



MEDIA NATION INC.

Incorporated in the Cayman Islands with limited liability



BUS ADVERTISING

METRO ADVERTISING

STREET FURNITURE ADVERTISING

First Quarterly Report 2004

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

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

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

FINANCIAL HIGHLIGHTS

(HK'm)	For the three months ended			For the three months ended	
	31-Mar-04 1Q04	31-Mar-03 1Q03	Fav/(unfav) 1Q04 vs 1Q03	31-Dec-03 4Q03	Fav/(unfav) 1Q04 vs 4Q03
Turnover	86.3	76.2	13.3%	109.3	(21.0%)
Cost of sales	(76.0)	(96.2)	21.0%	(96.3)	21.1%
SG&A	(21.7)	(28.2)	23.0%	(31.4)	30.9%
Adjusted EBITDA before one-time provisions (as defined under the section Adjusted EBITDA)	13.7	(24.8)	155.3%	11.8	16.1%
Net loss before one-time provisions	(7.1)	(46.2)	84.6%	(13.5)	47.4%
Net loss	(7.1)	(46.2)	84.6%	(41.3)	82.8%

The Group achieved significant operational and financial improvements in the first quarter of 2004 as compared with the corresponding period of last year. Net loss was significantly narrowed to HK\$7.1 million from HK\$46.2 million in the same period of last year, representing an improvement of 84.6%. This improvement was mainly attributable to (i) increase in turnover of HK\$10.1 million; (ii) substantial reduction in cost of sales of HK\$20.2 million and (iii) reduction in SG&A expenses of HK\$6.5 million. Turnover for the first quarter of 2004 was HK\$86.3 million, representing an increase of 13.3% year-on-year. Cost of sales amounted to HK\$76.0 million, representing an improvement of 21.0% year-on-year whereas SG&A expenses were reduced to HK\$21.7 million, which represented an improvement of 23.0% year-on-year. The Group recorded a positive adjusted EBITDA of HK\$13.7 million in this quarter, which was a significant turnaround when comparing to the EBITDA loss of HK\$24.8 million in the same period of last year. Comparing to the last quarter of 2003, there were also significant improvements in results even though the first quarter in a year is traditionally the low season for outdoor advertising industry.

BUSINESS REVIEW AND OUTLOOK

The Group operates two core business lines: bus advertising and metro system advertising. Advertising is 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 three months ended 31st March									
	2004					2003				
	PRC Bus HK\$m	HK Bus HK\$m	Shanghai Metro HK\$m	Beijing Metro* HK\$m	Street Furniture HK\$m	PRC Bus HK\$m	HK Bus HK\$m	Shanghai Metro HK\$m	Beijing Metro* HK\$m	Street Furniture HK\$m
Turnover	53.2	17.9	14.7	27.0	0.5	49.5	13.6	11.5	17.3	1.3
Cost of Sales	(45.7)	(14.8)	(14.6)	(4.7)	(0.9)	(51.2)	(29.2)	(14.6)	(4.0)	(1.0)
Gross Profit/ (loss)	7.5	3.1	0.1	22.3	(0.4)	(1.7)	(15.6)	(3.1)	13.3	0.3
SG & A	(12.0)	(2.4)	(1.9)	(5.9)	(2.2)	(14.0)	(3.3)	(1.6)	(5.6)	(2.6)
EBITDA	13.3	(0.2)	(1.1)	17.2	(2.0)	1.7	(18.5)	(4.2)	9.2	(1.8)
Net profit/ (loss)	(3.4)	(0.3)	(1.7)	10.8	(2.7)	(15.8)	(18.6)	(4.7)	5.2	(2.3)

* Note: Beijing Metro is an associated company

China

Bus Advertising

The turnover of PRC bus advertising operation represented 61.6 % of the Group's total turnover in the first quarter of 2004. PRC bus operations recorded HK\$53.2 million turnover in the first quarter of 2004, which was a 7.5% increase compared to HK\$49.5 million in the same period in 2003. PRC bus operations incurred losses of HK\$3.4 million for the three months ended 31st March 2004, an improvement of 78.5% over the same period in 2003. This improvement was mainly attributable to the cost cutting efforts implemented by the management in 2003 to improve the performance of the PRC bus operations. In 2003, the Group renegotiated bus contracts in some key PRC cities and terminated some unprofitable contracts relating to buses running on non-prime routes in the city or city outskirts, both resulting in substantial reductions in media rental costs. The reduced fixed cost base enables this operation to achieve better financial results this year. The average occupancy rate was around 36% in the first quarter of 2004.

