



MEDIATION INC.

Incorporated in the Cayman Islands with limited liability



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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.

BUSINESS REVIEW AND OUTLOOK

The Group operates in two core business lines: bus advertising in the PRC and Hong Kong and metro system advertising in the PRC. The Group operates approximately 24,000 buses in 16 cities in the PRC and Hong Kong and the metro system in Beijing and two out of the three metro lines in Shanghai, offering national-wide network services to international and domestic renowned brands. Recently, the Company expanded into the street furniture advertising business.

The Group delivered better results in the second quarter this year, despite the adverse impact resulting from the SARS outbreak in the PRC and Hong Kong. Comparing the second quarter to the first quarter this year, turnover increased from HK\$76.2 million to HK\$87.9 million and the “net loss attributable to shareholders” narrowed to HK\$38.0 million from HK\$46.2 million. Comparing the first six months this year to the corresponding period last year, the substantial reductions of SG&A and finance cost, together with the stronger profit contribution from Beijing Metro, resulted in the “loss after tax but before minority interests” being narrowed to HK\$84.7 million from HK\$90.5 million. The SARS impact led to delays in the Group’s turnaround momentum such that the results could have been further improved without SARS. As SARS faded away in June, there have been strong signs of economic recovery is expected to translate into improved results for the rest of the year.

Business Review

China

Metro System Advertising

Shanghai Metro advertising operation generated a media rental revenue of HK\$12.7 million in the second quarter 2003. This represented a 15.5% improvement over the HK\$11.0 million achieved in the first quarter 2003. More importantly, the Group was able to achieve this improvement despite the adverse impact of SARS in the second quarter. Comparing the media rental revenue of HK\$23.7 million in the first half 2003 to HK\$20.3 million in the first half 2002, there was also a 16.7% improvement. The majority of revenue came from Line 2. In order to improve the revenue from Line 3, the Group continued to lobby with relevant authorities for granting the approval of additional outdoor billboards along the elevated train line. Shanghai Metro incurred losses of HK\$4.8 million and HK\$3.2 million in the first and the second quarter 2003, respectively. The media space occupancy rate in the six months averaged below 45% and there is room for further improvement. Since June 2003, there was a trend of having more new advertising orders secured, the encouraging sign gives the Group strong confidence to a fruitful second half year in 2003.

The associated company Beijing Metro, generated media rental revenues of HK\$26.4 million and HK\$42.8 for the three months and six months ended 30th June 2003, respectively. This represented an improvement of 20.2% compared to HK\$35.6 million in media rental revenue in the first half 2002. The Group’s “share of the net profit (after taxation)” of Beijing Metro was HK\$4.3 million and HK\$6.0 million for the three months and six months ended 30th June 2003, respectively. This represented an improvement of 36.4% in the first half 2003 when compared to “share of net profit (after taxation)” of HK\$4.4 million in the first half 2002.

Bus Advertising

The media rental revenue under the Group's exclusive bus concessions in the PRC was HK\$32.4 million in the second quarter this year, which was a 9.0% drop compared to HK\$35.6 million in the first quarter this year. As a result of the SARS outbreak in the PRC, the occupancy rate dropped to below 35% in the second quarter this year. PRC bus incurred losses of HK\$17.8 million and HK\$33.3 million for the three months and six months ended 30th June 2003, respectively. However, compared to the "loss before minority interest" for the first half last year of HK\$41.0 million, there was an improvement of HK\$7.7 million in the first half this year. This improvement was mainly attributable to cost cutting efforts. Looking ahead, the recovery from SARS since June 2003, as evidenced by increased advertising orders, should lead to better results in the second half this year.

i-Result

On 2nd December 2002, the Group decided to close down the i-Result business. The subsidiaries comprising this segment includes i-Result Media Limited, i-Result (Beijing) Technology Development Co., Ltd. and China Outdoor Data Centre Co., Ltd. In the process of closing down i-Result this year, small losses were incurred in the amount of HK\$0.2 million and HK\$1.4 million for the three months and six months ended 30th June 2003, respectively. The i-Result operations incurred losses of HK\$5.0 million and HK\$6.8 million in the corresponding periods last year. When the closing down process is completed, there will not be further material expenses and losses.

Hong Kong

The Hong Kong bus operation generated media rental revenue of HK\$15.2 million and HK\$25.6 million for the three months and six months ended 30th June 2003, respectively. There was a substantial improvement in revenue of HK\$4.8 million in the second quarter when compared to the first quarter 2003. However, the revenue of HK\$25.6 million in the six months this year was still 33.9% lower than the HK\$38.7 million in the first half last year. Under the minimum guaranteed rental arrangements, the concession fees paid to bus companies are fixed. As a result, the operation incurred a loss of HK\$31.1 million in the first half this year, which was substantially higher than the loss of HK\$18.5 million in the same period last year. The low level of revenue was partly due to the depressed economic environment and the changes in the management team of the Hong Kong bus operation that started end of last year. With a stable management and a more effective sales team currently in place, the marked improvement in the second quarter is expected to continue for the rest of this year.

Street Furniture

The implementation progress of the street furniture projects was affected by the SARS outbreak in the second quarter this year.

