MediaNation Inc.

2004

annual report · 年報

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This report, for which the directors of MediaNation Inc. (the "Company") collectively and individually accept 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.

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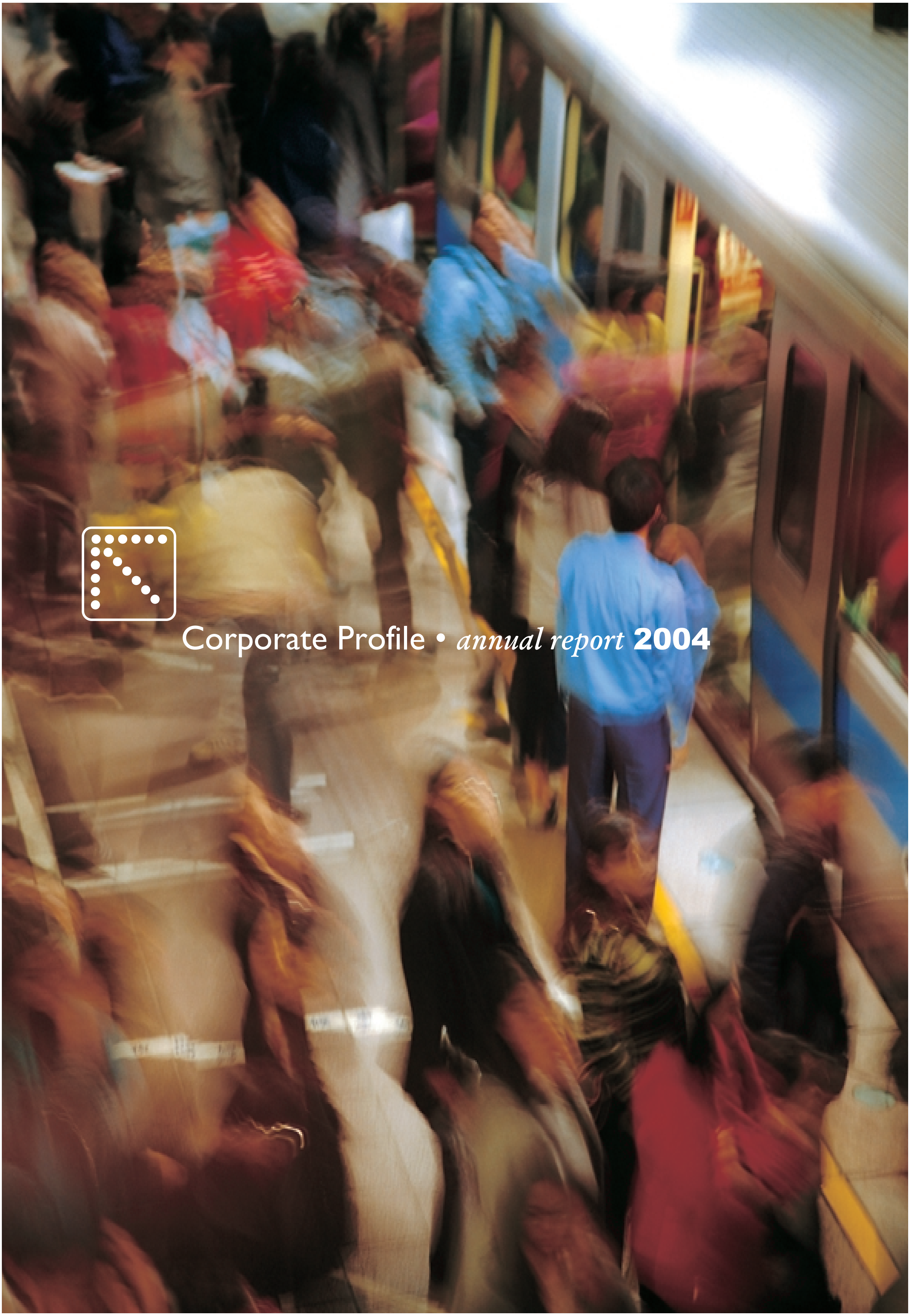


Corporate Profile • *annual report* **2004**

MediaNation Inc. is a leading advertising company, which has built up one of the largest public transport advertising display networks in the People's Republic of China (the "PRC").

