




**MEDIA**NATION  
INC.

Incorporated in the Cayman Islands with limited liability



ROADWORKS ASIDE, THIS AD'S ON THE RIGHT TRACK.

Second Quarterly Report

2002

## 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.*

## HIGHLIGHTS

- **Turnover for the Company and all its subsidiaries for the six months ended June 30, 2002 was approximately HK\$179.0 million.**
- **Net loss attributable to shareholders was approximately HK\$78.2 million for the six months ended June 30, 2002.**
- **Loss per share of the Company during the six months ended June 30, 2002 was approximately HK\$13.4 cents.**

## FINANCIAL REVIEW

### Revenue and Profitability

The Group recorded turnover of approximately HK\$99.5 million and HK\$179.0 million for the three months and six months ended June 30, 2002, which was a 11.4% and 12.4% decrease, respectively, compared to approximately HK\$112.3 million and HK\$204.3 million for the corresponding periods last year. Total turnover for the six months ended June 30, 2002 consisted of: (i) media rental revenue of approximately HK\$140.7 million (78.6% of total turnover); (ii) production income of approximately HK\$34.0 million (19.0% of total turnover); (iii) agency commission income of approximately HK\$3.8 million (2.1% of total turnover); and (iv) media consultancy services income of HK\$0.5 million (0.3% of total turnover).

Cost of revenue for the three months and six months ended June 30, 2002 increased 22.1% and 18.6% to HK\$106.7 million and HK\$194.2 million respectively, from HK\$87.4 million and HK\$163.7 million for the corresponding periods last year. The increase was mainly due to the expanded media portfolio, particularly the addition of Shanghai metro line 3 and Wuhan Bus. Concession fees for the six months ended June 30, 2002, which are the major component of cost of revenue, increased from HK\$76.7 million to HK\$99.3 million over the corresponding periods last year, representing an increase of 29.5%. Amortization of advertising license rights for the six months ended June 30, 2002 increased by 10.5% to HK\$34.8 million from HK\$31.5 million in the same period last year.

For the six months ended June 30, 2002, the Group suffered a gross loss of approximately HK\$15.2 million whilst a gross profit of approximately HK\$40.6 million was recorded for the corresponding period last year. The deterioration of gross margin was mainly attributable to the lower level of revenue comparing to same periods last year; whereas direct cost increased as a result of expanded media portfolio. Concession fees increased as a percentage of revenue from 37.5% to 55.5% and the amortization of advertising license rights increased as a percentage of revenue from 15.4% to 19.4%, whereas the sales revenue has not reported corresponding growth.

Selling, general and administrative expenses for the three months and six months ended June 30, 2002 increased 48.5% and 47.3% to HK\$40.1 million and HK\$75.1 million respectively, from HK\$27.0 million and HK\$51.0 million for the corresponding periods last year. The increase was mainly associated with the commencement of the Shanghai metro system operation in the latter part of 2001, which resulted in an increase in staff costs and other overhead expenses of HK\$4.2 million. In addition, Digital Photo Limited (the “Digital Photo”) has become a subsidiary of the Group since May 1, 2001, of which only 2 months’ expenses were incorporated in the Group’s result in the first half of 2001, whilst a six-month period of expenses was consolidated in the same period of 2002. The increase was also associated with the commencement of i-Result’s operation in the second quarter of 2001 while a full period expenses of approximately HK\$10.4 million was recorded for the six months ended June 30, 2002.

### **Net Profit Attributable to Shareholders**

As a result, the Group’s net losses for the three months and six months ended June 30, 2002 were HK\$39.4 million and HK\$78.2 million respectively, compared to net losses of HK\$2.0 million and HK\$9.7 million for the corresponding periods last year. The reasons for the decline in results are further discussed in the Business Review section below.

### **Financial Resources, Security and Liquidity**

The directors believe that the Group will continue to fund its current working capital and capital expenditure requirements through future cash inflows from operations, the net proceeds from the Listing and its cash and bank deposits. The directors believe that on a long-term basis, the Group’s liquidity will be funded from operations, if necessary, additional equity financing or bank lending.

The gearing ratio, defined as the ratio of total liabilities to total assets, was 27.6% as at June 30, 2002, compared to 56.7% as at December 31, 2001. The decrease was mainly due to the repayment of short-term bank loan, loans from financial institutions, loan from a third party and convertible loan notes of approximately HK\$182.4 million.

The Group had net assets of approximately HK\$639.3 million at as June 30, 2002 (as at December 31, 2001: HK\$323.9 million), including cash and bank balances of approximately HK\$98.9 million (as at December 31, 2001: cash and bank balances of approximately HK\$18.9 million and pledged bank deposit of approximately HK\$19.5 million.).

As at June 30, 2002, the Group had outstanding borrowings of approximately HK\$38.0 million (as at December 31, 2001: HK\$221.0 million), comprising outstanding obligations under finance leases of HK\$0.3 million which are repayable before October 2002 and short-term bank borrowings of approximately HK\$37.7 million. During the period, the Group had repaid short-term bank loans of approximately HK\$18.9 million, short-term loans from financial institutions of approximately HK\$27.0 million, short-term loan from a third party of HK\$19.5 million, and convertible loan notes of approximately HK\$117.0 million.

Short-term bank borrowings of approximately HK\$37.7 million were represented by loans denominated in Renminbi granted to a subsidiary in the PRC, which were secured by corporate guarantees from Beijing Top Result Metro Advertising Co., Ltd. (the “Beijing Metro”) and the Chinese joint venture partner of the subsidiary, interest bearing at 6.435% to 7.02% per annum and are repayable within one year from the date of drawdown. As at June 30, 2002, the Group did not have any charges on assets.

