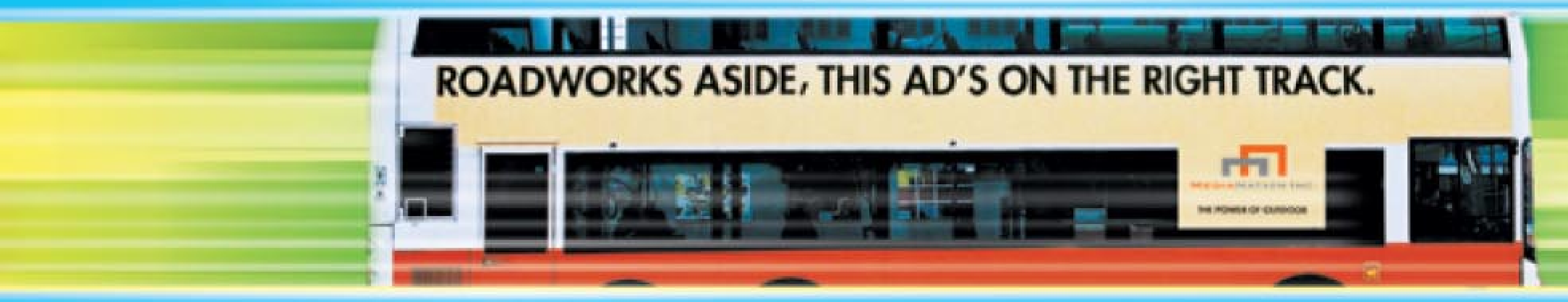
MEDIANATION INC.

Incorporated in the Cayman Islands with limited liability



Third Quarterly Report

2002

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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 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 three months and nine months ended September 30, 2002 was approximately HK$100.5 million and HK$279.5 million respectively.**
- **Net loss attributable to shareholders was approximately HK$47.5 million for the three months ended September 30, 2002.**
- **Loss per share of the Company during the nine months ended September 30, 2002 was approximately HK$21.33 cents.**

FINANCIAL REVIEW

Revenue and Profitability

The Group recorded a turnover of approximately HK$100.5 million and HK$279.5 million for the three months and nine months ended September 30, 2002, which represented a decrease 12.4% as compared to approximately HK$114.7 million and HK$ 319.0 million for the corresponding periods last year. Total turnover for the nine months ended September 30, 2002 consisted of: (i) media rental revenue of approximately HK$219.0 million (78.3% of total turnover); (ii) production income of approximately HK$53.6 million (19.2% of total turnover); (iii) agency commission income of approximately HK$6.2 million (2.2% of total turnover); and (iv) media consultancy services income of approximately HK$0.7 million (0.3% of total turnover). Decrease in total turnover for the nine months ended September 30 was attributable to the weak Hong Kong economy. Total turnover generated from the Hong Kong business decreased from approximately HK$129.7 million last year to HK$79.6 million this year, which represented a drop of 38.6%.

Cost of revenue for the three months and nine months ended September 30, 2002 increased by 17.5% and 18.2% to HK$110.0 million and HK$304.2 million respectively. 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 nine months ended September 30, 2002, which are the major component of cost of revenue, increased 25.1% to HK$157.1 million from HK$125.6 million in the same period last year. Amortization of advertising license rights for the nine months ended September 30, 2002 increased by 6.1% to HK$51.9 million from HK$48.9 million in the same period last year.

For the nine months ended September 30, 2002, the Group suffered a gross loss of approximately HK$24.7 million whilst a gross profit of approximately HK$61.7 million was recorded for the corresponding period last year. The deterioration of gross margin was mainly attributable to the lower level of revenue compared to the same period last year; whereas direct cost increased as a result of expanded media portfolio. Concession fees for the nine months ended September 30, 2002 increased as a percentage of revenue from 39.4% to 56.2% and the amortization of advertising license rights increased as a percentage of revenue from 15.3% to 18.6%.

Selling, general and administrative expenses for the three months and nine months ended September 30, 2002 increased by 42.0% and 45.2% to HK$41.9 million and HK$116.9 million respectively. The increase for the nine months ended September 30, 2002 was mainly associated with the commencement of the Shanghai metro system operation in the latter part of 2001, which accounted for the increase in staff costs and other overhead expenses of HK$7.8 million. In addition, Digital Photo Limited ("Digital Photo") has become a subsidiary of the Group since May 1, 2001, of which only 5 months' expenses were incorporated in the Group's third quarterly results of 2001, whilst a nine-month period of expenses was consolidated in the same period of 2002. The increase in overall selling, general and administrative expenses 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$14.6 million were recorded for the nine months ended September 30, 2002.

