capitalised and amortised using the straight-line method over their respective license 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.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(c) Intangibles - *continued*

(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 was capitalised and amortised over the remaining term of the advertising licenses from which the subject profit was 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 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.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(d) Fixed assets - *continued*

(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., Shanghai Metro Top Result 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.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(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 labour 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.

(i) Onerous Contract

The Group recognises a provision for onerous contract when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(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.

1 **PRINCIPAL ACCOUNTING POLICIES** - *continued*

(j) Employee benefits - *continued*

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after 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 income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associate and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse 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.

1 **PRINCIPAL ACCOUNTING POLICIES** - *continued*

(l) Contingent liabilities and contingent assets - *continued*

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 was recognised when the consultancy services were 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.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

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 comprises additions to intangible assets and fixed assets.

Inter-segment 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:

	2003	2002
	HK$'000	HK$'000
Turnover		
Media rental	287,224	284,904
Production income	83,059	74,993
Agency commission income	5,285	9,726
Media consultancy services income	—	1,049
	375,568	370,672
Other revenues		
Interest income from bank deposits	232	2,126
Interest income from long-term deposits	369	1,122
Interest income from trade receivables	2	11
	603	3,259
Total revenues	376,171	373,931

2 TURNOVER, REVENUE AND SEGMENT INFORMATION - *continued*

(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		PRC		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover								
Sales to external customers	87,884	107,986	287,684	262,686	–	–	375,568	370,672
Inter-segment sales	7,073	5,738	11,197	19,536	(18,270)	(25,274)	–	–
Total turnover	94,957	113,724	298,881	282,222	(18,270)	(25,274)	375,568	370,672
Segment operating (loss)/profit	(68,648)	(78,792)	(93,628)	(187,677)	4,258	2,141	(158,018)	(264,328)
Finance costs							(1,568)	(8,853)
Share of profit of an associated company							23,264	18,574
Loss before taxation							(136,322)	(254,607)
Taxation							(7,599)	(7,415)
Loss after taxation							(143,921)	(262,022)
Minority interests							146	9,239
Net loss attributable to shareholders							(143,775)	(252,783)
Assets								
Segment assets	195,053	182,413	393,916	473,601	–	–	588,969	656,014
Interest in an associated company							42,559	39,781
Total assets							631,528	695,795
Liabilities								
Segment liabilities	23,929	13,035	165,802	216,917	–	–	189,731	229,952
Other information								
Capital expenditure	35	370	22,246	158,683	–	–	22,281	159,053
Provision for doubtful debts								
Trade receivables	–	419	1,517	5,781	–	–	1,517	6,200
Amount due from an associated company	1,252	–	–	–	–	–	1,252	–
Deposits and other receivables	–	6,124	1,591	2,782	–	–	1,591	8,906
Write-off of doubtful debt for amount due from an associated company	401	–	–	–	–	–	401	–
Impairment of assets	–	6,431	14,065	30,362	–	–	14,065	36,793
Depreciation of fixed assets	1,061	2,515	12,771	13,261	–	–	13,832	15,776
Amortisation of intangible assets	67	1,315	66,940	68,911	–	–	67,007	70,226

2 TURNOVER, REVENUE AND SEGMENT INFORMATION - *continued*

(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 provided outdoor media information, planning, buying and monitoring services in the PRC by launching outdoormachine which was a subscription service featuring an integrated outdoor advertising service platform. On 2nd December 2002, the i-Result business segment was abandoned.

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	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Metro system advertising	55,446	43,727	(9,500)	(23,417)	51,178	61,946	870	11,670
Bus advertising	315,763	318,951	(116,098)	(158,754)	386,391	461,165	8,429	52,884
i-Result business	318	7,840	(296)	(29,471)	90	2,527	–	3,705
Other operations	4,041	154	(10,618)	(9,036)	132,547	110,975	12,982	90,794
	375,568	370,672	(136,512)	(220,678)	570,206	636,613	22,281	159,053
Unallocated costs			(21,506)	(43,650)				
Operating loss			(158,018)	(264,328)				
Interest in an associated company					42,559	39,781		
Unallocated assets					18,763	19,401		
Total assets					631,528	695,795		

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 Company Limited (liquidated on 7th January 2004) and China Outdoor Data Centre Co., Ltd (liquidated on 19th December 2003) were reported as a discontinuing operation in the previous annual report, no significant activities were noted during the current year. The sales, results, cash flows and net assets of the i-Result Business were as follows:

	2003	2002
	HK$'000	HK$'000
Turnover	318	7,840
Cost of sales	(348)	(7,536)
Other revenue	2	5
Operating costs	(268)	(21,785)
Impairment of assets	—	(7,995)
Loss before taxation	(296)	(29,471)
Taxation	—	(2)
Net loss	(296)	(29,473)
Net operating cash outflow	(800)	(5,789)
Net investing cash outflow	—	(1,813)
Total net cash outflow	(800)	(7,602)

	At 31st December 2003	At 31st December 2002
	HK$'000	HK$'000
Fixed assets	—	407
Current assets	90	2,120
Total assets	90	2,527
Total liabilities	(2,500)	(6,384)
Net liabilities	(2,410)	(3,857)

4 OPERATING LOSS

Operating loss is stated after charging the following:

	2003 HK$'000	2002 HK$'000
Charging		
Depreciation:		
Owned fixed assets	13,832	14,610
Leased fixed assets	—	1,166
Loss on disposals of fixed assets	340	1,320
Impairment of assets		
Discontinuing operation (Note 3):		
Fixed assets	—	1,083
Intangible assets		
Goodwill	—	927
Computer software	—	5,875
Website development costs	—	110
Continuing operation:		
Intangible assets (Note 12):		
Advertising license rights	14,065	28,798
	14,065	36,793
Loss on disposals of intangible assets	—	112
Staff costs (including directors' emoluments) (Note 10)	57,198	91,340
Auditors' remuneration	1,029	1,010
Amortisation of intangible assets		
Advertising license rights (included in cost of sales)	66,712	68,396
Computer software (included in cost of sales)	239	1,660
Goodwill (included in administrative expenses)	56	145
Website development costs (included in administrative expenses)	—	25
Operating lease:		
Office premises	10,911	13,892
Advertising spaces	217,929	231,951
Provision for doubtful debts:		
Trade receivables	1,517	6,200
Amount due from an associated company	1,252	—
Deposits and other receivables	1,591	8,906
Provision for onerous contract (Note 23)	13,760	—
Write-off of doubtful debts for amount due from an associated company	401	—
Net exchange losses	263	126

5 FINANCE COSTS

	2003	2002
	HK$'000	HK$'000
Interest on convertible loan notes	—	4,973
Interest on bank loans and overdrafts	8	2,298
Interest on loans from financial institutions	6	118
Interest on loan from a third party	—	120
Interest element of finance leases	—	245
Interest on trade payables	—	680
Interest on amount due to an associated company (Note 19)	73	245
Interest on long-term payables (Note 24)	145	174
Interest on loan from substantial shareholders (Note 31(a)(iii))	1,289	—
Interest on loan from a related company (Note 31(a)(iii))	47	—
	1,568	8,853

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

6 TAXATION

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 accounts. No provision for Hong Kong profits tax has been provided as the Group had no estimated assessable profit for the year (2002: 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% (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.

6 TAXATION - *continued*

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

	2003	2002
	HK$'000	HK$'000
Current taxation		
-PRC EIT	34	269
Under provision in prior years	—	173
	34	442
Share of taxation attributable to:		
An associated company	7,565	6,973
Taxation Charge	7,599	7,415

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the country, where the Company operates as follows:

	2003	2002
	HK$'000	HK$'000
Loss before taxation	(136,322)	(254,607)
Calculated at a taxation rate of 17.5% (2002: 16%)	(23,856)	(40,737)
Effect of different taxation rates in other countries	(11,153)	(28,896)
Income not subject to taxation	(2,635)	(6,064)
Expenses not deductible for taxation purposes	13,078	25,802
Tax losses not recognised	32,165	57,310
Taxation charge	7,599	7,415

7 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK$143,550,000 (2002: HK$226,759,000).

8 DIVIDEND

No dividends were paid or declared by the Company during the year (2002: nil).

9 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's net loss attributable to shareholders of approximately HK$143,775,000 (2002: loss of HK$252,783,000) and the weighted average of 1,085,387,435 ordinary shares in issue during the year after the Open Offer (2002: weighted average of 592,311,526 ordinary shares after the Capitalisation Issue). The diluted loss per share for the year ended 31st December 2003 is not presented because the effect of the assumed conversion of all potential dilutive securities is anti-dilutive.

10 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	HK$'000	HK$'000
Wages and salaries	45,614	71,930
Unutilised annual leave	412	443
Termination benefits	828	6,924
Pension costs - defined contribution plan (Note 32)	1,338	3,391
Social security costs	5,991	6,920
Other staff benefits	3,015	1,732
	57,198	91,340

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:

	2003	2002
	HK$'000	HK$'000
Directors' fees		
Executive directors	—	—
Non-executive directors	700	516
Independent non-executive directors	400	492
	1,100	1,008
Consultancy fees		
Non-executive directors	200	736
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	1,767	3,390
Discretionary bonuses	—	1,320
Pension scheme contributions		
- for other offices	12	120
Compensation for loss of office		
- as other offices paid by the Company	—	5,181
	3,079	11,755

During the year, no emoluments were paid to the directors as an inducement to join the Group (2002: nil). None of the directors (2002: none) waived emoluments in respect of the financial year ended 31st December 2003.

11 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS - *continued*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for 2003 include one (2002: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2002: three) individuals during the year are as follows:

	2003	2002
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,945	4,714
Discretionary bonuses	558	700
Pension scheme contributions	100	75
Compensation for loss of office - contractual payment	—	194
Total	5,603	5,683

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

	Number of individuals	
	2003	2002
Emolument bands		
HK$1,000,001 - HK$1,500,000	3	—
HK$1,500,001 - HK$2,000,000	1	2
HK$2,000,001 - HK$2,500,000	—	1
Total	4	3

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group (2002: nil).