As at June 30, 2002, the Group had aggregate credit facilities of approximately HK\$52.7 million (as at December 31, 2001: HK\$111.1 million) of which approximately HK\$15 million (as at December 31, 2001: HK\$8.0 million) had not been drawn.

## **Employees**

As at June 30, 2002, the Group had 756 (as at December 31, 2001: 747; as at June 30, 2001: 670; as at December 31, 2000: 420) employees. The total of employee remuneration, including that of the directors, for six months ended June 30, 2002 amounted to approximately HK\$41.4 million (six months ended June 30, 2001: HK\$25.0 million). The substantial increase in employee remuneration was mainly due to expansion of the China operations, particularly Shanghai Metro and i-Result businesses in the middle of last year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In addition, the Group also has a medical scheme and a share option scheme for directors and employees.

## **Contingent Liabilities**

As at June 30, 2002, the Company has issued a letter of guarantee of HK\$0.2 million (as at December 31, 2001: HK\$0.2 million) to a landlord in relation to the lease of its office premise.

## **Foreign Exchange**

All transactions of the Group are mainly denominated in Hong Kong Dollars, United States Dollars and Renminbi. As the exchange rates of these currencies were stable during the period under review, no hedging or other alternatives had been implemented. It is considered that the Group has no significant currency exposure.

## **BUSINESS REVIEW AND OUTLOOK**

The Group 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 Group recently entered the PRC street furniture advertising business, which remains on track for rollout in the third quarter.

### **China**

#### *Metro System Advertising*

The Group operates the largest network of metro system advertising in the PRC - the entire Beijing Metro and Shanghai Metro Line 2 and Line 3. Both metro advertising businesses operate under exclusive long-term contracts of 18 years and 15 years, with the respective local joint venture partners. The Group expects these business units to bring in stable returns in the foreseeable years.

For the quarter under review, Shanghai metro advertising operation generated HK\$9.4 million revenue, compared to HK\$12.0 million for the first quarter in 2002. The decrease in revenue was attributable to metro line 3, which is still in a trial operational phase resulting in low passenger flow. Shanghai metro also launched a marketing campaign to promote its advertising media in Line 3 during the World Cup period, which was during this quarter. The revenue stream generated from Line 3 is more volatile during the start-up phase but the growth should become more stable as the acceptance and popularity of the newly introduced media gradually improve.

Beijing Metro increased its revenue from HK\$15.2 million in the first quarter to HK\$22.9 million in the second quarter. The Company's share of net profit of Beijing Metro increased from HK\$1.9 million in the first quarter to HK\$2.5 million in the second quarter. During the period, Beijing Metro has been actively developing new media applications such as Wrapped Passenger Tunnel and Brand Gallery (selling the entire 12-sheet light boxes on one side of the platform to one single client). These new media applications have achieved favorable market response and satisfactory results.

Though Shanghai metro is still in the start-up process in the short run, management is highly confident of the long-term profitability of the metro system advertising, that is likely to be one of the key growth drivers in future quarters.

#### *Bus Advertising*

In June, the Group was granted a new license to operate bus advertising in Qingdao, where the Company had been operating 30 buses since 1997. Qingdao is one of the fast-growing cities in China and will co-host the Olympic 2008. Under the newly secured ten-year agreement, the total number of buses is approximately 2,800 that the Group will be the only advertising company with the right to advertise on the entire bus fleet of Qingdao Public Transport Company in the market. Management foresees a potential upside for revenue with the addition of the new network in Qingdao.

With the addition of the Qingdao operation, the Group increased its market share in its PRC bus advertising business, of which the majority are the wealthiest and fastest growing markets such as Beijing, Shanghai, Guangzhou and Chengdu, with approximately 20,000 buses in the network. The nationwide geographical coverage enables the Group to offer more attractive national packages to advertisers. The Group will continue to broaden its national profile by cautiously evaluating new markets and continuing to build on their existing market share within the cities of operation to offer more cost-effective packages to advertisers that will ultimately reach prospective target audiences.

The Group's bus advertising business in China remained relatively flat during the quarter under review. Media rental revenue for the second quarter increased slightly to HK\$41.8 million, compared to HK\$40.6 million for the first quarter in 2002.

Although the PRC advertising market in general has remained strong and it is expected that the advertising spending in China will grow by 15% in year 2002, the competition among various market players including TV and print media as well as other outdoor media operators is keen. Management believes that, in the long run, the growth momentum of the market will continue as 2008 Olympics approaches. With its unrivalled combination of metro and bus advertising network as well as street furniture, the Group and management are confident that they are in a good position to capture the tremendous opportunities, that lie ahead.

#### *i-Result*

Outdoormachine that i-Result launched in April 2001 generated HK\$2.6 million revenue for the Group in the second quarter, compared to HK\$2.1 million for the first quarter in 2002.

i-Result continues to improve in the second quarter compared to the first quarter. The business narrowed its losses from HK\$3.8 million in the first quarter to HK\$3.0 million in the second quarter. The management believes that i-Result will continue to gradually improve with the growing needs for integrated outdoor advertising services following China's entry into the WTO.

