



**MEDIATION**  
INC.

Incorporated in the Cayman Islands with limited liability



First Quarterly Report  
**2002**

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK 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 Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://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 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 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.*

## HIGHLIGHTS

- **The shares of MediaNation Inc. have been listed on GEM since January 24, 2002.**
- **Turnover for the Company and all its subsidiaries for the three months ended March 31, 2002 amounted to approximately HK\$79.5 million.**
- **Loss attributable to shareholders for the three months ended March 31, 2002 amounted to approximately HK\$38.8 million.**

## FINANCIAL REVIEW

The Group's total turnover for the quarter ended March 31, 2002 was approximately HK\$79.5 million, which was a 13.6% decrease compared to approximately HK\$92.0 million for the same period last year. The drop in turnover was mainly due to the weak market environment in Hong Kong bus advertising business.

As compared with a net loss of approximately HK\$7.7 million in the first quarter of 2001, the HK\$38.8 million net loss for the corresponding quarter of 2002 was largely due to sluggish advertising market in Hong Kong and the start-up costs for the street furniture projects and Wuhan bus advertising business in China.

## BUSINESS REVIEW AND OUTLOOK

The Company operates in three main business lines: bus advertising, metro system advertising and i-Result which offers an integrated outdoor advertising service platform in Hong Kong and the PRC. The Company has recently entered the PRC street furniture advertising business.

### China

#### *Metro System Advertising*

The Company operates the largest network of metro system advertising in the PRC — the entire Beijing Metro and Shanghai Metro Line 2 and Line 3. The metro advertising businesses operate under exclusive long-term contracts, 18 years and 15 years, with the respective local joint venture partners in Beijing and Shanghai.

For the quarter under review, Beijing and Shanghai metro advertising operations showed better-than-expected growth. The two metro advertising operations contributed HK\$2.1 million profit to the bottom line of the Company in the first quarter of 2002. Shanghai metro is a consolidated subsidiary of the Company and its turnover improved to HK\$12.0 million in the first quarter of 2002, compared to HK\$0.9 million for the corresponding period in 2001 when the Company started the Shanghai metro advertising operation. Metro advertising will continue to be a key revenue driver in future quarters.

### *Bus Advertising*

The Company operates its PRC bus advertising business in 17 cities including some of the wealthiest and fastest growing markets such as Beijing, Shanghai, Guangzhou and Chengdu, with more than 17,000 buses in the network. The wide geographical coverage enables the Company to offer attractive national packages to advertisers to cost-effectively reach target audiences.

The PRC bus advertising business continued to report on-track development during the quarter. Media rental revenue for the first quarter was HK\$40.6 million, compared to HK\$37.0 million for the corresponding period in 2001.

In January 2002, a new Wuhan bus business unit was officially formed to further leverage the huge advertising market in one of the most influential cities in central China with a population over 7 million. The total number of buses under management is approximately 4,400, representing more than 90% of the city's coverage.

The new Wuhan bus advertising business incurred a start-up loss of HK\$4.6 million. Management foresees revenue upside potential with a dominating market share position in Wuhan.

The PRC advertising market will continue to benefit from the WTO accession and pre-Olympics momentum. With its unrivalled network combining metro and bus advertising, the Company and management are confident that they are in the best position to capture the tremendous opportunities which lie ahead. Additionally, Shanghai Metro Line 3, in which the Company has secured the exclusive 15-year advertising rights starting from January 2002, is expected to contribute more revenue when its passenger flow increases gradually with its full launch by the end of 2002.

### *i-Result*

In April 2001, i-Result launched "outdoormachine", an integrated outdoor advertising service platform, from information, planning, buying to other media services.

i-Result continued to grow for the period. The business reported a 45.7% improvement with a loss of HK\$3.8 million in the first quarter. The Company is confident that i-Result will achieve better results with the growing needs for integrated outdoor advertising service following China's entry into the WTO. Revenue for the quarter was HK\$2.1 million and HK\$0.3 million for the corresponding period in 2001. Major advertisers using the i-Result service include Colgate, P&G, TCL and Citibank.

## **Hong Kong**

The Company operates the largest bus body advertising networks in Hong Kong — The Kowloon Motor Bus Company (1933) Limited and New World First Bus Services Limited.

Hong Kong's advertising market continued to be sluggish due to the weak economic environment and the seasonal advertising factor which occurs during the first quarter of each year. The Company's Hong Kong bus advertising business was adversely affected by the trend, with a 59.1% drop in turnover to HK\$18.6 million from HK\$45.5 million in same quarter last year. During the quarter the Company suffered a substantial loss due to the minimum guarantee agreements with the bus lines. Management expects a strong turn around in the coming quarters and has already begun to secure significant orders. Furthermore, the advertising market in Hong Kong has begun to show signs of recovery from the weak sentiment and the seasonality factor. The Company has also taken measures such as aggressive marketing campaigns and promotional packages to capture the recovery and to boost the sales.

