



**MEDIA NATION INC.**  
Incorporated in the Cayman Islands with limited liability



- BUS ADVERTISING
- METRO ADVERTISING
- STREET FURNITURE ADVERTISING

Third Quarterly Report 2004

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

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*This report, for which the directors (the “Directors”) of MediaNation Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and is 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

	For the three months ended					For the nine months ended		
	30-Sep-04 3Q04 (HK'm)	30-Sep-03 3Q03 (HK'm)	30-Jun-04 2Q04 (HK'm)	YoY	QoQ	30-Sep-04 3Q04 (HK'm)	30-Sep-03 3Q03 (HK'm)	Fav/(unfav)
				Fav/(unfav) 3Q04 vs 3Q03	Fav/(unfav) 3Q04 vs 2Q04			Fav/(unfav) 3Q04 vs 3Q03
Turnover	124.3	102.2	113.6	22%	9%	324.2	266.3	22%
Cost of sales	(98.1)	(99.1)	(95.5)	1%	(3%)	(269.6)	(299.2)	10%
SG&A	(26.7)	(25.9)	(24.2)	(3%)	(10%)	(72.6)	(79.5)	9%
Adjusted EBITDA (as defined under the section Adjusted EBITDA)	27.2	3.4	22.6			63.5	(35.9)	
Net profit/(loss)	4.6	(18.3)	0.1			(2.4)	(102.5)	

In the third quarter of 2004, the Group achieved turnaround of its bottom line and recorded the second profitable quarter since its IPO in early 2002 and reported a net profit of approximately HK\$4.6 million. The turnover of the Group continued to grow from approximately HK\$113.6 million in the second quarter to approximately HK\$124.3 million in the third quarter of 2004, an increase of 9%. With the adjusted EBITDA of approximately HK\$27.2 million reported in this quarter, the Group recorded fifth consecutive quarters with positive EBITDA.

## 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 30th September									
	2004					2003				
	PRC Bus	HK Bus	Shanghai	Beijing	Street	PRC Bus	HK Bus	Shanghai	Beijing	Street
	HK\$'m	HK\$'m	Metro	Metro*	Furniture	HK\$'m	HK\$'m	Metro	Metro*	Furniture
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Turnover	71.4	23.0	27.0	33.6	2.9	59.3	27.1	14.7	29.0	1.2
Cost of Sales	(57.1)	(21.9)	(16.6)	(5.7)	(2.4)	(58.4)	(28.2)	(11.8)	(5.4)	(0.6)
Gross Profit/(loss)	14.3	1.1	10.4	27.9	0.5	0.9	(1.1)	2.9	23.6	0.6

	For the nine months ended 30th September									
	2004					2003				
	PRC Bus	HK Bus	Shanghai	Beijing	Street	PRC Bus	HK Bus	Shanghai	Beijing	Street
	HK\$'m	HK\$'m	Metro	Metro*	Furniture	HK\$'m	HK\$'m	Metro	Metro*	Furniture
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Turnover	187.8	63.7	66.9	98.7	5.8	161.2	61.7	40.0	73.7	3.2
Cost of Sales	(155.7)	(60.4)	(48.4)	(16.7)	(5.0)	(170.7)	(86.8)	(38.2)	(14.4)	(3.1)
Gross Profit/(loss)	32.1	3.3	18.5	82.0	0.8	(9.5)	(25.1)	1.8	59.3	0.1

\* Note: Beijing Metro is an associated company

### China

#### *Bus Advertising*

The turnover of PRC bus advertising operation represented 57% of the Group's total turnover in the third quarter of 2004. PRC bus operations recorded approximately HK\$71.4 million turnover in the third quarter of 2004, which was a 13% increase compared to approximately HK\$63.2 million in the second quarter of 2004 and 20% increase compared to approximately HK\$59.3 million in the third quarter of 2003. PRC bus recorded a net profit of approximately HK\$1.2 million for the three months ended 30 September 2004, which is turn around from the net loss of approximately HK\$9.8 million for the corresponding period in last year. The loss incurred by PRC bus operations was further narrowed to approximately HK\$4.3 million for the nine months ended 30th September 2004, which represented an improvement of 90% over the corresponding period in 2003. This improvement was mainly attributable to the better sales performance and the cost cutting measures implemented by the management in 2003. 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 of the PRC bus advertising space was around 51% in the third quarter of 2004.