However, in view of the increasingly competitive market environment in the outdoor media sector and the trend toward consolidation, the Group is currently assessing the long-term position of i-Result's business. It may perform better if spun off and operated as an independent agency. In order for the Group to concentrate on the core business of media operation in China, the Group is looking for strategic options including divestiture or re-organization of non-core businesses such as i-Result and the printing operation Digital Photo.

#### **Hong Kong**

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

Despite the decline in Hong Kong's advertising market due to the weak economic environment in the first quarter, there are signs that the Hong Kong advertising market is beginning to rebound. The Group's Hong Kong bus advertising business saw substantial improvement in the second quarter, with a strong growth of 64.5% in turnover to HK\$30.6 million from HK\$18.6 million during the first quarter this year. During the second quarter, the Company recorded substantial growth due to the improving advertising market and stronger sales and marketing efforts. The loss incurred by the Hong Kong bus operation narrowed from HK\$13.3 million in the first quarter to HK\$5.2 million in the second quarter. Management expects that the improvement in this quarter will continue in the coming quarters as the Hong Kong market has begun to recover from the weak sentiment and there are a strong indications that the market will rebound.

## **Street Furniture**

The Group has planned to rollout the street furniture projects in the third quarter of 2002. At that time, most of the prime locations would have been finalized to launch the comprehensive advertising products. Given that satisfactory progress has been made, the management is confident that they will be able to establish a network of approximately 1,000 kiosks by the end of the year in Shanghai. Media sales activities will commence in the third quarter of 2002.

In addition, the Group has entered into location contracts with Min Sheng Bank, Citic Industry Bank and CarreFour to install first aid in-mall display systems in their nationwide network. It is expected that more than 1,500 in-mall advertising displays will be set-up in Beijing, Shanghai and Guangzhou collectively by the end of the year.

The Group 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. The new generation of street furniture - newspaper kiosks and first aid in-mall displays should have strong appeal to the PRC and multinational advertisers who look for innovative and effective advertising channels. The Group believes that the street furniture will be one of the key growth drivers and an unique and important component in its product portfolio. Management has received significant interest from media advertisers for the newspaper kiosk product.

## **Finance costs**

Finance cost for the second quarter decreased by HK\$1.6 million as compared with the first quarter which was mainly due to the fact that the Convertible Loan Notes were repaid in full by the Group in May 2002.

## **Business Outlook**

The Group has been expanding its transit advertising business in recent years and made several investments in new media properties during the first half of this year. Some internal operational issues were encountered, however, management has identified the core issues and have immediately started restructuring the sales force and the media operation groups to better serve our clients needs. Management is committed to focusing on reducing costs and improving efficiency in all business units and is confident that the loss will be significantly narrowed in the third and the fourth quarter of the year. Management remains strong, united and committed to the future success of the Group.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

### **Business objectives as stated in the prospectus dated January 14, 2002:**

### **Actual business progress to date:**

#### **Maintain and strengthen market leadership position**

Expand PRC bus advertising network by position in bus advertising acquiring additional concessions in new cities or our existing cities

In June 2002, signed a new bus advertising concession contract for about 2,800 buses under exclusive agency arrangement

Install additional advertising displays in metro position in metro advertising systems

Largely completed media development of Shanghai Metro Line 2 and is now focusing on developing various media formats in Shanghai Metro Line 3

Invest in new digital printing machine

Feasibility to be further reviewed and assessed

Develop and implement proprietary Enterprise Resource Planning software ("ERP"), named Media Inventory Management System ("MIMS") to enhance ability to accumulate and analyse data relating to the business

Continued software development and started pilot implementation in selected new media

#### **Introduce new media formats**

Roll out the street furniture project - newspaper kiosks in the PRC

Installed 685 newspaper kiosks in Shanghai and expect to launch to advertisers in the third quarter of 2002

Install and market first aid light boxes in shopping malls in the PRC

Installed more than 200 first aid light boxes in Beijing and Shanghai and started pre-marketing

Upgrade and begin marketing New World First Bus's bus shelters

Continue to market the New World First Bus's bus shelters to advertisers

Begin development of new mobile broadcasting display units such as LEDs and LCDs in existing bus and metro media portfolio in the PRC

Conducting pilot study on installation of LCD in-train display units in the Beijing Metro system

**Business objectives as stated in the prospectus dated January 14, 2002:**

**Actual business progress to date:**

**Provide integrated outdoor advertising**

Further develop and improve the outdoorservices media database for i-Result

Feasibility to be further reviewed and assessed

**Selectively pursue acquisitions**

Selectively pursue acquisitions of high quality assets and outdoor advertising related businesses

The Group has no current plan to pursue this objective until it can identify suitable acquisition opportunities

**USE OF PROCEEDS**

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

	<b>As stated in the prospectus &amp; supplemental prospectus</b> <i>HK\$ million</i>	<b>Actual amount used up to June 30, 2002</b> <i>HK\$ million</i>
Development of printing and Media Inventory Management System	7.0	—
Expansion of street furniture business:		
— newspaper kiosks	120.0	57.1
— other new media formats, including "in-mall" advertising displays, such as first aid light boxes as well as other multimedia displays for bus and metro advertising;	100.0	11.1
Expansion of the i-Result database	5.0	1.4
Repayment of certain existing debts to Gavast Estates	120.0	117.0
Repayment of certain existing debts from Everpower and E2-Capital	39.0	39.8
Working Capital and operating losses	3.0	69.3
	<b>394.0</b>	<b>295.7</b>

The remaining net proceeds as at June 30, 2002 was approximately HK\$98.3 million, which have been placed on short-term interest bearing deposit with banks in Hong Kong.