In respect of the newspaper kiosk project in Shanghai, the Group has so far installed approximately 700 newspaper kiosks. The Group experienced delays with the implementation of the initial 1,000 kiosks. The management is taking steps to resolve the outstanding issues on site selection of the remaining 300 kiosks. The project team continued to work on installation and to obtain necessary advertising license approvals from various government authorities for the specific locations of this initial phase of 1,000 kiosks. Sales and marketing efforts will be resumed after getting these advertising license approvals. The Group will not proceed to the second stage of the project of an additional 1,000 kiosks unless the first phase of the project is proved successful.

Regarding the Red Cross first aid in-mall advertising project, the group has installed approximately 2,500 advertising light boxes across China. The design of the first aid light box has been modified so that the appearance is more appealing and less bulky when compared to the original design introduced in late 2001. The Group decided to focus on outlets that are not populated by other advertising media, and focus on the major cities, including Beijing, Shanghai, Guangzhou and Shenzhen. It is intended that a network of approximately 4,000 advertising light boxes in aggregate will be completed by the end of 2003. Although the installation plan was slowed down by the SARS outbreak, the project received good response from advertisers and the sales team has secured substantial advertising orders from clients in recent months.

These two projects incurred start-up losses of approximately HK\$3.3 million and HK\$5.3 million for the three months and six months ended 30th June 2003, respectively.

BUSINESS OUTLOOK

The impact of the SARS outbreak on our industry was substantial during the second quarter of 2003. Despite these adverse challenges the Group was able to deliver stronger results in the second quarter of 2003. We are now beginning to see a strong rebound in the post-SARS advertising market, providing significant improvement across most of our business lines. In June, the Group was able to quickly return to normal operational levels and we anticipate this upward momentum to continue through the second half of the year. In line with this expected improved performance, the management team is taking the necessary actions to achieve positive operating cash flow on a monthly basis in the later part of this year.

Financial Review

Revenue and Profitability

The Group recorded turnover of approximately HK\$87.9 million and HK\$164.1 million for the three months and six months ended 30th June 2003 respectively, which represented a decrease of 11.6% and 8.3%, as compared to approximately HK\$99.5 million and HK\$179.0 million for the corresponding periods last year. Total turnover generated from the Hong Kong business for the six months period decreased from approximately HK\$49.6 million last year to HK\$34.8 million this year, which represented a drop of 29.8%. Total turnover generated from PRC business for the six months was approximately HK\$129.2 million, with no material fluctuation compared to the same period last year.

Turnover increased by 15.4% or HK\$11.7 million to HK\$87.9 million for the three months ended 30th June 2003 from HK\$76.2 million for the three months ended 31st March 2003. The increase was mainly due to the improvement of performance for the metro system advertising and the bus advertising business during the period.

Total turnover for the six months ended 30th June 2003 was generated from: (i) bus advertising of approximately HK\$136.5 million (83.2% of total turnover); (ii) metro system advertising of approximately HK\$25.3 million (15.4% of total turnover); (iii) i-Result business of approximately HK\$0.3 million (0.2% of total turnover); and (iv) other operations of approximately HK\$2 million (1.2% of total turnover).

Cost of revenue for the six months ended 30th June 2003 increased by 3% to HK\$200.1 million from HK\$194.2 million for the corresponding period last year. The slight increase in the cost of revenue was mainly attributable to the increase of operating lease rental for advertising spaces (also called concession fees) by approximately HK\$15.3 million or 15.4% to HK\$114.6 million from HK\$99.3 million last year, largely due to a more prudent accrual of the minimum guaranteed rental fee of Shanghai Metro. The impact of this increase in concession fees was partly offset by the reduction of production cost (printing, posting and de-posting) by approximately HK\$7.7 million.

For the six months ended 30th June 2003, the Group suffered a gross loss of approximately HK\$36 million whilst a gross loss of approximately HK\$15.2 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 slightly increased as detailed above.

Selling, general and administrative expenses for the three months and six months ended 30th June 2003 decreased by 36.8% and 28.7% to HK\$25.4 million and HK\$53.5 million respectively, from HK\$40.1 million and HK\$75.1 million for the corresponding periods last year. The decrease was mainly a result of tightening expense control and partly a result of the closure of i-Result business.

A saving of HK\$2.8 million in selling, general and administrative expenses was noted for the three months ended 30th June 2003 as compared to the three months ended 31st March 2003 due to the improvement in expense control.

Finance costs

Finance cost for the three months and six months ended 30th June 2003 decreased to HK\$1.1 million and HK\$1.3 million from HK\$3.1 million and HK\$7.8 million last year respectively mainly due to lower level of borrowings this year.

Share of profits of an associated company

Share of profit of an associated company before taxation increased from approximately HK\$4.1 million and HK\$6.9 million for three months and six months ended 30th June 2002 to HK\$6.5 million and HK\$9.2 million for corresponding periods this year. Beijing Metro demonstrated continuing improvement and achieved higher revenue during the current period.

Net Loss Attributable to Shareholders

As a result of the above factors, the Group suffered a net loss for the three months and six months ended 30th June 2003 of approximately HK\$38.1 million and HK\$84.2 million respectively as compared to net losses of approximately HK\$39.4 million and HK\$78.2 million for the corresponding periods last year. The net loss for the three months ended 30th June 2003 was reduced by HK\$8.1 million from HK\$46.2 million for the three months ended 31st March 2003.