### *Metro System Advertising*

Shanghai Metro turnover represented 22% of the Group's total turnover in the third quarter of 2004. The turnover of Shanghai Metro recorded strong growth. The turnover was approximately HK\$27.0 million and HK\$66.9 million for the three months and nine months ended 30th September 2004 respectively, which represented a growth of 84% and 67% as compared to approximately HK\$14.7 million and HK\$40.0 million for the same periods in 2003. Shanghai Metro recorded a net profit of approximately HK\$6.9 million and HK\$10.8 million for the three months and nine months ended 30th September 2004, respectively, which represented a strong turnaround when compared to the net loss of approximately HK\$2.6 million and HK\$10.6 million of the corresponding periods in 2003. The average occupancy rate of the Shanghai Metro advertising space was around 60% in the third quarter of 2004.

The associated company, Beijing Metro, continued to deliver strong financial performance in the third quarter of 2004. The turnover was approximately HK\$33.6 million and HK\$98.7 million for the three months and nine months ended 30th September 2004, respectively, which represented a growth of 16% and 34% over the corresponding periods in 2003. The Group's "share of net profit (after taxation)" of Beijing Metro was approximately HK\$5.0 million and HK\$15.1 million for the three months and nine months ended 30th September 2004, respectively, an improvement of 16% and 47% over the corresponding periods 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. Out of these 700 kiosks, approximately 620 kiosks were installed with advertising panels and the remaining kiosks are in the process of being relocated to better locations or being installed with additional advertising panels. The newspaper kiosks in Shanghai recently gained nationwide attention as these kiosks started to sell government publications, such as The People's Daily, that were previously only available through subscription. The Group aims to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in the near term. The First Aid Advertising Display project has so far installed approximately 4,500 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. In the past few months, the sales and marketing team has started to push advertising sales and the initial response from clients has been encouraging.

These two projects incurred start-up losses of approximately HK\$1.4 million and HK\$5.8 million for the three months and nine months ended 30th September 2004, respectively. In the third quarter of 2004, these two projects generated a combined turnover of approximately HK\$2.9 million. The Group expects to see gradual improving sales revenue coming from these projects in the fourth quarter of 2004.

## Hong Kong

The turnover of Hong Kong bus advertising operation represented 19% of the Group's total turnover in the third quarter of 2004. The operation generated turnover of approximately HK\$23.0 million and HK\$63.7 million for the three months and nine months ended 30th September 2004. The revenue in the third quarter is comparable to the second quarter of 2004.

The licence agreement with The Kowloon Motor Bus Company (1933) Limited has expired on 31st October 2004. After serious consideration, the Group decided not to renew the licence agreement for sound commercial reasons. Since the operation has been loss making, discontinuing this business would not have any negative financial effect on the Group. As disclosed in 2003 Annual Report, a provision for onerous contract was made in 2003 regarding this agreement. However, as the third quarter operating results of this unit were slightly below expectation, the Hong Kong bus recorded a loss of approximately HK\$2.5 million for the third quarter.

### Business outlook

Further to achieving the turnaround of EBITDA since the third quarter of 2003, the Group has recorded the second profitable quarter since its turnaround of bottom line in the second quarter of 2004. Given the strong momentum in sales revenue secured by advance bookings, particularly in the two metro operations in Shanghai and Beijing as evidenced by the fact that they have already exceeded the budget for this year, the management believes the turnaround of bottom line since the second quarter should be sustainable and is cautiously looking forward to achieving better results in the coming quarter.

From the cash flow perspective, this was now the fifth consecutive quarter that the EBITDA continued positive. The business should continue to generate positive operating cash flow in the near future and 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\$124.3 million and HK\$324.2 million for the three months and nine months ended 30th September 2004 respectively, which represented a strong growth of 22%, as compared to approximately HK\$102.2 million and HK\$266.3 million for the corresponding periods last year. Total turnover generated from the Hong Kong business for the nine months period was approximately HK\$63.7 million, which was comparable to the same period of last year. Total turnover generated from the PRC business for the nine months increased from approximately HK\$204.4 million last year to approximately HK\$260.5 million this year, which represented an increase of 27%.

Comparing quarter to quarter trend, turnover increased by 9% from approximately HK\$113.6 million for the second quarter of 2004 to approximately HK\$124.3 million for the third quarter of 2004. The increase was mainly due to the improvement of performance for the metro system advertising and the bus advertising business during the period.

Total turnover for the nine months ended 30th September 2004 was generated from: (i) bus advertising of approximately HK\$251.5 million (77% of total turnover); (ii) metro system advertising of approximately HK\$66.9 million (21% of total turnover); and (iii) other operations of approximately HK\$5.8 million (2% of total turnover).