Due to the fact that the Group has incurred losses for the period ended June 30, 2002, part of the net proceeds has been used to finance these losses.

Except for the above, the Directors consider that there is no material modification over the use of proceeds as disclosed in the Prospectus.

## FINANCIAL RESULTS

The Directors of MediaNation Inc. (the “Company”) announce the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended and six months ended June 30, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

	Note(s)	For the three months ended June 30,		For the six months ended June 30,	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
Turnover	2	99,549	112,323	179,022	204,306
Cost of revenue		(106,746)	(87,373)	(194,174)	(163,675)
Gross (loss) profit		(7,197)	24,950	(15,152)	40,631
Other income, net		1,952	525	3,285	985
Selling, general and administrative expenses		(40,117)	(26,950)	(75,066)	(50,973)
Loss from operations		(45,362)	(1,475)	(86,933)	(9,357)
Finance costs		(3,143)	(4,469)	(7,837)	(5,843)
		(48,505)	(5,944)	(94,770)	(15,200)
Share of profits or losses of associated companies		4,078	4,250	6,892	6,200
Loss before taxation	4	(44,427)	(1,694)	(87,878)	(9,000)
Income tax (expense) write-back					
— Group		(2)	356	(105)	482
— Associated companies		(1,555)	(1,400)	(2,484)	(2,557)
	5	(1,557)	(1,044)	(2,589)	(2,075)
Loss after tax but before minority interests		(45,984)	(2,738)	(90,467)	(11,075)
Minority interests		6,599	785	12,288	1,392
Net loss attributable to shareholders		(39,385)	(1,953)	(78,179)	(9,683)
Loss per share (HK cents)					
— Basic	6	6.51	0.45	13.4	2.23
— Diluted	6	N/A	N/A	N/A	N/A

## CONSOLIDATED BALANCE SHEET

	<i>Note(s)</i>	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
<b>Non-current assets</b>			
Investment deposit placed with a joint venture partner — non-current		<b>8,727</b>	8,727
Fixed assets, net	7	<b>55,918</b>	51,072
Intangible assets, net	8	<b>356,132</b>	351,879
Long-term deposits		<b>60,537</b>	62,219
Investments in associated companies		<b>34,024</b>	23,867
Deposit for intangible assets	9	<b>88,535</b>	36,041
Other non-current assets		<b>726</b>	748
		<b>604,599</b>	534,553
<b>Current assets</b>			
Investment deposit placed with a joint venture partner — current		<b>11,430</b>	11,430
Prepayments, deposits and other receivables		<b>78,971</b>	71,434
Amount due from a joint venture partner		<b>74</b>	3,305
Amounts due from related companies		<b>242</b>	416
Amount due from a senior executive		<b>547</b>	547
Inventories		<b>635</b>	2,514
Income tax recoverable		<b>99</b>	99
Accounts receivable, net	10	<b>84,334</b>	102,676
Pledged bank deposit		<b>—</b>	19,493
Cash and cash equivalents		<b>98,925</b>	18,916
		<b>275,257</b>	230,830
<b>Current liabilities</b>			
Accounts payable	11	<b>71,066</b>	62,778
Accrued liabilities and other payables		<b>37,209</b>	47,008
Deferred income		<b>43,541</b>	41,181
Amounts due to related companies		<b>631</b>	1,073
Obligations under finance leases — current portion		<b>346</b>	944
Income tax payable		<b>8,375</b>	12,994
Convertible loan notes	12	<b>—</b>	116,960
Bank loans and other borrowings	13	<b>37,722</b>	103,134
		<b>198,890</b>	386,072
<b>Net current assets (liabilities)</b>		<b>76,367</b>	(155,242)
<b>Total assets less current liabilities</b>		<b>680,966</b>	379,311
<b>Non-current liabilities</b>			
Long-term payables		<b>44,203</b>	47,916
		<b>636,763</b>	331,395
<b>Capital and reserves:</b>			
Share capital	14	<b>60,441</b>	961
Reserves	15	<b>578,897</b>	322,969
		<b>639,338</b>	323,930
<b>Minority interests</b>		<b>(2,575)</b>	7,465
		<b>636,763</b>	331,395

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE SIX MONTHS  
ENDED JUNE 30, 2002 AND 2001**

	<b>2002</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2001 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<b>(64,429)</b>	(73,454)
NET CASH USED IN INVESTING ACTIVITIES	<b>(80,250)</b>	(27,663)
NET CASH USED IN FINANCING ACTIVITIES	<b>224,392</b>	111,962
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>79,713</b>	10,845
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>17,689</b>	12,900
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>231</b>	(73)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>97,633</b>	23,672
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>98,925</b>	25,226
Less: Non-cash and cash equivalents	<b>(1,292)</b>	(1,554)
	<b>97,633</b>	23,672

## NOTES TO THE INTERIM FINANCIAL STATEMENTS:

### 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 periods under review.

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

The condensed interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended December 31, 2001. The condensed interim financial statements are unaudited, but have been reviewed by the audit committee of the Company.