Metro System Advertising

Shanghai Metro turnover represented 17.1% of the Group's total turnover in the first quarter of 2004. The combined turnover of Shanghai Metro Line 2 and Line 3 was HK\$14.7 million in the first quarter of 2004, which represented a growth of 27.8% as compared to HK\$11.5 million in the same period in 2003. Shanghai Metro incurred a small loss of HK\$1.7 million in the first quarter of 2004, which represented an improvement of 63.8% over the same period in 2003. In the first quarter of 2004, Line 2 still contributed to the majority of the turnover for this business unit. Regarding Line 3, the operation recently received the necessary government approval to install outdoor billboards in selected stations along the elevated line. Together with increasing passenger flow and improving recognition among advertisers of the media effectiveness for Line 3, the Group was able to secure substantial increase in new advertising contracts in the first quarter and the Group expects a substantial improvement in the performance of Line 3 in 2004. The average occupancy rate was around 37% in the first quarter of 2004.

The associated company, Beijing Metro, continued to deliver strong financial performance in the first quarter of 2004. The turnover was HK\$27.0 million for the three months ended 31st March 2004, which represented a growth of 56.1% over the same period in 2003. The Group's "share of net profit (after taxation)" of Beijing Metro was HK\$3.8 million for the three months ended 31st March 2004, an improvement of 126.3% over the same period in 2003.

Street Furniture

The Shanghai Newspaper Kiosk project received the advertising license approvals from government authorities in December 2003 for about 700 newspaper kiosks installed in the streets of Shanghai. Additional light boxes are being installed to these kiosks and some kiosks are in the process of being relocated to better locations in order to achieve higher advertising revenue. The Group aims to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in 2004. The First Aid Advertising Display project has so far installed approximately 3,100 light boxes across major cities, including Beijing, Shanghai and Guangzhou, focusing on universities and schools that are not populated by other advertising media. The Group has targeted to enhance the school media network by installing additional light boxes in 2004. Recently, the sales and marketing team has started to push advertising sales and the initial response from clients has been encouraging.

These street furniture projects incurred start-up losses of approximately HK\$2.7 million for the first quarter of 2004. While the two projects had not generated material turnover in the first quarter, the Group expects to see gradual improving sales revenue coming from these projects starting from the second quarter of 2004.

Hong Kong

The turnover of Hong Kong bus advertising operation represented 20.8% of the Group's total turnover in the first quarter of 2004. The operation generated turnover of HK\$17.9 million for the three months ended 31st March 2004. As disclosed in 2003 Annual Report, the license agreement with The Kowloon Motor Bus Company (1933) Limited will expire in late 2004. While the Group has been prudently exploring different options and will consider contract renewal only if it is commercially viable, a provision for onerous contract was made in 2003. As the first quarter operating results of this unit were largely in line with the provision, the Hong Kong bus advertising operation reported a break-even bottom line for the first quarter of 2004.

Business outlook

The marked improvement in the first quarter of 2004 is expected to continue. There are strong demands for the Group's advertising media, particularly in the two metro operations in Shanghai and Beijing as evidenced by the high level of orders on hand. The growing momentum in sales revenue secured by advance bookings has been very encouraging. The management expects to deliver improving results in the coming quarters.

Since the third quarter of 2003, the EBITDA turned positive and this was now the third consecutive quarter that the EBITDA continued positive. 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.

FINANCIAL REVIEW

Revenue and Profitability

The Group recorded turnover of approximately HK\$86.3 million for the three months ended 31st March 2004 which represented an increase of 13.3% as compared to approximately HK\$76.2 million for the corresponding period of last year. Total turnover generated from the Hong Kong business for the three-month period increased from approximately HK\$13.9 million last year to approximately HK\$17.9 million this year, representing an increase of 28.8%. Total turnover generated from the PRC business for the three-month period increased from approximately HK\$62.3 million last year to approximately HK\$68.4 million this year, which represented an increase of 9.8%. The increase of turnover in the PRC was due to the better performance in both the metro system advertising and the bus advertising business in spite of the downsized bus media portfolio in the PRC.