Financial Resources, Security and Liquidity

The gearing ratio, defined as the ratio of total liabilities to total assets, was 43.2% at 30th June, 2003, compared to 33% at 31st December 2002. The increase was mainly due to the short term loan provided by the two substantial shareholders, Warburg Pincus Ventures, L.P. and SMI Investors (PAPE II) Limited to the Company in the form of unsecured loans.

The Group had net assets of approximately HK\$381.3 million at 30th June 2003 (at 31st December 2002: HK\$465.4 million), including cash and bank balances of approximately HK\$27.8 million (at 31st December 2002: HK\$30.6 million) and pledged bank deposit of approximately HK\$0.2 million (at 31st December 2002: HK\$0.2 million).

At 30th June 2003, the Group had outstanding shareholders loan of approximately HK\$60 million (at 31st December 2002: Nil). During the period, the Group had fully settled the bank overdraft of approximately HK\$0.1 million.

On 3rd June 2003, the Group announced the fund raising proposal to raise approximately HK\$120.2 million, before expenses, by way of an issue of new shares through an open offer. Details for the open offer are further discussed in the Subsequent events in the Financial Result and Notes section below.

Employees

At 30th June 2003, the Group had 544 employees (at 31st December 2002: 730; at 30th June 30 2002: 756; at 31st December 2001: 747). The total of employee remuneration, including that of the directors, for the six months ended 30th June 2003 amounted to approximately HK\$31.4 million (six months ended 30th June 2002: HK\$41.4 million). The substantial decrease in employee remuneration was mainly associated with the reduction in headcount resulting from tightened control of expenses and the closure of the i-Result business.

Foreign Exchange

All transactions of the Group are denominated in Hong Kong dollars, Renminbi or United States dollars. As the exchange rates of these currencies were stable and or officially pegged during the period under review, no hedging or other alternatives were implemented. The Group considers the only potential currency exposure is in Renminbi as the majority of the Group's revenue is derived inside the PRC and is denominated in Renminbi. Currently, the market does not anticipate any material devaluation of the Renminbi in the near future and therefore the management believes the Group has no significant currency exposure.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not engage in speculative foreign currency activities.

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 and six months ended 30th June 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Note(s)	For the three months ended 30th June		For the six months ended 30th June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	2	87,901	99,549	164,076	179,022
Cost of revenue		(103,908)	(106,746)	(200,090)	(194,174)
Gross loss		(16,007)	(7,197)	(36,014)	(15,152)
Other net income		88	1,952	176	3,285
Selling, general and administrative expenses		(25,366)	(40,117)	(53,538)	(75,066)
Loss from operations		(41,285)	(45,362)	(89,376)	(86,933)
Finance costs		(1,085)	(3,143)	(1,292)	(7,837)
		(42,370)	(48,505)	(90,668)	(94,770)
Share of profits of associated companies		6,546	4,078	9,170	6,892
Loss before taxation	4	(35,824)	(44,427)	(81,498)	(87,878)
Income tax (expense) write-back					
— Group		—	(2)	—	(105)
— Associated companies		(2,264)	(1,555)	(3,218)	(2,484)
	5	(2,264)	(1,557)	(3,218)	(2,589)
Loss after tax but before minority interests		(38,088)	(45,984)	(84,716)	(90,467)
Minority interests		62	6,599	537	12,288
Net loss attributable to shareholders		(38,026)	(39,385)	(84,179)	(78,179)
Loss per share (HK cents)					
— Basic	6	6.33	6.51	14.00	13.40
— Diluted	6	N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	Note(s)	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Non-current assets			
Investment deposit placed with a joint venture partner		28,291	28,291
Fixed assets, net	7	70,290	69,038
Intangible assets, net	8	266,856	298,730
Long-term deposits		35,000	35,000
Investment in an associated company		45,732	39,781
Deposits for fixed assets		22,303	27,715
Deposits for intangible assets	9	78,137	74,511
Other non-current assets		793	747
		547,402	573,813
Current assets			
Prepayments, deposits and other receivables		28,375	34,968
Inventories		2,948	2,741
Accounts receivable, net	10	64,712	53,419
Pledged bank deposit		241	241
Bank balances and cash		27,754	30,613
		124,030	121,982
Current liabilities			
Accounts payable	11	56,853	81,784
Accrued liabilities and other payables		62,211	68,807
Deferred income		61,042	32,919
Amounts due to related companies		1,298	1,169
Amount due to an associated company		36,415	32,936
Amount due to a joint venture partner		406	264
Income tax payable		—	48
Bank loans and other borrowings	13	60,000	91
		278,225	218,018
Net current liabilities		(154,195)	(96,036)
Total assets less current liabilities		393,207	477,777
Financed by:			
Share capital	14	60,116	60,116
Reserves	15	321,218	405,251
		381,334	465,367
Minority interests		(61)	476
Non-current liabilities			
Long-term payables	12	11,934	11,934
		393,207	477,777

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30TH JUNE 2003 AND 2002**

	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(55,068)	(64,429)
NET CASH USED IN INVESTING ACTIVITIES	(7,846)	(80,250)
NET CASH INFLOW FROM FINANCING ACTIVITIES	59,769	224,392
NET INCREASE IN CASH AND CASH EQUIVALENTS	(3,145)	79,713
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,739	17,689
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	146	231
CASH AND CASH EQUIVALENTS AT END OF PERIOD	25,740	97,633
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	27,754	98,925
Less: Non-cash and cash equivalents	(2,014)	(1,292)
	25,740	97,633

**CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2003 AND 2002**

	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Total equity as at 1st January	465,367	323,930
Issue of ordinary shares upon the listing	—	445,604
Share issuing expenses	—	(51,604)
Repurchase and cancellation of ordinary shares	—	(644)
Net gains/(losses) not recognized in the profit and loss account		
— Exchange difference arising from the translation of accounts of foreign subsidiaries	146	231
Net loss for the period	(84,179)	(78,179)
Total equity as at 30th June	381,334	639,338

NOTES TO THE INTERIM FINANCIAL STATEMENTS:

1. Basis of presentation

The condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) 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 31st December 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The adoption of this SSAP has had no significant impact to the financial statements for the six months ended 30th June 2003.

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

2. Turnover and revenues

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

	For the three months ended 30th June		For the six months ended 30th June	
	2003 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2002 HK\$’000 (Unaudited)
Media rental	67,614	73,354	129,654	140,729
Production income	19,323	24,605	32,275	33,978
Agency commission income	964	1,284	2,147	3,811
Media consultancy services income	—	306	—	504
Total turnover	87,901	99,549	164,076	179,022
Interest income from bank deposits	88	493	176	1,455
Total revenue	87,989	100,042	164,252	180,477

3. Segment information

The Group is engaged in providing outdoor media advertising services under three main business segments, namely, Metro system advertising, Bus advertising and i-Result business. The Group's activities are conducted mainly in Hong Kong and the PRC. Analysis by business segment and geographical segment is as follows:

Business segment

	For the six months ended 30th June (Unaudited)													
	Metro system advertising		Bus advertising		i-Result business (note)		Other operations		Corporate		Eliminations		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER														
Sales to external customers	25,318	21,338	136,471	154,799	262	2,885	2,025	—	—	—	—	—	164,076	179,022
Inter-segment sales	23	72	6,126	216	181	1,810	425	—	—	—	(6,755)	(2,098)	—	—
Total turnover	25,341	21,410	142,597	155,015	443	4,695	2,450	—	—	—	(6,755)	(2,098)	164,076	179,022
RESULTS														
Segment profit (loss) before amortization and depreciation	(2,197)	310	(32,877)	(22,847)	(1,445)	(6,343)	(4,800)	(2,533)	(8,579)	(15,812)	—	—	(49,898)	(47,225)
Amortization and depreciation	(1,611)	(936)	(35,737)	(39,226)	(206)	(1,617)	(1,046)	(532)	(1,054)	(1,040)	—	358	(39,654)	(42,993)
Segment profit (loss) from operation	(3,808)	(626)	(68,614)	(62,073)	(1,651)	(7,960)	(5,846)	(3,065)	(9,633)	(16,852)	—	358	(89,552)	(90,218)
Other net income													176	3,285
Loss from operations													(89,376)	(86,933)
Finance costs													(1,292)	(7,837)
Share of net profits or losses of associated companies													9,170	6,892
Income tax expense													(3,218)	(2,589)
Loss after taxation but before minority interests													(84,716)	(90,467)
Minority interests													537	12,288
Net loss attributable to shareholders													(84,179)	(78,179)

Geographical segment

	For the six months ended 30th June					
	2003			2002		
	Hong Kong	The PRC	Total	Hong Kong	The PRC	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
TURNOVER						
Metro system advertising	—	25,318	25,318	—	21,338	21,338
Bus advertising	34,583	101,888	136,471	48,852	105,947	154,799
i-Result business (note)	262	—	262	722	2,163	2,885
Other operation	—	2,025	2,025	—	—	—
Total turnover	34,845	129,231	164,076	49,574	129,448	179,022
Interest income from bank deposit	85	91	176	1,360	95	1,455
	34,930	129,322	164,252	50,934	129,543	180,477

Note: The Group closed down the i-Result business in December 2002. The subsidiaries comprising the segment were liquidated and reported as discontinuing operations in the previous annual report, no significant activities were noted during the current period.

4. Loss before taxation

Loss before taxation is stated after crediting and charging the following:

	For the six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Crediting:		
Net exchange gains	—	99
Charging:		
Depreciation on		
— owned assets	6,739	6,675
— assets under finance leases	—	447
Loss on disposal of fixed assets, net	362	—
Amortization of intangible assets included in cost of sales	32,736	35,613
Amortization of intangible assets included in administrative expenses	163	186
Amortization of goodwill included in		
— administrative expenses	16	72
— share of profits or losses of associated companies	634	634
Operating lease rentals for		
— office premises	5,748	6,655
— advertising spaces	114,555	99,288
Net exchange losses	154	—
Staff costs (including directors' emoluments)	31,448	41,429
Interest expenses	1,292	7,837

5. Taxation

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 30th June 2003 (2002: Nil).