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 June 30,		For the six months ended June 30,	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
Media rental	73,354	83,798	140,729	156,532
Production income	24,605	26,674	33,978	41,815
Agency commission income	1,284	1,695	3,811	5,803
Media consultancy services income	306	68	504	68
Others	—	88	—	88
Total turnover	99,549	112,323	179,022	204,306
Interest income from bank deposits	493	560	1,455	929
Total revenue	100,042	112,883	180,477	205,235

### 3. Segment information

The Group is engaged in providing outdoor media advertising services under four business segments, namely, media rental, advertising production services, agency services and media consultancy services. An analysis by business segment is as follows:

	For the six months ended June 30,													
	Media rental		Advertising production services		Agency services		Media consultancy services		Corporate		Eliminations		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	
<b>TURNOVER</b>														
Sales to external customers	140,729	156,532	33,976	41,815	3,811	5,803	504	68	—	88	—	—	179,022	204,306
Inter-segment sales	858	5,829	8,325	—	486	—	1,324	246	—	3,902	(10,993)	(9,977)	—	—
Total turnover	141,587	162,361	42,303	41,815	4,297	5,803	1,828	314	—	3,990	(10,993)	(9,977)	179,022	204,306
<b>RESULTS</b>														
Segment profit (loss) before amortization and depreciation	16,401	69,938	(270)	4,577	4,170	3,975	1,031	(140)	(68,278)	(48,646)	(279)	(3,465)	(47,225)	26,239
Amortization and depreciation	(34,753)	(31,700)	(1,398)	(596)	(860)	—	—	—	(5,982)	(4,285)	—	—	(42,993)	(36,581)
Segment profit (loss)	(18,352)	38,238	(1,668)	3,981	3,310	3,975	1,031	(140)	(74,260)	(52,931)	(279)	(3,465)	(90,218)	(10,342)
Other income, net													3,285	985
Loss from operations													(86,933)	(9,357)
Finance costs													(7,837)	(5,843)
Share of net profits or losses of associated companies													6,892	6,200
Income tax expense													(2,589)	(2,075)
Loss after taxation but before minority interests													(90,467)	(11,075)
Minority interests													12,288	1,392
Net Loss attributable to shareholders													(78,179)	(9,683)

An analysis of the Group's turnover and revenues by geographical location for six months ended June 30, 2002 and 2001 is as follows:

	For the six months ended June 30,					
	The PRC		Hong Kong		Total	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
Media rental	102,403	83,361	38,326	73,171	140,729	156,532
Production income	23,251	21,562	10,727	20,253	33,978	41,815
Agency commission income	3,292	4,972	519	831	3,811	5,803
Media consultancy services income	502	68	2	—	504	68
Others	—	88	—	—	—	88
<b>Total turnover</b>	<b>129,448</b>	110,051	<b>49,574</b>	94,255	<b>179,022</b>	204,306
Interest income from bank deposits	95	56	1,360	873	1,455	929
	<b>129,543</b>	110,107	<b>50,934</b>	95,128	<b>180,477</b>	205,235

#### 4. Loss before taxation

Loss before taxation was arrived at after charging and crediting the following:

	For the six months ended June 30,	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
<b>Charging:</b>		
Depreciation on		
- owned assets	6,675	4,244
- assets under finance leases	447	596
Loss on disposal of fixed assets, net	—	8
Amortization of intangible assets included in cost of sales	35,613	31,700
Amortization of intangible assets included in administrative expenses	186	—
Amortization of goodwill included in		
- administrative expenses	72	41
- share of profits or losses of associated companies	634	634
Operating lease rentals for		
- office premises	6,655	4,513
- advertising spaces	99,288	76,737
Staff costs (including directors' emoluments)	41,429	25,000
Interest expenses	7,837	5,843
<b>Crediting:</b>		
Interest income from bank deposits	1,455	929



## 5. Income tax expense

No provision for Hong Kong profits tax was made as the Group had no assessable profits in Hong Kong for the three months and six months ended June 30, 2002 (three months and six months ended June 30, 2001: HK\$18,000).

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 June 30,		For the six months ended June 30,	
	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
Hong Kong profits tax	—	18	—	18
PRC enterprise income tax	2	—	105	—
Write-back of provision in respect of prior years	—	(374)	—	(500)
Share of associated companies' income tax expense	1,555	1,400	2,484	2,557
	<b>1,557</b>	1,044	<b>2,589</b>	2,075

## 6. Loss per share

### (a) Basic loss per share

The calculation of basic loss per share for the three months ended and six months ended June 30, 2002 is based on the unaudited consolidated net loss attributable to shareholders of approximately HK\$39,385,000 and HK\$78,179,000 respectively (three months ended June 30, 2001: unaudited consolidated net loss attributable to shareholder of approximately HK\$1,953,000 and six months ended June 30, 2001: audited consolidated net loss attributable to shareholders of approximately HK\$9,683,000), divided by the weighted average number of approximately 605,036,000 and 582,322,000 (three months and six months ended June 30, 2001: both approximately 433,673,000 ordinary shares) ordinary shares outstanding during the respective periods.

### (b) Diluted loss per share

No diluted loss per share has been presented 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 and six months ended June 30, 2002 and 2001. These two convertible notes were repaid in full by the Group in May 2002.

As a result of the Capitalization Issue described in Note 14, 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 and six months ended June 30, 2002.