Total turnover for the three months ended 31st March 2004 was generated from: (i) bus advertising of approximately HK\$71.1 million (82.4% of total turnover); (ii) metro system advertising of approximately HK\$14.7 million (17.0% of total turnover); and (iii) other operations of approximately HK\$0.5 million (0.6% of total turnover).

Cost of sales for the three months ended 31st March 2004 was approximately HK\$76.0 million, which represented a decrease of 21.0% from HK\$96.2 million in the same period last year. The decrease was mainly due to the reduction of concession fees resulting from (i) the realization of part of the onerous contract provision made in 2003; (ii) contract restructuring exercise of the PRC bus operation in 2003; and (iii) the expiry of NWFB bus advertising agreement in Hong Kong in July 2003.

For the three months ended 31st March 2004, the Group recorded a gross profit of approximately HK\$10.3 million, which represented an improvement of 151.5% as compared to approximately HK\$20.0 million gross loss for the same period last year. The turnaround in gross profit as compared to the same period last year was mainly due to the reduction in cost of sales as mentioned above.

Selling, general and administrative expenses for the three months ended 31st March decreased by 23.0% from approximately HK\$28.2 million in 2003 to approximately HK\$21.7 million in 2004. The decrease was mainly due to tightened cost controls, particularly in staff cost and premises rental.

Finance costs

Finance cost for the three months ended 31st March 2004 was negligible (2003: HK\$0.2 million). The Group had no outstanding borrowing as at 31st March 2004.

Share of profits of an associated company

Share of profit of an associated company before taxation increased from approximately HK\$2.6 million for the three months ended 31st March 2003 to approximately HK\$5.9 million for the same period of this year. Beijing Metro continued to achieve improved results.

Net Loss Attributable to Shareholders

The Group reported a net loss of approximately HK\$7.1 million for the three months ended 31st March 2004, which represented an improvement of 84.6% as compared to the net loss of approximately HK\$46.2 million for the same period in 2003.

Adjusted Earning Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA)

Adjusted EBITDA represents profit/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. The Adjusted EBITDA for the three months ended 31st March 2004 improved to a profit of HK\$13.7 million from a loss of HK\$24.8 million in the same period last year.

FINANCIAL RESULTS

The directors of MediaNation Inc. (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31st March 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Note(s)	For the three months ended 31st March	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	86,336	76,175
Cost of sales		(76,018)	(96,182)
Gross profit/(loss)		10,318	(20,007)
Other revenues		84	88
Selling, general and administrative expenses		(21,671)	(28,172)
Loss from operations		(11,269)	(48,091)
Finance costs		(10)	(207)
		(11,279)	(48,298)
Share of profit of an associated company		5,942	2,624
Loss before taxation		(5,337)	(45,674)
Income tax expenses			
— Group		—	—
— Associated company		(2,163)	(954)
	3	(2,163)	(954)
Loss after taxation but before minority interests		(7,500)	(46,628)
Minority interests		406	474
Net loss attributable to shareholders		(7,094)	(46,154)
Loss per share (HK cents)			
— Basic	4	0.39	7.68
— Diluted	4	N/A	N/A

NOTES:

1. Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. They have been prepared under the historical cost convention.