Cost of sales for the nine months ended 30th September 2004 decreased by 10% to approximately HK\$269.6 million from approximately HK\$299.2 million for the corresponding period last year. The decrease was mainly due to the reduction of concession fees resulting from (i) a downsized bus media portfolio in the PRC; (ii) the realization of part of the onerous contract provision made in 2003; and (iii) the expiry of New World First Bus Services Limited (“NWFB”) body advertising agreement in Hong Kong in July 2003.

As a result of the above mentioned increase in turnover and reduction in cost of sales at the same time, the Group recorded a gross profit of approximately HK\$54.6 million for the nine months ended 30th September 2004, which represented an improvement of 266% as compared to approximately HK\$32.9 million gross loss for the same period last year.

Selling, general and administrative expenses for the nine months ended 30th September 2004 decreased by 9% to approximately HK\$72.6 million from approximately HK\$79.5 million for the corresponding period last year. The decrease was mainly due to tightened cost controls, particularly in staff cost and premises rental. For the three months ended 30th September 2004, the selling, general and administrative expenses were approximately HK\$26.7 million, which were comparable to the corresponding period of last year.

#### **Finance costs**

Finance cost for the three months and nine months ended 30th September 2004 was negligible (three months ended 30th September 2003: approximately HK\$0.2 million; nine months ended 30th September 2003: approximately HK\$1.6 million).

#### **Share of profit of an associated company**

Share of profit of an associated company before taxation increased from approximately HK\$6.6 million and approximately HK\$15.8 million for the three months and nine months ended 30th September 2003 to approximately HK\$7.6 million and HK\$23.2 million for the corresponding periods this year. Beijing Metro demonstrated continuing improvement and achieved higher revenue during the current period.

#### **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 30th September 2004 improved to a profit of approximately HK\$27.2 million from approximately HK\$3.4 million in the same period last year. The EBITDA for the nine months ended 30th September 2004 also improved to a profit of approximately HK\$63.5 million from a loss of approximately HK\$35.9 million last year.

## FINANCIAL RESULTS

The directors of MediaNation Inc. (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 30th September 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Note(s)	For the three months ended 30th September		For the nine months ended 30th September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	124,316	102,240	324,204	266,316
Cost of sales		(98,146)	(99,088)	(269,634)	(299,178)
Gross profit/(loss)		26,170	3,152	54,570	(32,862)
Other revenues		148	71	340	247
Selling, general and administrative expenses		(26,714)	(25,914)	(72,594)	(79,452)
Loss from operations		(396)	(22,691)	(17,684)	(112,067)
Finance costs		(2)	(261)	(13)	(1,553)
		(398)	(22,952)	(17,697)	(113,620)
Share of profits of an associated company		7,640	6,645	23,199	15,815
Profit/(loss) before taxation		7,242	(16,307)	5,502	(97,805)
Income tax expense					
— Group		—	—	(4)	—
— Associated company		(2,630)	(2,298)	(8,071)	(5,516)
	3	(2,630)	(2,298)	(8,075)	(5,516)
Profit/(loss) after taxation but before minority interests		4,612	(18,605)	(2,573)	(103,321)
Minority interests		(17)	280	217	817
Net profit/(loss) attributable to shareholders		4,595	(18,325)	(2,356)	(102,504)
Profit/(loss) per share (HK cents)					
— Basic	4	0.26	(1.39)	(0.13)	(12.15)
— Diluted	4	N/A	N/A	N/A	N/A



## NOTES TO THE INTERM FINANCIAL STATEMENTS:

### 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 Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. They have been prepared under the historical cost convention.

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

### 2. Turnover, revenues and segment information

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

	For the three months ended 30th September		For the nine months ended 30th September	
	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)
Media rental	102,371	79,017	256,310	208,671
Production income	19,798	22,080	61,024	54,355
Agency commission income	2,147	1,143	6,870	3,290
Total turnover	124,316	102,240	324,204	266,316
Interest income from bank deposits	148	71	340	247
Total revenue	124,464	102,311	324,544	266,563

An analysis of the Group’s turnover and revenues by business segments and geographical locations for the nine months ended 30th September 2004 and 2003 is as follows:

	For the nine months ended 30th September					
	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)
<b>TURNOVER</b>						
Metro system advertising	—	66,927	66,927	—	39,950	39,950
Bus advertising	63,702	187,795	251,497	61,651	161,215	222,866
Other operations including street furniture	—	5,780	5,780	305	3,195	3,500
Total turnover	63,702	260,502	324,204	61,956	204,360	266,316
Interest income from bank deposits	81	259	340	113	134	247
	63,783	260,761	325,544	62,069	204,494	266,563