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% ("EIT") (2002: 33%). Taxation on overseas profits 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 amount of taxation charge to the consolidated profit and loss account represents:

	For the three months ended 30th June		For the six months ended 30th June	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Current taxation - PRC EIT	—	2	—	105
Share of taxation attributable to an associated company	2,264	1,555	3,218	2,484
	2,264	1,557	3,218	2,589

6. Loss per share

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

- (i) the denomination of the ordinary share capital of the Company was effectively converted from United States dollars to Hong Kong dollars (the "Shares Conversion") through the following steps:
 - the authorised share capital was increased from US\$500,000 to the aggregate of US\$500,000 and HK\$500,000,000 by the creation of 5,000,000,000 shares of HK\$0.10 each;
 - 12,390,657 shares of HK\$0.10 each 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 Hong Kong dollars denominated shares issued to them, such shares were then automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and
 - the authorised but unissued shares of US\$0.01 each were cancelled.
- (ii) the sum of HK\$42,128,233.80 being part of the amount then standing to the credit of the share premium account of the Company was capitalised by issuing 421,282,338 shares ("Capitalisation Issue"), credited as fully paid at par, to the holders of shares registered on the register of members of the Company on 8th January 2002 in proportion to their respective shareholdings.

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 1st January 2002 and had been outstanding throughout the three months and six months ended 30th June 2002.

(a) Basic loss per share

The calculation of basic loss per share for the three months and six months ended 30th June 2003 is based on the Group's net loss attributable to shareholders of approximately HK\$38,026,000 and HK\$84,179,000 respectively (three months ended 30th June 2002: approximately HK\$39,385,000; six months ended 30th June 2002: approximately HK\$78,179,000), and the weighted average of approximately 601,163,000 ordinary shares in issue during the three months and six months ended 30th June 2003 (three months ended 30th June 2002, approximately 605,036,000 ordinary shares; six months ended 30th June 2002: approximately 582,322,000 ordinary shares).

(b) Diluted loss per share

No diluted loss per share for the three months and six months ended 30th June 2003 and 2002 is presented because the effect of the assumed conversion of all potential dilutive ordinary shares is anti-dilutive.

7. Fixed assets, net

The movements of fixed assets of the Group were:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Net book value, beginning of period/year	69,038	51,072
Additions	8,661	36,190
Disposal	(670)	(1,365)
Depreciation	(6,739)	(15,776)
Impairment charge	—	(1,083)
Net book value, end of period/year	70,290	69,038

8. Intangible assets, net

Intangible assets of the Group comprised:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Net book value, beginning of period/year	298,730	351,879
Additions	1,041	55,888
Disposal	—	(3,101)
Amortization	(32,915)	(70,226)
Impairment charge	—	(35,710)
Net book value, end of period/year	266,856	298,730

9. Deposits for intangible assets

As at 30th June 2003, the Group has paid approximately HK\$78,137,000 (as at 31st December 2002: HK\$74,511,000) to a subsidiary of the joint venture partner of China Kiosk Development Limited ("China Kiosk") for the purpose of acquiring the rights to place advertisement on specially designed newspaper kiosks. The Group will contribute these deposits for intangible assets as part of its capital contributions to Shanghai Kiosk.

10. Accounts receivable, net

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

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Current	6,060	757
1-30 days	13,814	21,017
31-60 days	13,990	8,236
61-90 days	10,020	9,851
91-120 days	7,743	6,742
Over 120 days	20,586	15,308
	72,213	61,911
Less: Provision for doubtful debts	(7,501)	(8,492)
	64,712	53,419

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

11. Accounts payable

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

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Current	7,933	35,487
1-30 days	9,117	6,368
31-60 days	6,443	5,623
61-90 days	2,138	12,997
91-120 days	30,422	19,939
Over 120 days	800	1,370
	56,853	81,784

12. Long-term payables

Long-term payables represent payables for the acquisition of advertising licences from bus operators in the PRC. The balance is unsecured, not repayable within one year and is non-interest bearing except for an amount of approximately HK\$460,000 (31st December 2002: HK\$460,000) which bears interest at 6.435% (31st December 2002: 6.435%) per annum.

13. Bank loans and other borrowings

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Bank overdraft	—	91
Loans from shareholders repayable within one year		
— Secured	—	—
— Unsecured	60,000	—
	60,000	91

Two substantial shareholders, SMI Investors (PAPE II) Limited and Warburg Pincus Ventures, L.P. have advanced HK\$30,000,000 each (totaling HK\$60,000,000) to the Company as unsecured loans with an interest at 8% per annum. The loans were fully settled by the end of July 2003.

A short-term and unsecured loan amounting to HK\$8,000,000 was advanced by a related company of Warburg Pincus Ventures, L.P. in February 2003 with an interest rate at 8% per annum. Full amount was settled by the end of March 2003.