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

2. Turnover, revenues and segment information

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

	For the three months ended 31st March	
	2004 HK\$'000	2003 HK\$'000
Media rental	66,434	62,040
Production income	15,902	12,952
Agency commission income	4,000	1,183
Total turnover	86,336	76,175
Interest income from bank deposits	84	88
Total revenues	86,420	76,263

An analysis of the Group's turnover and revenues by business segments and geographical locations for the three months ended 31st March 2004 and 2003 is as follows:

	For the three months ended 31st March					
	2004			2003		
	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
TURNOVER						
Metro system advertising	—	14,735	14,735	—	11,505	11,505
Bus advertising	17,937	53,213	71,150	13,645	49,498	63,143
i-Result business	—	—	—	209	—	209
Other operations	—	451	451	—	1,318	1,318
Total turnover	17,937	68,399	86,336	13,854	62,321	76,175
Interest income from bank deposits	28	56	84	53	35	88
	17,965	68,455	86,420	13,907	62,356	76,263

3. Income tax expense

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 period ended 31st March 2004 (2003: 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% (2003: 33%). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

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

	For the three months ended 31st March	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Share of taxation attributable to an associated company	2,163	954

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:

	For the three months ended 31st March	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Loss before taxation	(5,337)	(45,674)
Calculated at a taxation rate of 17.5% (2003: 16%)	(934)	(7,308)
Effect of different taxation rates in other countries	(361)	(4,127)
Income not subject to taxation	(6)	(9)
Expenses not deductible for taxation purposes	881	685
Tax losses not recognised	2,583	11,713
Taxation charge	2,163	954

4. Loss per share

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

(a) Basic loss per share

The calculation of basic loss per share for the three months ended 31st March 2004 is based on the Group's net loss attributable to shareholders of approximately HK\$7,094,000 (three months ended 31st March 2003: approximately HK\$46,154,000), divided by the weighted average number of 1,803,488,985 ordinary shares outstanding during the period (three months ended 31st March 2003: 601,162,995 ordinary shares). As at 31st March 2004, there were 1,803,488,985 shares in issue, following the completion of the open offer in August 2003.

(b) Diluted loss per share

No diluted loss per share for the three months ended 31st March 2004 and 2003 is presented because the effect of the assumed conversion of all potential dilutive ordinary shares is anti-dilutive.

5. Reserves

Movements in reserves of the Group for the three months ended 31st March 2004 and 2003 were as follows:

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000 (Note (i))	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 2003 (Audited)	635,510	1,844	883	(233,376)	390	405,251
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	(57)	—	—	—	(57)
Loss for the period	—	—	—	(46,154)	—	(46,154)
As at 31st March 2003 (Unaudited)	635,510	1,787	883	(279,530)	390	359,040
As at 1st January 2004 (Audited)	631,807	2,069	883	(377,151)	390	257,998
Loss for the period	—	—	—	(7,094)	—	(7,094)
As at 31st March 2004 (Unaudited)	631,807	2,069	883	(384,245)	390	250,904

- (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.
- (ii) In accordance with the relevant PRC regulations, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after taxation, if any, to certain statutory reserves which comprise the statutory reserve and the enterprise expansion fund. The percentage of the transfer is determined by statute or the board of directors of the subsidiaries. During the three months ended 31st March 2004 and 2003, no transfer was made by the subsidiaries to these statutory reserves.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the three months ended 31st March 2004 (2003: nil).

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

As at 31st March 2004, 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 required standards of dealing by directors pursuant to Rule 5.46 of the GEM Listing Rules (other than options which have been granted under any Pre-IPO share options plans of the Company to certain Directors, details of such options are set out in the paragraph headed "Pre-IPO Share Options Plans" below), were as follows:

Name of Director/ chief executive	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interests					Capacity	Total	Approximate percentage of the total number of shares in issue
	Personal interests	Family Interests	Corporate interests	Other interests				
Mr. Chu Chung Hong, Francis	8,138,000	—	—	—	Beneficial Owner	8,138,000	0.45%	
Ms. Chan Man Ki, Summerine	23,252,118	—	—	—	Beneficial Owner	23,252,118	1.29%	
Mr. Barry John Buttifant	5,000,000	—	—	—	Beneficial Owner	5,000,000	0.28%	
Mr. Schöter, Johannes	7,804,000	—	—	—	Beneficial Owner	7,804,000	0.43%	
	44,194,118	—	—	—		44,194,118		

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Options Plans" below, as at 31st March 2004, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations and none of the Directors, chief executive or any of their respective spouses or children under the age of 18 were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any shares or debentures of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Pre-IPO Share Options Plans