12 INTANGIBLE ASSETS - GROUP

	Advertising license rights	Computer software	Goodwill	Website development costs	Premium for redemption of a profit sharing right	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2003	298,109	435	186	—	—	298,730
Acquisition costs	16,120	—	3,121	—	—	19,241
Amortisation charge (Note 4)	(66,712)	(239)	(56)	—	—	(67,007)
Impairment charge (Note 4)	(14,065)	—	—	—	—	(14,065)
At 31st December 2003	233,452	196	3,251	—	—	236,899
At 31st December 2003						
Cost	617,032	10,457	4,494	168	7,595	639,746
Accumulated amortisation	(340,717)	(4,386)	(316)	(58)	(7,595)	(353,072)
Accumulated impairment losses	(42,863)	(5,875)	(927)	(110)	—	(49,775)
Net book amount	233,452	196	3,251	—	—	236,899
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	(28,798)	(5,875)	(927)	(110)	—	(35,710)
Net book amount	298,109	435	186	—	—	298,730

Management have prepared an updated assessment of the value in use of the underlying assets (advertising license 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 risk specific to the assets. As a result of the assessment, the Group recognised an impairment charge of approximately HK$14,065,000 for the year ended 31st December 2003 (2002: HK$28,798,000) against the advertising license rights.

13 FIXED ASSETS - GROUP

	Leasehold improvements	Furniture, fixtures and equipment	Production equipment	Motor vehicles	Advertising display panels	Construction-in-progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost							
At 1st January 2003	20,846	22,036	5,721	4,424	41,111	6,690	100,828
Transfer	336	–	–	–	11,414	(11,750)	–
Additions	388	818	79	419	8,392	12,185	22,281
Disposals	–	(801)	(134)	(622)	–	–	(1,557)
At 31st December 2003	21,570	22,053	5,666	4,221	60,917	7,125	121,552
Accumulated depreciation and impairment							
At 1st January 2003	10,862	11,644	4,738	1,904	2,642	–	31,790
Charge for the year	4,242	3,245	846	635	4,864	–	13,832
Disposals	–	(691)	(101)	(84)	–	–	(876)
At 31st December 2003	15,104	14,198	5,483	2,455	7,506	–	44,746
Net book value							
At 31st December 2003	6,466	7,855	183	1,766	53,411	7,125	76,806
At 31st December 2002	9,984	10,392	983	2,520	38,469	6,690	69,038

14 INVESTMENT DEPOSIT PLACED WITH A JOINT VENTURE PARTNER - GROUP

The amount of approximately HK$14,145,000 (2002: HK$28,291,000) represents the remaining portion of the refundable security deposit of RMB30,000,000 placed with a joint venture partner of Shanghai Metro Top Result Advertising Co. Ltd. ("Shanghai 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 instalments 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. During the year, as agreed with the joint venture partner, part of total RMB30,000,000 deposit amounting to RMB15,000,000 (approximately HK$14,146,000) was temporarily used to offset a portion of the concession fees payable (included in trade payables) at 31st December 2003. The Group will replenished this security deposit of RMB15,000,000 in 2004.

15 LONG-TERM DEPOSITS - GROUP

The long-term deposit of HK$35,000,000 (2002: HK$35,000,000) represents amounts placed with a business partner, Kowloon Motor Bus Company (1933) Limited, as a security deposit for the due performance and observance by a subsidiary of the Group of the terms of an advertising contract entered into by the subsidiary in 1998.

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

16 DEPOSITS FOR INTANGIBLE ASSETS - GROUP

As at 31st December 2003, the Group has paid approximately HK$76,998,000 (2002: HK$74,511,000) 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. The Group will contribute these deposits for intangible assets as part of its capital contributions to Shanghai Kiosk.

17 DEPOSITS FOR FIXED ASSETS - GROUP

As at 31st December 2003, the Group has paid approximately HK$13,544,000 (2002: HK$27,715,000) to two independent third parties for acquiring certain advertising display panels. Deposits amounting to approximately HK$13,514,000 will be contributed to Shanghai Kiosk as part of the Group's capital contributions (Note 18(ii)).

18 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	2,804	2,804
Amounts due from subsidiaries	765,278	675,489
	768,082	678,293
Less: provision for impairment losses and doubtful debts	(346,748)	(210,782)
	421,334	467,511

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

18 INVESTMENTS IN SUBSIDIARIES - COMPANY - *continued*

The following is a list of the subsidiaries at 31st December 2003:

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 (iv))	The PRC 19th February 2001	HK$9,500,000	Wholly- foreign-owned enterprise	–	100	100	Develop outdoor media database and provide media consultancy services
Beijing Top Result Public Transportation Advertising Co., Ltd. ("Beijing Joint Venture") (Note (i))	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 (ii))	Hong Kong 20th June 2001	HK$1,000	Company with limited liability	–	80	80	Investment holding

18 INVESTMENTS IN SUBSIDIARIES - COMPANY - *continued*

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/registered capital held by the Company		Attributable percentage of profit to the Group	Principal activities
				Directly	Indirectly		
				%	%	%	
Top Result Kiosk (Shanghai) Development Co. Ltd. ("Shanghai Kiosk") (Note (ii))	The PRC 9th April 2002	USD2,000,000	Wholly-foreign-owned enterprise	–	80	80	Develop and manage media assets
Shanghai Metro Top Result Advertising Co. Ltd. ("Shanghai Metro") (Note (iii))	The PRC 20th February 2002	RMB16,000,000	Cooperative joint venture	–	50	90	Provide media advertising services

Notes:

(i) Beijing Joint Venture is a Sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to 22nd 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 license. Thereafter, Top Result is entitled to 80% of the distributable profit of Beijing Joint Venture.

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.