14. Share capital

	Notes	For the six months ended 30th June 2003		For the twelve months ended 31st December 2002	
		No. of shares	Amount HK\$'000	No. of shares	Amount HK\$'000
		(Unaudited)	(Unaudited)	(Audited)	(Audited)
Authorized — Ordinary shares of US\$0.01 each					
Beginning of period/year		—	—	50,000,000	3,880
Cancellation of unissued shares	(a) (i)	—	—	(50,000,000)	(3,880)
End of period/year		—	—	—	—
Authorized — Ordinary shares of HK\$0.10 each					
Beginning of period/year		5,000,000,000	500,000	—	—
Increase in authorized share capital	(a) (i)	—	—	5,000,000,000	500,000
End of period/year		5,000,000,000	500,000	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
Shares repurchased and cancelled pursuant to a share adjustment	(a) (i)	—	—	(12,390,657)	(961)
End of period/year		—	—	—	—
Issued and fully paid — Ordinary shares of HK\$0.10 each					
Beginning of period/year		601,162,995	60,116	—	—
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)	—	—	(3,896,000)	(390)
End of period/year		601,162,995	60,116	601,162,995	60,116

- (a) Pursuant to resolutions passed by the shareholders of the Company on 8th January 2002:
- (i) the denomination of the share capital of the Company was effectively converted from United States dollars to Hong Kong dollars through the following steps:
- the authorised share capital was increased from US\$500,000 to the aggregate of US\$500,000 and HK\$500,000,000 by the creation of 5,000,000,000 shares of HK\$0.10 each;
 - 12,390,657 shares of HK\$0.10 each were allotted and issued to the then shareholders 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 Hong Kong dollars denominated shares issued to them, such shares were automatically cancelled on repurchase as required by the Companies Law (2001 Second Revision) of the Cayman Islands; and
 - the authorized but unissued shares of US\$0.01 each were cancelled.
- (ii) the sum of HK\$42,128,233.80 being part of the amount then standing to the credit of the share premium account of the Company was capitalised by issuing 421,282,338 shares (the “Capitalization Issue”), credited as fully paid at par, to the holders of shares registered on the register of members of the Company on 8th January 2002 in proportion to their respective shareholdings in the Company.
- (b) On 24th January 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.

Accordingly, approximately HK\$428,465,000 was credited to the share premium account and the Company’s ordinary shares were listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “listing”) on 24th January 2002.

- (c) Last year, the Company repurchased 3,896,000 ordinary shares of HK\$0.10 each in the GEM at a total cash consideration of approximately HK\$3,725,000. Accordingly, approximately HK\$3,335,000 was debited to the share premium account and approximately HK\$390,000 was transferred from accumulated losses to capital redemption reserve. These shares were cancelled on repurchase.

15. Reserves

Movements in reserves of the Group for the six months ended 30th June 2003 and 2002 were as follows:

	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve* HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 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)
New share issued 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	—	231	—	—	—	231
Repurchase and cancellation of shares	(579)	—	—	(65)	65	(579)
Loss for the period	—	—	—	(78,179)	—	(78,179)
As at 30th June 2002 (Unaudited)	634,597	1,799	883	(58,447)	65	578,897
As at 1st January 2003 (Audited)	635,510	1,844	883	(233,376)	390	405,251
Exchange difference arising from the translation of financial statements of overseas subsidiaries	—	146	—	—	—	146
Loss for the period	—	—	—	(84,179)	—	(84,179)
As at 30th June 2003 (Unaudited)	635,510	1,990	883	(317,555)	390	321,218

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 30th June 2003 and 2002, no transfer was made by the subsidiaries to these statutory reserves.

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

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account and the capital reserve 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. At 30th June 2003, in the opinion of the directors, the Company has no reserves available for distribution to its shareholders.

16. Commitments

(a) Capital commitments for fixed assets:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Authorized and contracted for	1,785	9,103

(b) Capital commitments for investment:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Authorized and contracted for	—	3,725

(c) Commitments under operating leases:

- (i) At 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Not later than one year	9,987	12,210	1,146	1,626
Later than one year and not later than five years	8,221	11,673	113	1,396
Later than five years	277	158	—	—
	18,485	24,041	1,259	3,022

- (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. At 30th June 2003, the Group had future aggregate minimum concession fee payments under the aforementioned contracts as follows:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Not later than one year	210,796	237,000
Later than one year and not later than five years	441,490	515,000
Later than five years	821,313	854,000
	1,473,599	1,606,000

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 actual media rental revenue generated.

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 30th June 2003, the Group has deposited HK\$35,000,000 (as at 31st December 2002: HK\$35,000,000) with the business partner.

- (iii) The Group has undertaken to guarantee that the Chinese joint venture partner's share of BJ Metro's distributable profit will not be lower than RMB13,000,000 (approximately HK\$12,150,000) for each year over the remaining joint venture period until 2015.

17. 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 Group undertook the following significant related party transactions, which were carried out in the normal course of the Group's business:

	Note	For the six months ended 30th June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Income			
Production income from High Tech Company	(i)	10	62
Equipment leasing income from Pro Photo Processing Limited ("PP")	(ii)	12	—
Sales of materials to PP	(ii)	96	—
Expenses			
Production costs charged by High Tech Company	(i)	2,096	4,194
Sub-contracting fees charged by PP	(ii)	110	24
Administrative expenses charged by PP	(ii)	185	318
Interest expenses charged by substantial shareholders	(iii)	1,065	—
Interest expenses charged by Shanghai Mecox	(iii)	47	—

- (i) An ex-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 entered into between the two parties in June 1999.
 - (ii) PP is a minority shareholder of Digital Photo. Income from leasing of equipment and sales of materials are determined based on a cost recovery basis. Sub-contracting fees charged by PP were determined based on terms as agreed between the two parties. Administrative expenses charged by PP are determined based on a cost recovery basis.
 - (iii) The interest expenses were charged by two substantial shareholders, SMI Investors (PAPE II) Limited and Warburg Pincus Ventures, L.P. and a related company of Warburg Pincus Ventures, L.P., Shanghai Mecox Lane Holdings Company Limited (“Shanghai Mecox”), at 8% per annum. Detailed terms were further discussed in note 13 “Bank loans and other borrowings”.
- (b) Save as disclosed in other notes to the interim financial statements, balances with a joint venture partner and related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

18. Subsequent events

On 10th July 2003, the Company issued a prospectus in relation to the issue of 1,202,325,990 new shares by way of an open offer at HK\$0.10 each. The open offer became unconditional on 23rd July 2003. As a result of the open offer, the Company received subscription monies totaling approximately HK\$120.2 million.