For the three and nine months ended September 30, 2002, an impairment loss of HK$6.0 million is recognized in respect of the Group's intangible assets.

As a result, the Group's net losses for the three months and nine months ended September 30, 2002 were HK$47.5 million and HK$125.7 million respectively, compared to net losses of HK$9.4 million and HK$19.1 million for the corresponding periods last year. The reasons for the decline in results are further discussed in the Business Review section below.

BUSINESS REVIEW AND OUTLOOK

The Group operates in three main business lines: bus advertising in the PRC and Hong Kong, metro system advertising and i-Result, which offers an integrated outdoor advertising service platform in the PRC. The Group recently expanded into street furniture advertising business in the PRC and has started to rollout in the third quarter.

China

Metro System Advertising

For the quarter under review, Shanghai Metro advertising operation generated HK$13.3 million revenue, compared to HK$9.4 million for the second quarter in 2002. The sales performance of Line 3 was more volatile during the start-up stage as the approval of installing outdoor billboards in Line 3, which was originally expected to generate a substantial revenue in 2002, was upheld due to tightened policy of the Shanghai Government. While management is in the course of lobbying with the relevant parties on relaxation of such policy, approval has been obtained by the Group for the installation of a new form of digital media in Line 3. This new media format is capable of communicating dynamic visual images in flash format to attract genres of advertisers. The operation of Shanghai Metro is expected to gain further efficiency with the arrival of a new general manager in the fourth quarter of 2002. The growth of Shanghai Metro is expected to become more stable due to: (i) the acceptance and popularity of the newly launched media product gradually raises; (ii) better operational efficiency; and (iii) marked growth in the passenger flow of Line 3.

Beijing Metro further increased its revenue from HK$22.9 million in the second quarter to HK$24.8 million in the third quarter. The Group's share of net profit of Beijing Metro increased from HK$2.5 million in the second quarter to HK$3.4 million in the third quarter.

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, which is believed to be one of the key growth drivers in the future. Looking ahead, management expects Metro Line 3 passenger flow would grow more rapidly when the additional new trains start to operate from November 2002.

Bus Advertising

The Group's bus advertising business in China remained relatively stable during the quarter under review. Media rental revenue for the third quarter increased slightly to HK$43.8 million, compared to HK$41.8 million for the second quarter in 2002.

In Guangzhou, the local government authorities previously held strict regulations in the bus advertising, of which only panel advertising format was accepted. However, these regulations have recently been relaxed. The Group expects to secure the exclusive license for the right to 300 buses for whole bus advertising, which will have the potential to increase the revenue of the Guangzhou operation.

i-Result

Outdoormachine, which was launched by i-Result in April 2001, generated HK$1.6 million revenue for the Group in the third quarter, compared to HK$2.6 million for the second quarter in 2002.

i-Result incurred losses from HK$9.1 million in the third quarter as compared to HK$3.0 million in the second quarter.

The Group is seriously considering to divest the i-Result operation in the near term.

Hong Kong

After the substantial improvement in the second quarter, the Group's Hong Kong bus advertising business remained stable in the third quarter, the turnover was HK$30.0 million in the third quarter compared to HK$30.6 million in the second quarter this year. The loss incurred by the Hong Kong bus operation was HK$5.8 million in the third quarter compared to HK$5.2 million in the second quarter. It is expected that loss will continue to be narrowed from the fourth quarter of 2002. The current bus licence agreements with The Kowloon Motor Bus Company (1993) Limited and New World First Bus Services Limited will be subject to renewal in 2004 and mid-2003 respectively. Management plans to negotiate more favourable terms for the contract renewal. At the same time, proactive measures are being implemented to increase revenue opportunities: new package offering are launched to attract new clientele not previously captured; and the integration of a national sales team which is likely to bring in budgets from PRC-based client.

Street Furniture

The Group rolled out advertising sales of the newspaper kiosks at the end of third quarter of 2002. Currently, approximately 700 kiosks have been installed on the streets of Shanghai with over 280 of them installed with advertising lightboxes. Sales for the kiosk are starting to pick up, highly encouraging booking orders were received for showing date from November 2002 onwards. Response from the magazine sector was particularly good with advertising orders received from over 10 major magazines. Management is confident that they will be able to establish a network of approximately 1,000 kiosks with over 60% of them installed with lightbox by the end of the year in Shanghai.