(ii) 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, the PRC for a period of 20 years up to 8th April 2022, to expand the street furniture (newspaper kiosk) business in the PRC. In July 2002, China Kiosk transferred its 100% equity interest in Shanghai Kiosk to Top Result with 20% equity interest held on behalf of the minority shareholder of China Kiosk. 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$76,998,000 (Note 16), the deposits for fixed assets of approximately HK$13,514,000 (Note 17) and fixed assets of approximately HK$11,241,000 as the Group's capital contribution of approximately HK$97,500,000 and as a working capital loan to be advanced by the Group of approximately HK$4,253,000. The minority shareholder of China Kiosk will not be required to make any capital contribution for the initial investment of US$12,500,000.

18 INVESTMENTS IN SUBSIDIARIES - COMPANY - *continued*

(iii) Shanghai Metro is a sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to 19th February 2017. Pursuant to the joint venture agreement dated 5th September 2000, the Group contributed RMB14,800,000 (approximately HK$13,956,000), of which RMB8,000,000 (approximately HK$7,544,000) represents 50% of the registered capital to Shanghai Metro 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 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, 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.

(iv) Pursuant to a resolution passed by the board of director on 2nd December 2002, IRT would be liquidated. On 7th January 2004, IRT completed the liquidation process.

19 INVESTMENT IN AN ASSOCIATED COMPANY AND AMOUNT DUE TO AN ASSOCIATED COMPANY - GROUP

	2003	2002
	HK$'000	HK$'000
Investment in an associated company		
Share of net assets	28,503	24,458
Goodwill on acquisition of an associated company		
Cost	20,280	20,280
Accumulated amortisation	(6,224)	(4,957)
	42,559	39,781
Amount due from an associated company	7,271	7,334
Less: Provision for doubtful debt	(1,252)	—
	6,019	7,334
Amount due to an associated company	(33,144)	(40,270)
	(27,125)	(32,936)

The amount due to an associated company is unsecured, non-interest bearing and has no fixed terms of repayment except for a balance of approximately HK$8,214,000 which bears interest at 3% per annum and has a credit term of 45 days from the date of invoice.

19 INVESTMENT IN AN ASSOCIATED COMPANY AND AMOUNT DUE TO AN ASSOCIATED COMPANY - GROUP - *continued*

The following is the details of the associated company at 31st December 2003:

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 Indirectly	Attributable percentage of distributable profit to the Group	Principal activities
				%	%	
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 license 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 2003 amounted to approximately HK$16,966,000 (2002: HK$12,869,000).

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 2003 amounted to approximately HK1,268,000 (2002: HK$1,268,000) and was included in the share of profit of associated company in the consolidated profit and loss accounts.

19 INVESTMENT IN AN ASSOCIATED COMPANY AND AMOUNT DUE TO AN ASSOCIATED COMPANY - GROUP - *continued*

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:

	2003	2002
	HK$'000	HK$'000
Balance Sheet		
Current assets	114,136	84,591
Non-current assets	19,295	23,314
Current liabilities	60,523	45,647
Profit and loss account		
Turnover	101,696	93,175
Profit before taxation	64,557	52,215
Profit after taxation	44,648	33,864

20 TRADE RECEIVABLES - GROUP

	2003	2002
	HK$'000	HK$'000
Trade receivables	65,820	61,911
Less: provision for doubtful debts	(9,358)	(8,492)
	56,462	53,419

At 31st December 2003, the ageing analysis of trade receivables was as follows:

	2003	2002
	HK$'000	HK$'000
Current	18,482	757
1 - 30 days	9,766	21,017
31 - 60 days	8,856	8,236
61 - 90 days	5,161	9,851
91 - 120 days	4,384	6,742
Over 120 days	19,171	15,308
	65,820	61,911

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

21 BANK BALANCES AND CASH - GROUP

At 31st December 2003, bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to approximately HK$30,368,000 (2002: HK$21,005,000). 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.

22 TRADE PAYABLES - GROUP

At 31st December 2003, the ageing analysis of trade payables based on due dates was as follows:

	2003	2002
	HK$'000	HK$'000
Current	16,089	35,487
0 - 30 days	8,908	6,368
31 - 60 days	5,015	5,623
61 - 90 days	1,921	12,997
91 - 120 days	710	19,939
Over 120 days	31,042	1,370
	63,685	81,784

23 PROVISIONS, ACCRUED LIABILITIES AND OTHER PAYABLES

	2003	2002
	HK$'000	HK$'000
Provisions, accrued liabilities and other payables		
Others	34,584	68,807
Provision for onerous contract (Note a)	13,760	—
	48,344	68,807

(a) Provision for onerous contract

	HK$'000
At 1st January 2003	—
Provision made during the year	13,760
At 31st December 2003	13,760

23 PROVISIONS, ACCRUED LIABILITIES AND OTHER PAYABLES - *continued*

At 31st December 2003, the directors consider that an advertising contract to which the Group in Hong Kong is a party has become onerous when consideration is taken of the market demand for the advertising space that is the subject of this contract, the anticipated future income and the general economic climate in Hong Kong. Accordingly, a provision for onerous contract in the amount of approximately HK$13,760,000 has been made, based on the excess of the least net loss of terminating this contract over the expected economic benefits to be derived therefrom, in accordance with SSAP28 "Provisions, contingent liabilities and contingent assets". The provision is anticipated to be utilised in 2004.

24 LONG-TERM PAYABLES - GROUP

Long-term payables represent payables for the acquisition of advertising licenses from bus operators in the PRC. The balances are unsecured, not repayable within one year and are non-interest bearing except for a balance of approximately HK$487,500 (2002: HK$460,000) which bears interest at 6.435% (2002: 6.435%) per annum.