### 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 30th September 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 30th September		For the nine months ended 30th September	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Current taxation — PRC EIT	—	—	4	—
Share of taxation attributable to an associated company	2,630	2,298	8,071	5,516
	<b>2,630</b>	2,298	<b>8,075</b>	5,516

The taxation on the Group's profit/(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 nine months ended 30th September	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Profit/(loss) before taxation	5,502	(97,805)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	963	(17,116)
Effect of different taxation rates in other countries	3,270	(8,252)
Income not subject to taxation	(3,616)	(2,779)
Expenses not deductible for taxation purposes	5,097	4,385
Tax losses not recognised	2,361	29,278
Taxation charge	<b>8,075</b>	5,516

#### 4. Profit/(loss) per share

In August 2003, 1,202,325,990 shares of HK\$0.10 each were issued to the shareholders of the Company 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 profit/(loss) per share

The calculation of basic profit/(loss) per share for the three months and nine months ended 30th September 2004 is based on the Group's net profit/(loss) attributable to shareholders of approximately HK\$4,595,000 and HK\$(2,356,000) respectively (three months ended 30th September 2003: approximately HK\$(18,325,000); nine months ended 30th September 2003: approximately HK\$(102,504,000)), divided by the weighted average number of 1,803,488,985 ordinary shares outstanding during the period (three months and nine months ended 30th September 2003: 1,319,945,000 ordinary shares and 843,390,000 ordinary shares respectively). As at 30th September 2004, there were 1,803,488,985 shares in issue, following the completion of the open offer in August 2003.

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

No diluted profit/(loss) per share for the three months and nine months ended 30th September 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 nine months ended 30th September 2004 and 2003 were as follows:

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve* HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 2003 (Audited)	635,510	1,844	883	(233,376)	390	405,251
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	226	—	—	—	226
Write-off of share issuance expenses pursuant to an open offer	(3,225)	—	—	—	—	(3,225)
Loss for the period	—	—	—	(102,504)	—	(102,504)
As at 30th September 2003 (Unaudited)	632,285	2,070	883	(335,880)	390	299,748
As at 1st January 2004 (Audited)	<b>631,807</b>	<b>2,069</b>	<b>883</b>	<b>(377,151)</b>	<b>390</b>	<b>257,998</b>
Loss for the period	—	(8)	—	(2,356)	—	(2,364)
As at 30th September 2004 (Unaudited)	<b>631,807</b>	<b>2,061</b>	<b>883</b>	<b>(379,507)</b>	<b>390</b>	<b>255,634</b>

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 nine months ended 30th September 2004 and 2003, no transfer was made by the subsidiaries to these statutory reserves.

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

## INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the nine months ended 30th September 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 30th September 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 and Post-IPO share option scheme of the Company to certain Directors, details of such options are set out in the paragraphs headed "Pre-IPO Share Options Plans" and "Post-IPO Share Options Scheme" 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						Approximate percentage of the total number of shares in issue
	Personal interests	Family interests	Corporate interests	Other interests	Capacity	Total	
Mr. Chu Chung Hong, Francis	8,138,000	—	—	—	Beneficial Owner	8,138,000	0.45%
Mr. Barry John Buttifant	5,000,000	—	—	—	Beneficial Owner	5,000,000	0.28%
Mr. Schöter, Johannes	10,152,000	—	—	—	Beneficial Owner	10,152,000	0.56%
	23,290,000	—	—	—		23,290,000	