In addition, the Group has installed first aid in-mall displays in its nationwide network in over 400 locations. It is expected that more than 1,500 in-mall advertising locations will be installed in Beijing, Shanghai, Guangzhou and Shenzhen collectively by the end of the year.

Finance costs

Finance cost for the third quarter further decreased to HK$0.5 million from HK$3.1 million in the second 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 finished its sales organization restructuring in the third quarter. Six regional sales centers are set up to focus on cross media sales of the Group's entire media portfolio in the PRC. Management has seen favorable response from the restructuring and is confident that the move will bring long-term benefits to the Group.

FINANCIAL RESULTS

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

		For the three months ended September 30,		For the nine months ended September 30,	
	Note(s)	**2002**	2001	**2002**	2001
		HK$'000	HK$'000	**HK$'000**	HK$'000
Turnover	2	**100,452**	114,715	**279,474**	319,021
Cost of revenue		**(110,033)**	(93,646)	**(304,207)**	(257,321)
Gross (loss) profit		**(9,581)**	21,069	**(24,733)**	61,700
Other (expense) income, net		**(188)**	192	**3,097**	1,177
Selling, general and administrative expenses		**(41,883)**	(29,493)	**(116,949)**	(80,466)
Provision for impairment of intangible assets		**(5,985)**	—	**(5,985)**	—
Loss from operations		**(57,637)**	(8,232)	**(144,570)**	(17,589)
Finance costs		**(461)**	(4,151)	**(8,298)**	(9,994)
		(58,098)	(12,383)	**(152,868)**	(27,583)
Share of profits of associated companies		**5,285**	4,326	**12,177**	10,526
Loss before taxation		**(52,813)**	(8,057)	**(140,691)**	(17,057)
Income tax (expense) write-back					
— Group		**402**	(1,891)	**297**	(1,409)
— Associated companies		**(1,848)**	(1,591)	**(4,332)**	(4,148)
	4	**(1,446)**	(3,482)	**(4,035)**	(5,557)
Loss after tax but before minority interests		**(54,259)**	(11,539)	**(144,726)**	(22,614)
Minority interests		**6,737**	2,093	**19,025**	3,485
Net loss attributable to shareholders		**(47,522)**	(9,446)	**(125,701)**	(19,129)
Loss per share (HK cents)					
— Basic	5	**7.90**	2.18	**21.33**	4.41
— Diluted	5	**N/A**	N/A	**N/A**	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 periods under review.

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

The financial statements of the Group have been prepared in accordance with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the GEM Listing Rules. The financial statements of the Group 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 September 30,		**For the nine months ended September 30,**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Media rental	**78,300**	94,246	**219,029**	250,778
Production income	**19,586**	16,911	**53,564**	58,726
Agency commission income	**2,367**	2,860	**6,178**	8,663
Media consultancy services income	**199**	698	**703**	854
Total turnover	**100,452**	114,715	**279,474**	319,021
Interest income from bank deposits	**497**	368	**1,952**	1,297
Total revenue	**100,949**	115,083	**281,426**	320,318

3. **Segment information**

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

	For the nine months ended September 30,					
	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	**157,252**	149,351	**61,777**	101,427	**219,029**	250,778
Production income	**37,035**	31,923	**16,529**	26,803	**53,564**	58,726
Agency commission income	**4,925**	7,144	**1,253**	1,519	**6,178**	8,663
Media consultancy services income	**701**	854	**2**	—	**703**	854
Total turnover	**199,913**	189,272	**79,561**	129,749	**279,474**	319,021
Interest income from bank deposits	**142**	259	**1,810**	1,038	**1,952**	1,297
	200,055	189,531	**81,371**	130,787	**281,426**	320,318

4. **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 nine months ended September 30, 2002 (three months and nine months ended September 30, 2001: HK$2,000 and HK$20,000).

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 based 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 September 30,		For the nine months ended September 30,	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000
Hong Kong profits tax	**—**	2	**—**	20
PRC enterprise income tax (refund)	**(402)**	1,889	**(297)**	1,889
Write-back of provision in respect of prior years	**—**	—	**—**	(500)
Share of associated companies' income tax expense	**1,848**	1,591	**4,332**	4,148
	1,446	3,482	**4,035**	5,557

5. **Loss per share**

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

(i) the denomination of the ordinary 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.

As a result of the Capitalization Issue described above, the 421,282,338 ordinary 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 nine months ended September 30, 2001 and 2002.