25 SHARE CAPITAL

		Authorised			
		Ordinary shares of US$0.01 each		Ordinary shares of HK$0.10 each	
	Note	No. of shares	Amount	No. of shares	Amount
			HK$'000		HK$'000
At 1st January 2002		50,000,000	3,880	–	–
Cancellation of authorised ordinary share capital	(a)(i)	(50,000,000)	(3,880)	–	–
Increase in authorised ordinary share capital	(a)(i)	–	–	5,000,000,000	500,000
At 31st December 2002		–	–	5,000,000,000	500,000
At 1st January 2003 and 31st December 2003		–	–	5,000,000,000	500,000

25 SHARE CAPITAL - *continued*

		Issued and fully paid			
		Ordinary shares of US$0.01 each		Ordinary shares of HK $0.10 each	
	Note	No. of shares	Amount	No. of shares	Amount
			HK$'000		HK$'000
At 1st January 2002		12,390,657	961	–	–
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)	–	–	(3,896,000)	(390)
As at 31st December 2002		–	–	601,162,995	60,116
At 1st January 2003		–	–	601,162,995	60,116
Issue of ordinary shares upon the Open Offer	(d)	–	–	1,202,325,990	120,233
As at 31st December 2003		–	–	1,803,488,985	180,349

25 SHARE CAPITAL - *continued*

(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) In 2002, 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.

(d) In August 2003, following the prospectus dated 10th July 2003, 1,202,325,990 shares of HK$0.10 each were issued to the public by way of the Open Offer on the basis of two Open Offer shares for every one share held (the "Open Offer") for a total consideration of approximately HK$120,233,000 before related issuing expenses. The issuing expenses of approximately HK$3,703,000 were debited to the share premium account (Note 27) and 1,202,325,990 ordinary shares were listed on the GEM of The Stock Exchange of Hong Kong Limited in August 2003.

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[(1)] ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.038095[(1)] 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[(1)] ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.171429[(1)] 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[(1)] 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[(1)] ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.206841[(1)] per share.

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

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

26 SHARE OPTIONS - *continued*

Pre-IPO Share Options Plans - *continued*

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 will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, which must be a trade day, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

The Share Options 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 nominal consideration of HK$1 is payable on acceptance of the grant of an option.

26 SHARE OPTIONS - *continued*

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

	Plan 1 at exercise price of	Plan 2 at exercise price of	Plan 3 at exercise price of	Share Option Scheme at exercise price of	
	US$0.038095[1]	US$0.171429[1]	US$0.206841[1]	HK$0.89[1]	HK$0.119
At 1st January 2003	15,057,840[1]	18,620,000[1]	28,554,750[1]	4,507,000[1]	—
Granted during the year	—	—	—	—	17,500,00
Retired during the year*	(2,416,960)[1]	(3,500,000)[1]	—	(773,000)[1]	—
At 31st December 2003	12,640,880[1]	15,120,000[1]	28,554,750[1]	3,734,000[1]	17,500,000

* During the year, the 2,416,960[1] unvested share options under Plan 1 and the 3,500,000[1] unvested share options under Plan 2 held respectively by two and five employees were retired and returned to the option pool.

During the year, 773,000[1] unvested share options under Share Option Scheme held by four employees were retired and returned to the option pool available for granting.

(1) Pending adjustments on the relevant Share Options are to be made in accordance with the terms of the pre-IPO Share Options plans and the Share Option Scheme as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.

27 RESERVES

	Share premium	Translation reserve	Capital reserve	Retained profits/ (accumulated losses)	Capital redemption reserve	Total
	HK$'000 (Note (iii))	HK$'000	HK$'000 (Note (i) and (iii))	HK$'000	HK$'000	HK$'000
Group						
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	635,510	1,844	883	(233,376)	390	405,251
At 1st January 2003	635,510	1,844	883	(233,376)	390	405,251
Write-off of share issuance expenses related to the Open Offer (Note 25 (d))	(3,703)	–	–	–	–	(3,703)
Exchange difference arising from the translation of accounts of foreign subsidiaries	–	225	–	–	–	225
Loss for the year	–	–	–	(143,775)	–	(143,775)
At 31st December 2003	631,807	2,069	883	(377,151)	390	257,998
The Company and Subsidiaries	635,510	1,844	883	(240,283)	390	398,344
Associated company	–	–	–	6,907	–	6,907
At 31st December 2002	635,510	1,844	883	(233,376)	390	405,251
The Company and Subsidiaries	631,807	2,069	883	(386,837)	390	248,312
Associated company	–	–	–	9,686	–	9,686
At 31st December 2003	631,807	2,069	883	(377,151)	390	257,998

27 RESERVES - *continued*

	Share premium	Translation reserve	Capital reserve	Retained profits/ (accumulated losses)	Capital redemption reserve	Total
	HK$'000 (Note (iii))	HK$'000	HK$'000 (Note (i) and (iii))	HK$'000	HK$'000	HK$'000
Company						
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	635,510	–	2,687	(233,336)	390	405,251
At 1st January 2003	635,510	–	2,687	(233,336)	390	405,251
Write-off of share issuance expenses related to the Open Offer (Note 25 (d))	(3,703)	–	–	–	–	(3,703)
Loss for the year	–	–	–	(143,550)	–	(143,550)
At 31st December 2003	631,807	–	2,687	(376,886)	390	257,998

27 RESERVES - *continued*

(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 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 December 2003, in the opinion of the directors, the Company had no reserves available for distribution to its shareholders.