## **Street Furniture**

The Company has delayed the rollout of the street furniture projects to the third quarter of 2002 to allow sufficient time for prime location negotiation and product development. Management is confident that they will be able to establish a network of more than 1,000 kiosks by the end of the year in Shanghai and more than 1,000 in-mall advertising displays in Beijing and Shanghai collectively by the end of the year.

Management believes that there is strong potential for high-quality street furniture advertising products in the PRC as the country continues to improve its cities' appearance and public amenities. A new generation of state-of-the-art street furniture — newspaper kiosks and in-mall displays (first aid light boxes) — will appeal to the PRC and multinational advertisers who look for innovative and effective advertising channels. The Company believes that street furniture will be one of the key growth drivers and an unique and important component in its product portfolio. The Company has received significant interest from media advertisers for the newspaper kiosk product.

The Company's corporate development team is now strategically planning and executing the rollout of street furniture projects. The team incurred HK\$2.8 million in expenses in the first quarter of 2002.

## **Finance costs**

Finance cost increased HK\$3.3 million mainly due to the fact that the convertible loan notes totaling US\$15 million which were issued in February and May last year incurred interest impact for the full quarter in the first quarter of 2002. The loan will mature in the later part of this year and therefore the impact on the bottom line will reduce later this year.

## FINANCIAL RESULTS

The Directors of the Company are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended March 31, 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	<i>Note(s)</i>	<b>For the three months ended March 31,</b>	
		<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000 <i>(Note 1)</i>
Turnover	2	<b>79,473</b>	91,983
Cost of revenue		<b>(87,428)</b>	(76,302)
Gross (loss) profit		<b>(7,955)</b>	15,681
Other income, net		<b>1,333</b>	460
Selling, general and administrative expenses		<b>(34,949)</b>	(24,023)
Loss from operations		<b>(41,571)</b>	(7,882)
Finance costs		<b>(4,694)</b>	(1,374)
		<b>(46,265)</b>	(9,256)
Share of profits or losses of associated companies		<b>2,814</b>	1,950
Loss before taxation		<b>(43,451)</b>	(7,306)
Income tax (expense) write-back			
— Group		<b>(103)</b>	126
— Associated companies		<b>(929)</b>	(1,157)
	3	<b>(1,032)</b>	(1,031)
Loss after tax but before minority interests		<b>(44,483)</b>	(8,337)
Minority interests		<b>5,689</b>	607
Net loss attributable to shareholders		<b>(38,794)</b>	(7,730)
Loss per share (HK cents)			
— Basic	4	<b>6.94</b>	1.78
— Diluted	4	<b>N/A</b>	N/A

Notes:

## 1. Organization, basis of presentation and operations

The Company was incorporated in the Cayman Islands on February 27, 1995 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands.

On July 1, 2000, the Company disposed of its 100% equity interest in Top Result Interactive Limited ("TRI") to the shareholders of the Company at cost. The shareholders of the Company held the same percentage of equity interests in TRI as their equity interests in the Company. On June 30, 2001, the Company acquired the entire share capital of TRI through a share exchange ("Reorganization") and consequently became the holding company of the companies now comprising the Group (including TRI).

The Reorganization involved companies under common control and has been accounted for as a reorganization of the Group as a continuing entity. The consolidated financial statements have been prepared using merger basis of accounting in accordance with the Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" as if the current group structure had been in existence since January 1, 2001 and throughout both accounting periods.

The Company's ordinary shares have been listed on the GEM of the Stock Exchange since January 24, 2002.

The financial statements of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

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.

## 2. Turnover and revenues

Turnover and revenues comprised:

	For the three months ended March 31,	
	2002 HK\$'000	2001 HK\$'000
Media rental	67,375	72,734
Production income	9,373	15,141
Agency commission income	2,527	4,108
Media consultancy services income	198	—
Total turnover	79,473	91,983
Interest income from bank deposits	962	369
	80,435	92,352

An analysis of the Group's turnover and revenues by geographical location for the three months ended March 31, 2002 and 2001 is as follows:

	For the three months ended March 31,					
	The PRC		Hong Kong		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Media rental	51,243	38,255	16,132	34,479	67,375	72,734
Production income	6,015	7,070	3,358	8,071	9,373	15,141
Agency commission income	2,527	4,108	—	—	2,527	4,108
Media consultancy services income	198	—	—	—	198	—
Total turnover	59,983	49,433	19,490	42,550	79,473	91,983
Interest income from bank deposits	31	—	931	369	962	369
	60,014	49,433	20,421	42,919	80,435	92,352

### 3. Income tax expense

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the three months ended March 31, 2002 and 2001.