## 7. Fixed assets, net

The movements of fixed assets of the Group were:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Net book value, beginning of period / year	51,072	17,704
Additions	11,968	38,603
Additions through acquisition of subsidiaries	—	5,867
Disposal	—	(907)
Depreciation	(7,122)	(10,196)
Translation adjustments	—	1
Net book value, end of period / year	<b>55,918</b>	51,072

## 8. Intangible assets, net

Intangible assets of the Group comprised:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Net book value, beginning of period / year	351,879	381,175
Additions	40,124	35,409
Additions through acquisition of subsidiaries	—	238
Disposal	—	(141)
Amortization	(35,871)	(64,819)
Translation adjustments	—	17
Net book value, end of period / year	<b>356,132</b>	351,879

## 9. Deposit for intangible assets

As at June 30, 2002, a subsidiary has advanced approximately HK\$88,535,000 to an independent third party for the purpose of acquiring the rights to place advertisements on specially designed newspaper kiosks (as at December 31, 2001: HK\$31,326,000). These newspaper kiosks are to be set up in Shanghai of the PRC. The construction of the newspaper kiosks has not been completed as at June 30, 2002, and accordingly, the advance has been treated as a deposit for intangible assets. The Group will contribute this deposit for intangible assets as part of the capital contribution to a non wholly-owned subsidiary which in turn will make a capital contribution and a shareholder loan to a wholly-foreign-owned enterprise (the "WFOE") in Shanghai, the PRC (also see Note 19 (b)(i)).

The deposit for intangible assets as at December 31, 2001 of approximately HK\$4,715,000 represented an advance to an independent third party for acquiring certain exclusive advertising rights. The exclusive advertising rights were obtained by the Group in the current period, accordingly the deposit was reclassified as intangible assets.

## 10. Accounts receivable, net

An aging analysis of accounts receivable based on due dates is set out below:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Current	<b>1,670</b>	28,092
1 - 30 days	<b>22,572</b>	26,481
31 - 60 days	<b>12,771</b>	16,126
61 - 90 days	<b>13,808</b>	10,988
91 - 120 days	<b>8,921</b>	5,387
Over 120 days	<b>29,603</b>	20,120
	<b>89,345</b>	107,194
Less: Provision for doubtful debts	<b>(5,011)</b>	(4,518)
	<b>84,334</b>	102,676

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

## 11. Accounts payable

An aging analysis of accounts payable based on due dates is set out below:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Current	<b>19,626</b>	19,584
1 - 30 days	<b>8,588</b>	8,884
31 - 60 days	<b>10,515</b>	6,954
61 - 90 days	<b>13,082</b>	2,011
91 - 120 days	<b>1,074</b>	1,102
Over 120 days	<b>18,181</b>	24,243
	<b>71,066</b>	62,778

## 12. Convertible loan notes

The Company entered into an agreement on February 28, 2001 and a supplemental agreement on December 31, 2001 (the "Agreements") with an independent third party (the "Convertible Noteholder") in respect of the issuance of the convertible loan notes (the "Convertible Notes") amounting up to HK\$116,960,000 (US\$15,000,000). Pursuant to the terms of the Agreements, the Convertible Notes can be converted into ordinary shares of the Company at a conversion price of HK\$2.60 per share, the share price at the time of the Listing, provided that conversion can only be effected six months after the Listing. The Convertible Notes are (i) unsecured, (ii) (a) interest bearing at 9.5% per annum for the period up to and including May 28, 2002 and (b) at 3-month London Inter-Bank Offered Rate for deposits in US dollar plus 400 basis points after May 28, 2002 and (iii) redeemable anytime during the nine months after the Listing provided that at least 10 banking days' notice is given to the Company or otherwise repayable by October 24, 2002. The principal sums under the Convertible notes are not subject to partial redemption. Pursuant to the Agreements, the Group has to comply with certain covenants, including among others, ensuring that the Group's unsubordinated and unsecured debt ranking pari passu with the Convertible Notes after the issuance of the Convertible Notes will not be in excess of US\$30,000,000 (approximately HK\$234,000,000).

During the six months ended June 30, 2002, a notice of redemption of the Convertible Notes was received by the Group from the Convertible Noteholder and the Convertible Notes were repaid in full by the Group in May 2002.

## 13. Bank loans and other borrowings

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Bank loans repayable within one year		
- Secured	<b>37,722</b>	56,582
- Unsecured	—	20
Loans from financial institutions repayable within one year		
- Secured	—	27,032
Loans from a third party repayable within one year		
- Unsecured	—	19,500
	<b>37,722</b>	103,134

## 14. Share capital

	Note	For the six months ended June 30, 2002		For the twelve months ended December 31, 2001	
		No. of shares (Unaudited)	Amount HK\$'000 (Unaudited)	No. of shares (Audited)	Amount HK\$'000 (Audited)
Authorized — Ordinary shares of US\$0.01 each					
Beginning of period / year		50,000,000	3,880	50,000,000	3,880
Cancellation of unissued shares	(a) (i)	(50,000,000)	(3,880)	—	—
End of period / year		—	—	50,000,000	3,880
Authorized — Ordinary shares of HK\$0.10 each					
Beginning of period / year		—	—	—	—
Increase in authorized share capital	(a) (i)	5,000,000,000	500,000	—	—
End of period / year		5,000,000,000	500,000	—	—
Issued and fully paid - Ordinary shares of US\$0.01 each					
Beginning of period / year		12,390,657	961	12,390,657	961
Shares repurchased and cancelled pursuant to a share adjustment	(a) (i)	(12,390,657)	(961)	—	—
End of period / year		—	—	12,390,657	961
Issued and fully paid - Ordinary shares of HK\$0.10 each					
Beginning of period / year		—	—	—	—
Shares issued pursuant to a share adjustment	(a) (i)	12,390,657	1,239	—	—
Shares issued by capitalization of share premium account	(a) (ii)	421,282,338	42,128	—	—
Issue of shares upon listing of shares on GEM	(b)	171,386,000	17,139	—	—
Repurchase of shares	(c)	(646,000)	(65)	—	—
End of period / year		604,412,995	60,441	—	—

(a) 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 authorized 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 capitalized 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.
- (b) On January 24, 2002, 171,386,000 shares of HK\$0.10 each were issued to the public by way of a new issue and placement of shares at HK\$2.60 each, for a total cash consideration of approximately HK\$445,604,000 before related issuing expenses.
- (c) During the six months ended June 30, 2002, the Company repurchased 646,000 ordinary shares of HK\$0.10 each of the Company through the Stock Exchange. Those shares were cancelled shortly after repurchase and the issued share capital of the Company was correspondingly reduced.