28 DEFERRED TAXATION

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses for the operation in Hong Kong and PRC of HK$156,717,000 and HK$246,932,000 (2002: HK$110,376,000 and HK$162,390,000), respectively, which are subject to the agreement by relevant tax authorities. The tax loss generated from Hong Kong operations has no expiry date while the tax losses from PRC operations will expire in the period of 2004 to 2008. There were no other significant unprovided deferred tax liabilities at 31st December 2003.

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2003	2002
	HK$'000	HK$'000
Loss before taxation	(136,322)	(254,607)
Provision for doubtful debts		
Trade receivables	1,517	6,200
Amount due from an associated company	1,252	—
Deposits and other receivables	1,591	8,906
Provision for onerous contract	13,760	—
Write-off of doubtful debt for amount due from an associated company	401	—
Depreciation	13,832	15,776
Loss on disposals of fixed assets	340	1,320
Loss on disposals of intangible assets	—	112
Impairment loss on fixed assets	—	1,083
Impairment loss on intangible assets	14,065	35,710
Amortisation of intangible assets	67,007	70,226
Amortisation of goodwill on acquisition of an associated company	1,268	1,268
Share of profit of an associated company	(24,532)	(19,842)
Interest income	(603)	(3,259)
Interest expense	1,568	8,853
Operating loss before working capital changes	(44,856)	(128,254)
Decrease in prepayments, deposits and other receivables	15,300	13,101
Decrease in amounts due from related companies	—	416
Decrease in amount due from a senior executive	—	547
Increase in inventories	(1,991)	(227)
(Increase)/decrease in trade receivables	(4,560)	43,057
(Decrease)/increase in trade payables, provisions, accrued liabilities and other payables	(38,176)	15,145
Increase/(decrease) in deferred income	10,433	(8,262)
Increase in amount due to a joint venture partner	142	264
(Decrease)/increase in amounts due to related companies	(78)	96
(Decrease)/increase in amount due to an associated company	(7,462)	14,612
Net cash outflow used in operations	(71,248)	(49,505)

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT - *continued*

(b) Analysis of changes in financing during the year

	Loan from a related party		Loans from financial institutions		Loan from a third party		Loan from substantial shareholders		Short-term bank loans		Finance leases		Convertible loan notes	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January	–	–	–	27,032	–	19,500	–	–	–	56,602	–	944	–	116,960
New loan repayable within one year	8,000	–	–	–	–	–	60,000	–	–	–	–	–	–	–
Repayment of loans repayable within one year	(8,000)	–	–	–	–	–	(60,000)	–	–	–	–	–	–	–
Repayment of convertible loan notes	–	–	–	–	–	–	–	–	–	–	–	–	–	(116,960)
Repayment of borrowings	–	–	–	(27,032)	–	(19,500)	–	–	–	(56,602)	–	–	–	–
Repayment of principal portion of obligations under finance leases	–	–	–	–	–	–	–	–	–	–	–	(944)	–	–
At 31st December	–	–	–	–	–	–	–	–	–	–	–	–	–	–

(c) Analysis of balances of cash and cash equivalents

	2003	2002
	HK$'000	HK$'000
Bank balances and cash	55,281	30,613
Less: Non-cash and cash equivalents*	(1,699)	(1,783)
Bank overdraft	—	(91)
	53,582	28,739

* At 31st December 2003, pursuant to the arrangement with a business partner, bank balances of approximately HK$1,699,000 (2002: HK$1,783,000) 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, investment deposit amounting to RMB15,000,000 (approximately HK$14,146,000) placed with a joint venture partner was temporarily used to offset a portion of the concession fees payable (included in trade payables) (Note 14).

30 COMMITMENTS

(a) Capital commitments for fixed assets - Group

	2003	2002
	HK$'000	HK$'000
Authorised and contracted for	2,111	9,103

(b) Capital commitments for investment - Group

	2003	2002
	HK$'000	HK$'000
Authorised and contracted for	1,233	3,725

(c) Commitments under operating leases

(i) At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Not later than one year	8,418	12,210	230	1,626
Later than one year and not later than five years	6,570	11,673	—	1,396
Later than five years	111	158	—	—
	15,099	24,041	230	3,022

30 COMMITMENTS - *continued*

(c) Commitments under operating leases - *continued*

(ii) The Group has entered into certain media rental contracts under which the Group has committed to pay to various media owners concession fees calculated based on various arrangements as stipulated in the respective contracts. At 31st December 2003, the Group had future aggregate minimum concession fee payments under the aforementioned contracts as follows:

	2003	2002
	HK$'000	HK$'000
Not later than one year	139,902	237,000
Later than one year and not later than five years	330,207	515,000
Later than five years	698,026	854,000
	1,168,135	1,606,000

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

(iii) 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 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:

	Note	2003	2002
		HK$'000	HK$'000
Income			
Production income from High Tech Company	(i)	27	62
Equipment leasing income from Pro Photo Processing Limited ("PP")	(ii)	14	—
Sales of materials to PP	(ii)	149	—
Costs and expenses			
Production costs charged by High Tech Company	(i)	4,544	8,589
Sub-contracting fees charged by High Tech Company	(i)	8	—
Sub-contracting fees charged by PP	(ii)	398	24
Administrative expenses charged by PP	(ii)	387	558
Interest expense charged by substantial shareholders	(iii)	1,289	—
Interest expense charged by Shanghai Mecox	(iii)	47	—

(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 and sub-contracting fee charged by High Tech Company were determined based on the outsourcing agreement entered into between the two parties in June 1999.