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax on their taxable income for the period at a combined national and local tax rate of 33% (2001: 33%). Overseas taxation has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The taxation charge comprises:

	For the three months ended March 31,	
	2002 HK\$'000	2001 HK\$'000
PRC enterprise income tax	103	—
Write-back of provision in respect of prior years	—	(126)
Share of associated companies' income tax expense	929	1,157
	1,032	1,031



#### 4. Loss per share

Pursuant to resolutions passed by the shareholders of the Company on January 8, 2002:

- (i) the denomination of the share capital of the Company was effectively converted from United States dollars to Hong Kong dollars 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;
  - 12,390,657 shares were allotted and issued to the then shareholders of the Company in proportion to their respective shareholdings in the Company;
  - the Company repurchased from such shareholders all the shares of US\$0.01 each then in issue for a price equal to the subscription monies payable in respect of the shares issued to the shareholders of the Company, such shares were automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and
  - the authorized but unissued shares of US\$0.01 each were cancelled.
- (ii) the sum of HK\$42,128,233.80 being part of the amount then standing to the credit of the share premium account of the Company was capitalised by issuing 421,282,338 shares ("Capitalization Issue"), credited as fully paid at par, to the holders of shares registered on the register of members of the Company on January 8, 2002 in proportion to their respective shareholdings in the Company.

As a result of the Capitalization Issue described above, the 421,282,338 shares issued prior to the Company's initial public offering of its shares in January 2002 are included in the calculation of the weighted average number of shares as if those shares had been in issue since January 1, 2001 and had been outstanding throughout the three months ended March 31, 2001.

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

The calculation of basic loss per share for the three months ended March 31, 2002 is based on the unaudited consolidated net loss attributable to shareholders of HK\$38,794,000 (2001: HK\$7,730,000), divided by the weighted average number of 559,356,000 (2001: 433,673,000) ordinary shares outstanding during the three months period ended March 31, 2002.

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

No diluted loss per share is shown because the conversion of two convertible loan notes for the principal amount of US\$10 million and US\$5 million respectively, issued by the Company to Gavast Estates Limited (an unrelated third party), pursuant to an agreement dated February 28, 2001 and a supplemental agreement relating to both loan notes dated December 31, 2001 and exercise of share options granted by the Company would have an anti-dilutive effect for the three months ended March 31, 2002 and 2001.

## RESERVES

Movements in reserves of the Group for the three months ended March 31, 2002 and 2001 were as follows:

Group	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i>	Retained profits/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at January 1, 2001	300,721	1,668	883	16,336	319,608
Loss for the period	—	—	—	(7,730)	(7,730)
As at March 31, 2001	300,721	1,668	883	8,606	311,878
As at January 1, 2002	300,721	1,568	883	19,797	322,969
Capitalization Issue	(42,128)	—	—	—	(42,128)
Share issued pursuant to a share adjustment	(278)	—	—	—	(278)
Premium on issue of new shares upon listing of shares on GEM	428,465	—	—	—	428,465
Write-off of share issuance expenses	(51,604)	—	—	—	(51,604)
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	131	—	—	131
Loss for the period	—	—	—	(38,794)	(38,794)
As at March 31, 2002	635,176	1,699	883	(18,997)	618,761

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 March 31, 2002 and 2001, 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 therefor.

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account and the contributed surplus account 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.

## INTERIM DIVIDEND

The directors do not recommend a payment of interim dividend for the period. (2001: nil)

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at March 31, 2002, the interests of the directors and the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, relating to securities transaction by directors, to be notified to the Company and the Stock Exchange (other than options which have been granted under any pre-IPO share option plans of the Company to certain directors of the Company, details of such options are set out in the paragraph headed "Pre-IPO Share Option Plans" below) were as follows:

Name of director /chief executive	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interests				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ms. Chan Sim Ngor, Summerine	26,252,118	—	—	—	26,252,118
Mr. Hui Yick Hun, Patrick	13,126,059	—	—	—	13,126,059
	39,378,177	—	—	—	39,378,177

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Option Plans" below, as at March 31, 2002, none of the directors, chief executive or their associates had any personal, family, corporate or other interests in the share capital 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 share capital or debt securities 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 of directors was authorized, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to certain directors and employees of the Group to subscribe for ordinary shares in the Company under the terms of several share option plans (the "Pre-IPO Share Options Plans").