## 15. Reserves

Movements in reserves of the Group for the six months ended June 30, 2002 and 2001 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 January 1, 2001 (Audited)	300,721	1,668	883	16,336	—	319,608
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	10	—	—	—	10
Loss for the period	—	—	—	(9,683)	—	(9,683)
As at June 30, 2001 (Audited)	300,721	1,678	883	6,653	—	309,935
As at January 1, 2002 (Audited)	<b>300,721</b>	<b>1,568</b>	<b>883</b>	<b>19,797</b>	—	<b>322,969</b>
Capitalization Issue	<b>(42,128)</b>	—	—	—	—	<b>(42,128)</b>
Share issued pursuant to a share adjustment	<b>(278)</b>	—	—	—	—	<b>(278)</b>
Premium on issue of new shares upon listing of shares on GEM	<b>428,465</b>	—	—	—	—	<b>428,465</b>
Write-off of share issuance expenses	<b>(51,604)</b>	—	—	—	—	<b>(51,604)</b>
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	231	—	—	—	231
Repurchase of shares	<b>(579)</b>	—	—	<b>(65)</b>	<b>65</b>	<b>(579)</b>
Loss for the period	—	—	—	<b>(78,179)</b>	—	<b>(78,179)</b>
As at June 30, 2002 (Unaudited)	<b>634,597</b>	<b>1,799</b>	<b>883</b>	<b>(58,447)</b>	<b>65</b>	<b>578,897</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 six months ended June 30, 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.

## 16. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

(a) During the period, the following transactions occurred with related companies:

	Note	For the six months ended June 30,	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Audited)
<b>Income</b>			
Agency commission income for marketing services from Beijing Metro	(i)	1,007	1,618
Production income from High Tech Company	(ii)	62	—
<b>Expenses</b>			
Production costs charged by High Tech Company	(ii)	4,194	6,295
Production costs charged by Digital Photo	(iii)	—	3,279
Production costs charged by Top Photo	(iv)	—	4,301
Sub-contracting fees charged by Pro Photo Processing Limited ("PP")	(v)	24	402
Administrative expenses charged by PP	(v)	318	117

(i) Beijing Metro is an associated company of the Group. Agency commission income is determined based on the agreement executed between the two parties. The commission is based on 12.5% of sales contract amounts.

- (ii) A non-executive director of the Company, Hui Yick Hun, Patrick, has a beneficial interest in High Tech Company. The Group charged High Tech Company for printing services provided based on negotiations between the two parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. High Tech Company also provides production services to the Group in Hong Kong. Production costs charged by High Tech Company are determined based on the outsourcing agreement and standard price list which were executed and agreed between the two parties in June 1999.
- (iii) Digital Photo provides printing services to the Group in Hong Kong. Digital Photo was an associated company of the Group before May 1, 2001. The transactions with this company have been eliminated upon consolidation since May 1, 2001. Production costs charged by Digital Photo are determined based on the standard price list executed and agreed to between the two parties.
- (iv) Top Photo provides printing services to the Group in certain cities of the PRC. Top Photo is a 90.0% owned subsidiary of Digital Photo. Accordingly, Top Photo was an associated company in which the Group had 45.0% effective interest before May 1, 2001. The transactions with this company have been eliminated upon consolidation since May 1, 2001. Production costs charged by Top Photo are determined on a similar basis as described in (iii) above.
- (v) PP is a minority shareholder of Digital Photo. Sub-contracting fees charged by PP are determined based on a similar basis as described in (iii) above. Administrative expenses charged by PP are determined based on a cost recovery basis.

In the opinion of the directors of the Company, the above transactions were carried out in the normal course of business of the Group and on the basis of estimated market value as determined by the directors of the Company.

- (b) Save as disclosed in other notes to the interim financial statements, balances with related companies are unsecured, non-interest bearing and have no fixed repayment terms.

## 17. Credit facilities

Aggregate credit facilities as at June 30, 2002 were approximately HK\$52,722,000 (as at December 30, 2001: HK\$111,082,000) of which the unutilized facilities as at the same date amounted to approximately HK\$15,000,000 (as at December 30, 2001: HK\$7,968,000).

A portion of the total facilities amounting to approximately HK\$37,722,000 (as at December 31, 2001: HK\$37,722,000), representing bank loans denominated in RMB granted to a subsidiary in the PRC, are secured by corporate guarantees from Beijing Metro and the Chinese joint venture partner of Beijing Top Result Public Transportation Advertising Co., Ltd., interest bearing at 6.435% to 7.020% per annum and are repayable within one year from the draw-down date.

As at December 31, 2001, a portion of the total facilities amounting to approximately HK\$18,860,000, representing a bank loan denominated in RMB granted to a subsidiary in the PRC, are interest bearing at 5.58% per annum and are repayable by the end of February 2002. These facilities are secured by a fixed deposit of approximately US\$2,500,000 (HK\$19,493,000). This bank loan was fully repaid in February 2002 and the secured fixed deposit was released accordingly.