31 RELATED PARTY TRANSACTIONS - *continued*

(a) *continued*

(ii) PP is a minority shareholder of Digital Photo Limited. Income from leasing of equipment and sales of materials are determined based on a cost recovery basis. 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.

(iii) The interest expenses were charged by two substantial shareholders, SMI Investors (PAPE II) Limited and Warburg Pincus Ventures, L.P. on shareholders' loan of HK$60,000,000 and by a related company of Warburg Pincus Ventures, L.P. Shanghai Mecox Lane Holdings Company Limited ("Shanghai Mecox") on a loan amounting to HK$8,000,000, all at 8% per annum.

(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$44,000 (2002: HK$650,000) after deduction of forfeited voluntary contributions of approximately HK$712,000 (2002: HK$522,000).

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$1,294,000 (2002: HK$2,741,000).

33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd March 2004.

RESULTS

	1999	2000	2001	2002	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	236,416	418,781	473,882	370,672	375,568
Net (loss)/profit attributable to shareholders	(6,128)	12,714	3,461	(252,783)	(143,775)

ASSETS AND LIABILITIES

	1999	2000	2001	2002	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	583,788	633,166	783,707	695,795	631,528
Total liabilities	(275,000)	(307,019)	(452,312)	(229,952)	(189,731)
	308,788	326,147	331,395	465,843	441,797

Notes:

1. The Company was incorporated in the Cayman Islands on 27th February 1995 and became the holding company of the companies now comprising the Group, as a result of the reorganisation took place in June 2001 regarding the acquisition of the entire share capital of TRI through a share exchange.

2. The results, assets and liabilities of the Group for the two years ended 31st December 2002 and 2003 have been extracted from the audited consolidated profit and loss account and consolidated sheet as set out on the accounts.

3. The results assets and liabilities of the Group for the year ended 31st December 2000 and 2001 have been extracted from the Company's 2001 Annual Report dated 26th March 2002. Certain figures in 2001 have been reclassified to conform to current year's presentation.

4. The results, assets and liabilities of the Group for the year ended 31st December 1999 presented above have been extracted from the Prospectus dated 14th January 2002 when listing of the Company's share was sought on the GEM.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MediaNation Inc. (the "Company") will be held at Rooms 3507-09, 35th Floor, The Center, 99 Queen's Road Central, Hong Kong SAR on Monday, 10th May 2004, at 11:00 a.m. for the following purposes:

1. To consider, approve and adopt the audited financial statements of the Company for the year ended 31st December 2003, the report of the directors of the Company (the "Directors") for the year ended 31st December 2003 and the report of the auditors of the Company (the "Auditors") for the year ended 31st December 2003;

2. To re-elect retiring Directors, namely Mr. Barry John Buttifant, Ms. Chan Man Ki, Summerine and Mr. Sun Qiang, Chang for a further and additional term of three years from the date of the Annual General Meeting, and to authorise the Board of Directors to determine the Directors' fees;

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

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

"4. MANDATE TO ALLOT SHARES

THAT:-

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued ordinary shares of HK$0.10 each in the capital of the Company ("Shares") and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

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

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

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

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

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

(iv) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company shall not exceed the aggregate of:-

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

(B) an amount representing the aggregate nominal value of Shares repurchased by the Company pursuant to the mandate referred to in ordinary resolution no. 5 set out in the Notice of which this resolution forms part, provided that such value shall not exceed 10 percent of the aggregate nominal value of the share capital of the Company in issue on the date of the passing of the ordinary resolution no. 5 set out in the Notice of which this resolution forms part and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:-

"Relevant Period" means the period from the date on which this resolution is passed until whichever is the earliest of :-

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

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

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting; and

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

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

"5. MANDATE TO REPURCHASE SHARES

THAT:-

(a) subject to paragraph (b) below and subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"), the exercise by the directors of the Company ("**Directors**") during the Relevant Period (as defined below) of all the powers of the Company to repurchase ordinary shares of HK$0.10 each in the capital of the Company ("**Shares**") on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

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

(c) for the purposes of this resolution:-

"Relevant Period" means the period from the date on which this resolution is passed until whichever is the earliest of:-

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

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

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

6. As special business, to consider and, if thought fit, pass with or without modifications, the following resolution as a special resolution (Note 5):

"6. AMENDMENTS TO ARTICLES OF ASSOCIATION

"THAT the Articles of Association of the Company be and is hereby amended by:-

(A) adding the following definition immediately after the definition of "these Articles" in Article 2:

"Associate" shall have the same meaning as defined under Rule 1.01 of the Listing Rules;

(B) deleting in the first to third lines of the definition of "recognised clearing house" in Article 2 the words "shall have the meaning ascribed thereto in section 2 of the Securities and Futures (Clearing Houses) Ordinance of Hong Kong" and substituting therefor the words "shall mean a "recognized clearing house" within the meaning of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) as in force from time to time" immediately after the word "house"";

(C) inserting in the second line of Article 76 the words "a poll is required under the Listing Rules or" immediately after the word "unless";

(D) deleting the last word "or" in the fourth line of section (b) of Article 76;

(E) deleting "." in the eighth line of section (c) of Article 76 and substituting therefor the word "; or";