Under the terms of the Pre-IPO Share Option Plans, details of the Pre-IPO Share Options granted to and held by the directors of the Company as at March 31, 2002 were as follows:

Name of director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at March 31, 2002
Ms. Chan Sim Ngor, Summerine	July 1, 1997	July 1, 1998 to June 30, 2007 <sup>(1)</sup>	0.038095	2,712,500
	April 1, 2000	April 1, 2001 to March 31, 2010 <sup>(1)</sup>	0.038095	2,275,000
	April 1, 2000	April 1, 2001 to March 31, 2010 <sup>(1)</sup>	0.171429	2,835,000
	September 1, 2000	September 1, 2001 to August 31, 2010 <sup>(1)</sup>	0.038095	1,715,000
	May 5, 2001	May 5, 2002 to May 4, 2011 <sup>(1)</sup>	0.171429	2,450,000
	June 9, 2001	June 9, 2001 to June 8, 2011 <sup>(2)</sup>	0.206841	19,036,535
Mr. Kam Ling	July 1, 1997	July 1, 1998 to June 30, 2007 <sup>(1)</sup>	0.038095	1,750,000
	April 1, 2000	April 1, 2001 to March 31, 2010 <sup>(1)</sup>	0.038095	1,750,000
	September 1, 2000	September 1, 2001 to August 31, 2010 <sup>(1)</sup>	0.038095	1,925,000
	May 5, 2001	May 5, 2002 to May 4, 2011 <sup>(1)</sup>	0.171429	6,125,000
Mr. Hui Yick Hun, Patrick	April 1, 2000	April 1, 2001 to March 31, 2010 <sup>(1)</sup>	0.038095	525,000
	September 1, 2000	September 1, 2001 to August 31, 2010 <sup>(1)</sup>	0.038095	771,960
	May 5, 2001	May 5, 2002 to May 4, 2011 <sup>(1)</sup>	0.171429	1,050,000
	June 9, 2001	June 9, 2001 to June 8, 2011 <sup>(2)</sup>	0.206841	9,518,215

- (1) Each of these Pre-IPO Options shall vest in respect of one third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is accepted until fully vested and expiring on the tenth anniversary from the date of offer.
- (2) Each of these Pre-IPO Options was fully vested upon its grant and may be exercised at any time during the period commencing on the respective date upon which the offer of the option is accepted and expiring on the tenth anniversary from the date of offer.

Save as disclosed above as at March 31, 2002, 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. Each of the holders of the Pre-IPO Share Options has agreed with the Company not to exercise such options until six months after the listing of the shares of the Company on GEM.

On January 8, 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 January 24, 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. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

As at March 31, 2002, no share options were granted or agreed to be granted by the Company under the Share Option Scheme.

Save as disclosed above, at no time during the three months ended March 31, 2002 was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures 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 the shares of the Company, or had exercised any such right during the three months ended March 31, 2002.

## SUBSTANTIAL SHAREHOLDERS

As at March 31, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had a beneficial interest of 10% or more in the issued share capital of the Company (other than those interests of directors disclosed above):

<b>Name of shareholder</b>	<b>Number of shares</b>	<b>Approximate percentage of the total number of share in issue</b>
SMI Investors (PAPE II) Limited ("PAMA")	159,130,088	26.3%
Warburg Pincus Ventures, L.P., ("Warburg Pincus")	159,130,088	26.3%

Saved as disclosed above, the directors of the Company are not aware of any person (other than the directors or chief executives of the Company) who was as at March 31, 2002 was interested in 10% or more of the share capital of the Company which was required to be recorded in the register of interests of the Company pursuant to Section 16(1) of the SDI Ordinance.

## SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Deutsche Bank AG, Hong Kong Branch (the "Sponsor"), the London branch of the Sponsor held 37,137,000 shares in the capital of the Company as at March 31, 2002. Save as disclosed above, 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 March 31, 2002.

Pursuant to the agreement dated January 23, 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 January 24, 2002 to December 31, 2004.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

PAMA I, an affiliated fund of PAMA, is a private equity fund which has investments in various businesses including, Texon International Limited ("Texon"). Texon is a competitor of the Company 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 is also a non-executive director of the Company. PAMA I and the Cayman Islands limited partnership private equity fund which owns PAMA are both managed by PAMA Group, which is also the general partner in these two private equity funds. 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 March 31, 2002, 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 has established an audit committee (the “Committee”) on September 10, 2001 and has 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 comprises a non executive Director, Mr. Andersen, Dee Allen and two independent non-executive Directors, namely Mr. Heung Shu Fai and Mr. Liu Hong Ru. The Committee has met twice after its formation.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended March 31, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

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

Hong Kong, May 13, 2002