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 14th January 2002.

Business objectives as stated in the listing prospectus:

Actual business progress to date:

Maintain and strengthen market leadership position

Expand the bus-advertising network in China by acquiring additional concessions in new cities or our existing cities.

In June 2002, the Group entered into a new bus advertising concession contract in respect of about 2,800 buses under exclusive agency arrangement in Qingdao.

Install additional advertising displays in metro advertising systems in the Shanghai metro.

The Group has largely completed the media assets development of Shanghai Metro Line 2 and the media assets development in the platforms and ticketing halls of Shanghai Metro Line 3.

Invest in new digital printing machine.

In view of the decrease in media sales that resulted in a decrease in production volume, the project has been put on hold. The Group will further reassess the feasibility of the investment in the future.

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

Instead of engaging external vendors, the Group used in-house resources to develop the software and has largely completed the programming. Trial runs have been implemented on different media assets.

Business objectives as stated in the listing prospectus:

Introduce new media formats

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

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

Upgrade and begin marketing New World First Bus Services Limited's (NWFB) bus shelters.

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

Actual business progress to date:

The Group has installed approximately 700 newspaper kiosks, of which approximately 400 are equipped with advertising display panels. The Group experienced certain delays with the implementation and location selection of the remaining 300 kiosks in the first phase of the project and management is taking steps to resolve the outstanding issues. As for the implementation of an additional 1,000 kiosks in the second stage of the project, the Group will reassess the expansion plan based on whether the first phase of the project is successful and proposes to finance such expansion plan, if any, using cash flow generated from the first phase of the project and internally generated cash flow of the Group.

The Group has installed approximately 2,500 advertising light boxes across China. The design of the first aid light box has been modified so that the appearance is more appealing and less bulky. However, implementation during 2002 was slower than expected due to a higher priority given by management to the implementation of the kiosk project. The Group decided to focus on outlets that are not populated by other advertising media, and in major cities of Beijing, Shanghai, Guangzhou and Shenzhen. It is intended that a network of approximately 4,000 advertising light boxes in aggregate will be completed by the end of 2003.

Continue to market the NWFB's bus shelters to advertisers.

The project has been put on hold and will be revisited when the Group improves its performance and is able to deploy resources to work on this project.

Business objectives as stated in the listing prospectus:

Provide integrated outdoor advertising

Further develop and improve the outdoor services media database for i-Result.

Selectively pursue acquisitions

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

Actual business progress to date:

As announced in the announcement dated 10th February 2003, the Group decided to discontinue this operation.

The Group has no current plan to pursue this objective until its financial resources permit and until the Group can identify suitable acquisition targets.

USE OF PROCEEDS

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

	As stated in the prospectus & supplemental prospectus <i>HK\$ million</i>	Actual amount used up to 30th June 2003 <i>HK\$ million</i>	Further amount to be used in 2003 <i>HK\$ million</i>
Development of printing and Media Inventory Management System	7.0	—	—
Expansion of street furniture business:			
— newspaper kiosks	120.0	70.3	3.4
— 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	23.9	2.1
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	136.1	—
	394.0	388.5	5.5

As previously disclosed, a substantial portion of the listing proceeds has been used to finance the Group's operating losses and in this connection, this deviates from the original plan stated in the listing prospectus. As set out above, the Group will use the remaining listing proceeds of HK\$5.5 million for expansion of its street furniture business.

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30th June 2003 (2002: nil).

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

As at 30th June 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors pursuant to Rules 5.40 of the GEM Listing Rules (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 Options Plans" below), were as follows:

Name of director/ chief executive	Number of issued ordinary shares of HK\$0.10 each in the Company held and nature of interests						Approximate percentage of the total number of shares in issue
	Personal interests	Family Interests	Corporate interests	Other interests	Capacity	Total	
Mr. Chu Chung Hong, Francis	2,467,000	—	—	—	Beneficia Owner	2,467,000	0.4%
Ms. Chan Sim Ngor, Summerine	26,252,118	—	—	—	Beneficial Owner	26,252,118	4.4%
	28,719,118	—	—	—		28,719,118	

Other than as disclosed above and in the paragraph headed "Pre-IPO Share Options Plans" below, as at 30th June 2003, none of the directors, chief executive or their associates had any personal, family, corporate or other interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations and none of the directors, chief executive or any of their respective spouses or children under the age of 18 were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any shares or debentures of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Pre-IPO Share Options Plans

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

Under the terms of the Pre-IPO Share Options Plans, details of the Pre-IPO Share Options granted to and held by the directors of the Company as at 30th June 2003 were as follows:

Name of director	Date of offer	Exercisable period	Exercise price US\$	Outstanding as at 30th June 2003
Ms. Chan Sim Ngor, Summerine	1st July 1997	1st July 1998 to 30th June 2007 ⁽¹⁾	0.038095	2,712,500
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.038095	2,275,000
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.171429	2,835,000
	1st September 2000	1st September 2001 to 31st August 2010 ⁽¹⁾	0.038095	1,715,000
	5th May 2001	5th May 2002 to 4th May 2011 ⁽¹⁾	0.171429	2,450,000
	9th June 2001	9th June 2001 to 8th June 2011 ⁽²⁾	0.206841	19,036,535
Mr. Kam Ling	1st July 1997	1st July 1998 to 30th June 2007 ⁽¹⁾	0.038095	1,750,000
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.038095	1,750,000
	1st September 2000	1st September 2001 to 31st August 2010 ⁽¹⁾	0.038095	1,925,000
	5th May 2001	5th May 2002 to 4th May 2011 ⁽¹⁾	0.171429	6,125,000

(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) These Pre-IPO Options were fully vested upon its grant and may be exercised at any time during the period commencing on the respective date upon which the offer of the option is accepted and expiring on the tenth anniversary from the date of offer.

During the six months ended 30th June 2003, a total number of 5,356,960 options under the Pre-IPO Shares Options Plans had lapsed. No options were granted nor exercised during the period.

Save as disclosed above, during the six months ended 30th June 2003, no Pre-IPO Share Options were granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under any of the Pre-IPO Share Options Plans to any directors of the Company.

Post-IPO Share Option Scheme

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

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

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

During the six months ended 30th June 2003, a total number of 633,000 options under the Share Option Scheme lapsed but no options were granted nor exercised during this period.

Save as disclosed above, at no time during the six months ended 30th June 2003 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, or debt security of the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for any shares or debentures of the Company, or had exercised any such right during the six months ended 30th June 2003.

The Directors consider it is inappropriate to value the options granted as a number of factors, such as the timing of exercise of options, which is crucial for the valuation, cannot be determined. Also given the trading volume of the Company’s shares since its listing on GEM, it is not appropriate to come up with a meaningful expected volatility for the calculation of the option value. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful and would also be misleading to the shareholders.

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

So far as is known to any director or chief executive of the Company, as at 30th June 2003, the following substantial shareholders of the Company (within the meaning of the GEM Listing Rules) had interests or short positions in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO (other than those interests of directors disclosed above):

Name of shareholder	Number of shares of HK\$0.10 each in the Company held	Capacity	Approximate percentage of the total number of shares in issue
SMI Investors (PAPE II) Limited ("PAMA")	159,130,088	Beneficial Owner	26.5%
Warburg Pincus Ventures, L.P., ("Warburg Pincus")	159,130,088	Beneficial Owner	26.5%

Save as disclosed above, and as far as the directors are aware, as at 30th June 2003, no other substantial shareholders had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

OTHER PERSONS HAVING INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any director or chief executive of the Company, as at 30th June 2003, the following person had interests or short positions in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO (other than those interests of directors and substantial shareholders disclosed above and interests of persons as recorded in the register to be kept under section 336 of the SFO pursuant to Division 5 of Part XV of the SFO):

Name of shareholder	Number of shares of HK\$0.10 each in the Company held	Capacity	Approximate percentage of the total number of shares in issue
Southfield Investment Pte Ltd.	46,750,010	Beneficial Owner	7.8%

Save as disclosed herein, and as far as the directors are aware, as at 30th June 2003, no other person had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO (other than interests of persons as recorded in the register to be kept under section 336 of the SFO pursuant to Division 5 of Part XV of the SFO).

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Deutsche Bank AG, Hong Kong Branch (the "Sponsor"), one employee of the Sponsor held 8,000 shares in the capital of the Company as at 30th June 2003. Apart from this interest, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30th June 2003.

Pursuant to the agreement dated 23rd January 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 4th January 2002 until 31st December 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PAMA Group Inc. ("PAMA Group") is the general partner in PAMA I and PAMA II, which are two private equity funds managed by PAMA Group. PAMA II owns PAMA. PAMA I has investments in various businesses including Texon International Limited ("Texon"). Texon is a competitor of the Group in the Hong Kong bus shelter market. PAMA I has two nominees appointed to the board of Texon, one of whom is Mr. Andersen, Dee Allen who was formerly a non-executive director of the Company. On 2nd September 2002, Mr. Andersen, Dee Allen resigned as a non-executive director and a member of the audit committee of the Company. PAMA Group is a wholly owned subsidiary of PAMA Investment Holdings Limited ("PIHL"). Mr. Cheung Leung Hong, Cliff, a non-executive director of the Company, is a shareholder of PIHL and has an indirect interest of less than 0.5% in the share capital of Texon.

Save as disclosed above, as at 30th June 2003, none of the directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 10th September 2001 and formulated its written terms of reference in compliance with Rules 5.23 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 comprised a non-executive director, Ms. Ho Ming Yee and two independent non-executive directors, namely Mr. Schöter, Johannes (the Chairman of the Committee) and Mr. Barry John Buttifant.

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 throughout the period ended 30th June 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed security.

By Order of the Board
Sun Qiang, Chang
Chairman

Hong Kong, 12th August 2003