A portion of the total facilities is secured by a first fixed charge on certain of the Group's factored accounts receivable of approximately HK\$12,124,000 (as at December 31, 2001: HK\$12,702,000); and by floating charge on certain of the Group's accounts receivable, both present and future. As at June 30, 2002, there was no outstanding balance under this portion of the facilities (as at December 31, 2001: HK\$7,032,000).



## 18. Contingent liabilities

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Letter of guarantee given to a landlord	241	241

## 19. Commitments

### (a) Capital commitments:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Authorized and contracted for: Acquisition of fixed assets	—	2,132

### (b) Investment commitments:

As at June 30, 2002, the Group had the following investment commitments:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Authorized and contracted for: Establishment of a subsidiary and a WFOE (Note (i))	8,965	66,174
Qingdao bus advertising agency agreement	7,544	—
	<b>16,509</b>	66,174

- (i) The Group is required to provide a capital contribution of US\$12,500,000 to a non wholly-owned subsidiary which in turn will provide the capital contribution of US\$2,500,000 for the establishment of a WFOE in Shanghai, the PRC. The Group will contribute the deposit for intangible assets with a book value of approximately HK\$88,535,000 as at June 30, 2002 as part of the capital contribution to the subsidiary. The outstanding capital commitment is approximately HK\$8,965,000 as at June 30, 2002.

(c) Operating commitments:

- (i) The Group leases office space under non-cancellable lease agreements. The amount of total minimum lease payments under non-cancellable operating leases is analyzed as follows:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Total future minimum lease payments payable:		
— not later than one year	<b>11,790</b>	13,173
— not later than one year and not later than five years	<b>12,745</b>	11,649
— not later than five years	<b>839</b>	2,698
	<b>25,374</b>	27,520

- (ii) The Group has entered into certain media rental contracts under which the Group has committed to pay to various media owners concession fees calculated based on various arrangements as stipulated in the respective contracts. The amount of total minimum concession fee payments under the above contracts is analyzed as follows:

	<b>June 30, 2002 HK\$'000 (Unaudited)</b>	December 31, 2001 HK\$'000 (Audited)
Total future minimum concession fee payments payable:		
— not later than one year	<b>236,000</b>	215,000
— not later than one year and not later than five years	<b>542,000</b>	565,000
— not later than five years	<b>949,000</b>	876,000
	<b>1,727,000</b>	1,656,000

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

- (iii) A subsidiary has committed to place a security deposit with a business partner for the performance and observance by the Group of terms under an advertising contract. As at June 30, 2002, the Group has deposited HK\$32,500,000 (as at December 31, 2001: HK\$32,500,000) with the business partner. The Group is required to increase the security deposit to HK\$35,000,000 in November 2002.
- (iv) The Group has undertaken to guarantee that the annual distributable profit of Beijing Metro to be shared by one of its Chinese joint venture partners will not be lower than RMB13,000,000 for each year over the remaining joint venture period until 2015.

## 20. Subsequent events

On July 10, 2002, the board of directors of the Company granted 5,000,000 share options to key managerial staff members under the share option scheme which was approved by the shareholders on January 8, 2002. The exercise price of these option is HK\$0.89.

## 21. Comparative figures

Certain of the 2001 comparative figures have been reclassified to conform to the current period's presentation.

## INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended June 30, 2002 (2001: nil).

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at June 30, 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 June 30, 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 June 30, 2002 were as follows:

Name of director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at June 30, 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 June 30, 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 recognize 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 June 30, 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 six months ended June 30, 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 six months ended June 30, 2002.

## SUBSTANTIAL SHAREHOLDERS

As at June 30, 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%

Save 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 June 30, 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 20,000,000 shares, an associate of the Sponsor held 120,000 shares and one employee of the Sponsor held 8,000 shares in the capital of the Company as at June 30, 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 June 30, 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.

Pursuant to an agreement dated June 26, 2002 entered into between the Company and the Sponsor, an associate of the Sponsor act as broker for the Company in connection with the Company’s repurchase of its shares.

## 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 June 30, 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 of a non-executive Director, Mr. Andersen, Dee Allen and two independent non-executive Directors, namely Mr. Heung Shu Fai (“Mr. Heung”) and Mr. Liu Hong Ru. Mr. Heung has resigned as an independent non-executive Directors and the Chairman of the Committee with effect from July 18, 2002. Mr. Schöter, Johannes is appointed as an independent non-executive Director and Chairman of the Committee with effect from 18 July 2002. The Committee has met three times after its formation.

## BOARD PRACTICES AND PROCEDURES

In the opinion of the directors, the Company has complied with the “Board Practices and Procedures” as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the shares of the Company were listed on GEM on January 24, 2002, except that the independent non-executive directors are not appointed for a specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s Articles of Association.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended June 30, 2002, the Company repurchased on the Stock Exchange a total of 646,000 ordinary shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$638,600, details of which are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
January 2002	—	—	—	—
February 2002	—	—	—	—
March 2002	—	—	—	—
April 2002	—	—	—	—
May 2002	—	—	—	—
June 2002	646,000	1.010	0.960	638,600
	<u>646,000</u>			<u>638,600</u>

The Directors of the Company considered that the above repurchases were made with a view to enhancing the net assets per share of the Company. Those shares were cancelled shortly after repurchase and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, 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, August 13, 2002