(a) Basic loss per share

The calculation of basic loss per share for the three months and nine months ended September 30, 2002 is based on the Group's unaudited net loss attributable to shareholders of approximately HK$47,522,000 and HK$125,701,000 respectively (three months and nine months ended September 30, 2001: unaudited net loss attributable to shareholders of approximately HK$9,446,000 and HK$19,129,000), divided by the weighted average number of approximately 601,261,000 and 589,329,000 (three months and nine months ended September 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 nine months ended September 30, 2002 and 2001. These two convertible notes were repaid in full by the Group in May 2002.

6. **Reserves**

Movements in reserves of the Group for the nine months ended September 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	—	—	—	(19,129)	—	(19,129)
As at September 30, 2001 (Unaudited)	300,721	1,678	883	(2,793)	—	300,489
As at January 1, 2002 (Audited)	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	—	282	—	—	—	282
Repurchase of shares	(3,335)	—	—	(390)	390	(3,335)
Loss for the period	—	—	—	(125,701)	—	(125,701)
As at September 30, 2002 (Unaudited)	631,841	1,850	883	(106,294)	390	528,670

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 and nine months ended September 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.

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at September 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 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 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:

	Number of issued ordinary shares of HK$0.10 each in the Company held and nature of interests				
Name of director/ chief executive	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
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 September 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 September 30, 2002 were as follows:

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

Options to subscribe for 2,613,310 ordinary shares in the Company under the Pre-IPO Share Options Plans lapsed during the nine months ended September 30, 2002 due to the cessation of employment of certain employees. During the nine months ended September 30, 2002, none of these options under the Pre-IPO Share Options Plans have been exercised.

Save as disclosed above, during the nine months ended September 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.

Post-IPO Share Options Plans

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 members of the Group to the growth of the Group by rewarding them with opportunities to obtain ownership interests in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long term success.

The Share Options Scheme shall vest in respect of one third of the total number of shares to which it relates upon each anniversary of the respective date upon which the offer of the option is accepted until fully vested and expiring on the tenth anniversary from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The Company granted options on July 10, 2002 to 5 senior management staff and 24 employees to purchase 5,000,000 ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.89 per share. These options are exercisable in the period from July 10, 2003 to July 9, 2012. As at September 30, 2002, options to subscribe for 211,000 ordinary shares lapsed in connection with the cessation of employment with an employee. During the nine months ended September 30, 2002, none of these options had been exercised.

Save as disclosed above, at no time during the nine months ended September 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 debt securities, of the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for any share capital or debt securities of the Company, or had exercised any such right during the nine months ended September 30, 2002.

SUBSTANTIAL SHAREHOLDERS

As at September 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):

Name of shareholder	Number of shares	Approximate percentage of the total number of share in issue
SMI Investors (PAPE II) Limited ("PAMA")	159,130,088	26.5%
Warburg Pincus Ventures, L.P., ("Warburg Pincus")	159,130,088	26.5 %

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 as at September 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"), 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 September 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 September 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 acted as broker for the Company in connection with the Company's repurchase of its shares. The Company's share repurchase program was completed on July 5, 2002. An aggregate of 3,896,000 shares were repurchased by the Company from June 27, 2002 to July 5, 2002 at a price range of HK$0.92 to HK$1.01.

Pursuant to an agreement dated July 12, 2002 entered into between the Company and the Sponsor, the Sponsor is engaged to provide certain advisory services to the Company.

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 had been a non-executive Director of the Company. On September 2, 2002, Mr. Andersen, Dee Allen resigned as a non-executive Director and a member of the audit committee 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 September 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 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 Director and the Chairman of the Committee with effect from July 18, 2002. Mr. Schöter, Johannes is appointed as an independent non-executive Director and the Chairman of the Committee with effect from July 18, 2002. Mr. Andersen, Dee Allen has resigned as a non-executive Director and a member of the Committee with effect from September 2, 2002. Ms. Ho Ming Yee is appointed as a non-executive Director and a member of the Committee with effect from September 2, 2002. The Committee has met four times after its formation.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended September 30, 2002, the Company repurchased on the Exchange a total of 3,896,000 ordinary shares of HK$0.10 each in the share capital of the Company at an aggregate price of HK$3,695,930, details of which are as follows:

Month of repurchase	Number of shares repurchased	Price per share Highest *HK$*	Price per share Lowest *HK$*	Aggregate price paid *HK$*
January 2002	—	—	—	—
February 2002	—	—	—	—
March 2002	—	—	—	—
April 2002	—	—	—	—
May 2002	—	—	—	—
June 2002	646,000	1.010	0.960	638,600
July 2002	3,250,000	0.980	0.920	3,057,330
August 2002	—	—	—	—
September 2002	—	—	—	—
	3,896,000			3,695,930

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, November 11, 2002