Other than as disclosed above and in the paragraphs headed "Pre-IPO Share Options Plans" and "Post-IPO Share Options Scheme" below, as at 30th September 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 30th September 2004 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price US\$ <sup>(3)</sup>	Outstanding as at 1st January 2004 <sup>(3)</sup>	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30th September 2004 <sup>(3)</sup>
Ms. Chan Man Ki, Summerine (resigned on 16th August 2004)	1st July 1997	1st July 1998 to 30th June 2007 <sup>(1)</sup>	0.038095	2,712,500	—	—	—	2,712,500
	1st April 2000	1st April 2001 to 31st March 2010 <sup>(1)</sup>	0.038095	2,275,000	—	—	—	2,275,000
	1st April 2000	1st April 2001 to 31st March 2010 <sup>(1)</sup>	0.171429	2,835,000	—	—	—	2,835,000
	1st September 2000	1st September 2001 to 31st August 2010 <sup>(1)</sup>	0.038095	1,715,000	—	—	—	1,715,000
	5th May 2001	5th May 2002 to 4th May 2011 <sup>(1)</sup>	0.171429	2,450,000	—	—	—	2,450,000
	9th June 2001	9th June 2001 to 8th June 2011 <sup>(2)</sup>	0.206841	19,036,535	—	—	—	19,036,535
Mr. Kam Wai Sum (former name as Mr. Kam Ling) (resigned on 25th January 2004)	1st July 1997	1st July 1998 to 30th June 2007 <sup>(1)</sup>	0.038095	1,750,000	—	—	1,750,000	—
	1st April 2000	1st April 2001 to 31st March 2010 <sup>(1)</sup>	0.038095	1,750,000	—	—	1,750,000	—
	1st September 2000	1st September 2001 to 31st August 2010 <sup>(1)</sup>	0.038095	1,925,000	—	—	1,925,000	—
	5th May 2001	5th May 2002 to 4th May 2011 <sup>(1)</sup>	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 Plans 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 30th September 2004, a total number of 11,550,000<sup>(3)</sup> 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 30th September 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 Options Scheme

On 8th January 2002, the Company conditionally adopted a further share option scheme (the “Share Option Scheme”) for a period of ten years from the date on which the Share Option Scheme was adopted. The Share Option Scheme became unconditional upon the listing of the Company’s shares on GEM on 24th January 2002.

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

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

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 30th September 2004 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price HK\$	Outstanding as at 1st January 2004	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30th September 2004
Mr. Chu Chung Hong, Francis	13th August 2003	13th August 2004 to 12th August 2013	0.119	3,000,000	—	—	—	3,000,000
	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	4,000,000	—	—	4,000,000
Mr. Barry John Buttifant	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	1,000,000	—	—	1,000,000
Mr. Schöter, Johannes	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	1,000,000	—	—	1,000,000

During the nine months ended 30th September 2004, a total number of 3,344,000 options under the Share Option Scheme had lapsed and 10,000,000 options granted but no options were exercised during the period. The closing price of the shares immediately before the date on which the options were granted during the period was HK\$0.115.

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 nine months ended 30th September 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 nine months ended 30th September 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.

A summary of the movement of share options granted to employees (including directors) under Pre-IPO Share Options Plans and Post-IPO Share Options Scheme during the period is as follows:

	Pre-IPO Share Options Plans at			Post-IPO Share Option Scheme at		
	exercise price of US\$0.038095 <sup>(1)</sup>	exercise price of US\$0.171429 <sup>(1)</sup>	exercise price of US\$0.206841 <sup>(1)</sup>	HK\$0.89 <sup>(1)</sup>	HK\$0.119	HK\$0.115
At 1st January 2004	12,640,880 <sup>(1)</sup>	15,120,000 <sup>(1)</sup>	28,554,750 <sup>(1)</sup>	3,734,000 <sup>(1)</sup>	17,500,000	—
Granted during the period	—	—	—	—	—	10,000,000
Lapsed during the period*	(5,425,000) <sup>(1)</sup>	(6,125,000) <sup>(1)</sup>	—	(844,000) <sup>(1)</sup>	(2,500,000)	—
At 30th September 2004	7,215,880 <sup>(1)</sup>	8,995,000 <sup>(1)</sup>	28,554,750 <sup>(1)</sup>	2,890,000 <sup>(1)</sup>	15,000,000	10,000,000

\* During the period, a director who held 5,425,000<sup>(1)</sup> unvested share options under Pre-IPO Share Options Plan at exercise price of US\$0.038095 and the 6,125,000<sup>(1)</sup> unvested share options under Pre-IPO Share Options Plan at exercise price of US\$0.171429 had retired and hence, these options had lapsed.

During the period, seven employees holding 3,344,000<sup>(1)</sup> unvested share options under Post-IPO Share Option Scheme had retired and hence, these options had lapsed.

<sup>(1)</sup> Pending adjustments on the relevant Share Options are to be made in accordance with the terms of the relevant share option schemes as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.



## REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30th September 2004.

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

So far as is known to any Director or chief executive of the Company, as at 30th September 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):

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

Save as disclosed above, and as far as the Directors are aware, as at 30th September 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 30th September 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 30th September 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 30th September 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.

Save as disclosed above, as at 30th September 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.

## 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 30th September 2004.

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

During the nine months ended 30th September 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, 8th November 2004