Prior to the listing of the Company's shares on GEM, the board was authorized, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to certain directors and employees of the Group to subscribe for ordinary shares in the Company under the terms of several share options 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 March 2004 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price US\$ ⁽³⁾	Outstanding as at 1st January 2004 ⁽³⁾	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 31st March 2004 ⁽³⁾
Ms. Chan Man Ki, Summerine	1st July 1997	1st July 1998 to 30th June 2007 ⁽¹⁾	0.038095	2,712,500	—	—	—	2,712,500
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.038095	2,275,000	—	—	—	2,275,000
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.171429	2,835,000	—	—	—	2,835,000
	1st September 2000	1st September 2001 to 31st August 2010 ⁽¹⁾	0.038095	1,715,000	—	—	—	1,715,000
	5th May 2001	5th May 2002 to 4th May 2011 ⁽¹⁾	0.171429	2,450,000	—	—	—	2,450,000
	9th June 2001	9th June 2001 to 8th June 2011 ⁽²⁾	0.206841	19,036,535	—	—	—	19,036,535
Mr. Kam Ling	1st July 1997	1st July 1998 to 30th June 2007 ⁽¹⁾	0.038095	1,750,000	—	—	1,750,000	—
(resigned on 25th January 2004)	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.038095	1,750,000	—	—	1,750,000	—
	1st September 2000	1st September 2001 to 31st August 2010 ⁽¹⁾	0.038095	1,925,000	—	—	1,925,000	—
	5th May 2001	5th May 2002 to 4th May 2011 ⁽¹⁾	0.171429	6,125,000	—	—	6,125,000	—

- (1) Each of these Pre-IPO Share Options shall vest in respect of one-third of the total number of shares to which it relates upon each anniversary of the respective date 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 Share 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) Adjustments on the relevant Pre-IPO Share Options are to be made in accordance with the terms of the Pre-IPO Share Options Plans as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.

During the period ended 31st March 2004, a total number of 11,550,000⁽³⁾ options under the Pre-IPO Shares Options Plans had lapsed. No options were granted nor exercised during the period.

Save as disclosed above, during the period ended 31st March 2004, 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 Share Option Scheme shall vest in respect of one-third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is accepted until fully vested and expiring on not less than third year anniversary but not later than the tenth anniversary from the date of offer. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 31st March 2004 were as follows:

Name of Director	Date of offer	Exercise price HK\$	Outstanding as at 1st January 2004 and 31st March 2004
Mr. Chu Chung Hong, Francis	13th August 2003	0.119	3,000,000

During the three months ended 31st March 2004, a total number of 2,703,000 options under the Share Option Scheme had lapsed. No options were granted nor exercised during the period.

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.

Save as disclosed above, at no time during the three months ended 31st March 2004 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 three months ended 31st March 2004.

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 March 2004, 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 March 2004, 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 March 2004, 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 March 2004. 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 March 2004.

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.

Mr. Kam Ling, a former non-executive director and Vice Chairman of the board of directors of the Company, also the husband of Ms. Chan Man Ki, Summerine (one of the non-executive directors of the Company), is now holding the position of President-China for JCDecaux SA. One of its subsidiaries, JCDecaux Pearl & Dean is one of the sector players in the outdoor advertising industry which has advertising business in Hong Kong directly competing with the Group.

Save as disclosed above, as at 31st March 2004, none of the Directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 10th September 2001 and formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Committee comprised a non-executive director, Ms. Ho Ming Yee and two independent non-executive directors, namely Mr. Schöter, Johannes (the Chairman of the Committee) and Mr. Barry John Buttifant.

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

As part of the amendments to the GEM Listing Rules which became effective on 31st March 2004, the Company is required under Rules 5.05(1) and 5.08 of the GEM Listing Rules to have at least three independent non-executive directors (one of whom must have appropriate professional qualifications or accounting or related financial management expertise) by 30th September 2004. As of 31st March 2004, the board of directors of the Company consisted of two independent non-executive directors only. The Company will ensure compliance with such provisions of the GEM Listing Rules by 30th September 2004.

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 5.34 to 5.45 of the GEM Listing Rules throughout the period ended 31st March 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31st March 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed security.

By Order of the Board
Sun Qiang, Chang
Chairman

Hong Kong, 10th May, 2004