(F) inserting immediately after section (c) of Article 76 the following new section (d) of this Article 76:

"(d) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in aggregate not less than one-tenth of the voting rights of all members having the right to attend and vote at the meeting.";

(G) deleting in the first line of the last paragraph of Article 76 the words "demanded and not withdrawn" and substituting therefor the words "required under the Listing Rules or duly demanded and in the latter case, the demand is not withdrawn";

(H) inserting immediately after Article 85(b) the following new Article:

"85(c) Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.";

with the following marginal notes:

"Votes not to be counted
App 3
r.14";

(I) deleting in the third line of Article 103(c) the words "in respect of" and substituting therefor the word "approving" and inserting in the fifth line the words "or any of his Associates" immediately after the word "he";

(J) inserting in Article 103(c)(i)(aa) the words "or his Associate(s)" in the first line immediately after the word "Director" and inserting the words "or any of them" in the third line immediately after the word "him" and inserting the words "(within the meaning as defined in Rule 1.01 of the Listing Rules); or" immediately after the word "subsidiaries" at the end of this Article 103(c)(i)(aa);

(K) inserting in the fourth line of Article 103(c)(i)(bb) the words "(within the meaning as defined in Rule 1.01 of the Listing Rules)" immediately after the word "subsidiaries", inserting in the fifth line the words "or his Associate(s)" immediately after the word "Director" and the words "/ themselves" immediately after the word "himself";

(L) deleting in the seventh line of Article 103(c)(ii) the words "is or is" immediately after the word "Director" and substituting therefor the words "or his Associate(s) is/are or is/are";

(M) deleting Article 103(c)(iii) in its entirety and substituting therefor the following new Article:

"103.(c)(iii) any proposal concerning any other company in which the Director or his Associate(s) is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or his Associate(s) is/are beneficially interested in the shares of that company, provided that, the Director and any of his Associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his Associates is derived) or of the voting rights;";

(N) inserting in the third line of Article 103(c)(iv) the words "(within the meaning as defined in Rule 1.01 of the Listing Rules)" immediately after the word "subsidiaries";

(O) deleting in the fifth line of Article 103(c)(iv)(aa) the word "he" immediately after the word "which" and substituting therefor the words "the Director or his Associate(s)" and inserting the word "or" immediately after the word "benefit;" at the end of this Article 103(c)(iv)(aa);

(P) inserting in Article 103(c)(iv)(bb) the words "(or their Associates)" in the sixth line immediately after the word "Directors", inserting in the eighth line the words "(within the meaning as defined in Rule 1.01 of the Listing Rules)" immediately after the word "subsidiaries" and inserting the words ", or his Associate(s)," in the ninth line immediately after the word "Director";

(Q) deleting in the second line of Article 103(c)(v) the word "is" immediately after the word "Director" and substituting therefor the words "or his Associate(s) is/are" and inserting in the fifth line of the same Article the words "/their" immediately after the word "his";

(R) deleting in the second and third lines of Article 103(e) the words "a Director's interest" immediately after the word "of" and substituting therefor the words "the interest of a Director or his Associate(s)"; and inserting in the twelfth line the words "or of his Associate(s)" immediately after the words "interest of the Chairman"; and inserting in the nineteenth line of the same Article the words "and of his Associate(s)" immediately after the words "Chairman)";

(S) deleting Article 103(f) in its entirety;

(T) deleting in the second line of Article 108(c)(i) the words "(as defined in Article 103(f) above)" immediately after the word "Associates";

(U) deleting in the second and third lines of Article 112 the words "(other than the Managing Director or Joint Managing Director)" immediately after the word "Directors" and inserting in the fifth line of the same Article the words "or in such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations and may be prescribed by the applicable regulatory authority from time to time," immediately after the word "one-third,"

(V) deleting Article 116 in its entirety and substituting therefor the following new Articles:

"116.(a) No person other than a retiring Director shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting, unless notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election as a Director and also notice in writing signed by the person to be proposed of his willingness to be elected shall have been lodged with the Secretary during such period as may from time to time be designated by the Company.

(b) The period for lodgment of the notice(s) referred to in Article 116(a) above shall be at least 7 days, which shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.";

(W) deleting in the Memorandum and Articles of Association all references to the Companies Law (2001 Second Revision) and replacing them with references to the Companies Law (2003 Revision)."

By Order of the Board

Sun Qiang, Chang
Chairman

Hong Kong, 29th March 2004

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

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

Notes:

1. Shareholders whose names appear on the register of members of the Company at the close of business on 5th May 2004 are entitled to attend the Annual General Meeting upon completion of the necessary registration process. In order to establish the identity of the members who are entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong SAR, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong SAR for registration, not later than 4:00 p.m. on 4th May 2004. Each of the shareholders of the Company (or his proxy) shall exercise his voting rights according to the number of Shares with voting rights represented by him and shall be entitled to one vote for each Share held.

2. Every shareholder of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company. A proxy form is attached. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong SAR at Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong SAR not less than 48 hours before the time appointed for holding the Annual General Meeting. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Annual General Meeting in person if the shareholder so desires.

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

4. A circular appended with an explanatory statement containing further details regarding the proposed Resolution No. 5 above of the notice of this Annual General Meeting as required by the GEM Listing Rules will be dispatched to the shareholders of the Company together with the 2003 annual report.

5. The proposed Resolution No. 6 is mainly to facilitate compliance with the recent changes of the GEM Listing Rules.

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