The Company is well established. Its roots go back to 1992, when the founders saw the huge potential for outdoor advertising in Hong Kong and the PRC. In 1996, a holding company was incorporated which offered advertising services through its subsidiaries.

The Company is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

MediaNation Inc. is now established as a major force in outdoor advertising in its chosen markets.

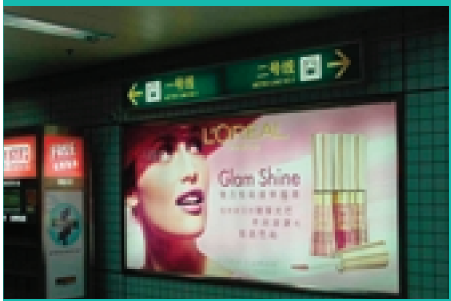
Major Chinese cities in which the Company has contracts with public transport authorities include Beijing, Shanghai, Guangzhou, Wuhan, Tianjin, Hangzhou, Qingdao and Chengdu.

Corporate Profile • *annual report* **2004**

The Company has the exclusive rights to advertising display sites on approximately 16,855 buses in 15 major cities in the PRC. The metro systems media advertising is a fast growing business in the PRC. The Company has contracts with metro lines operated in Beijing and Shanghai.

The Company recently signed a five-year sole sales agency contract with CGEN Digital Media Network Co. Ltd. ("CGEN"), a Shanghai-based company specializing in in-store TV at approximately 240 mega stores outlets in 23 Chinese cities at present, which include Beijing, Shanghai, Guangzhou, Tianjin, Hangzhou, Wuhan, Ningbo and Shenzhen.

From this strong and expanding base, the Company is also seeking new advertising opportunities, and is expanding into other formats such as newspaper kiosks and other forms of "street furniture".



An Expanding Market

Although one of the oldest forms of mediums, outdoor display remains a key form of advertising with advantages that cannot be matched by television or newspaper advertising. This is especially true in terms of the visual impact, which makes this form of presentation so effective. The rapidly growing consumer market in the PRC will ensure a strong demand for advertising.

The creative use of prominent displays in heavily trafficked locations provides advertisers with a powerful platform to build brand awareness and drive home marketing messages.

Compared to other forms of advertising, it is cost effective, generates repetitive viewing and reaches potential customers close to points of sale.

The exciting and endless possibilities for presentation offered by this form of display will ensure that it remains a key tool in advertising campaigns. Clients are becoming ever more sophisticated in their presentations, and are encouraged by the growing amount of research data that reinforces the effectiveness of outdoor displays. New technologies also widening creative opportunities, will, in turn, attract new customers.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hp
万千色彩任挥洒

bus *advertising*

	As of 31/12/2004	As of 31/12/2003
No. of buses	16,855	22,658
Total no.of cities in the PRC with bus advertising operation	15	16

MediaNation Inc. operates one of the largest bus advertising network in Pan China. Bus ads are the best way to capture the attention of today's highly mobile consumers, because they move with them. Buses are an intrinsic part of the daily lives of the entire community, from children to housewives, workers to senior executives. Regardless of the traffic condition, buses are highly visible and are almost impossible to ignore. Their size and movement make them attention-grabbers on the street. And thanks to their mobility, it takes only a few buses to deliver full population coverage in comparatively less densely populated cities.

Corporate Profile • The Key Outdoor Advertising

metro *advertising*

No. of display panels in Shanghai Metro	As of 31/12/2004	As of 31/12/2003
- physical no. of panels	3,291	3,403
- in standard media equivalent (see Note below)	2,762	2,2[illegible]7
No. of display panels in Beijing Metro	21,971	21,971

Note : Standard Media is defined as a 12 sheet light box in the hall of a grade A station of Line 2, e.g. Zhong Shan Park Station. Other display panels are converted to Standard Media based on relative advertising value.

Metro advertising is a shining star among all outdoor media, and an obvious choice on every media plan. In view of its heavy and stable passenger flow of the system, metro advertising is an outdoor medium that can be quantitatively measured. Metro riders in the PRC are mobile working group, with solid purchasing power. They appreciate advertising as a valuable information and entertainment source during their journey. Advertisers have a captive audience, which enables them to repeatedly drive home their message.

With extensive facilities on the Beijing and Shanghai Metro Systems, the Company provides access to a hundred of thousands of potential client customers every day.

Corporate Profile • **The Key Outdoor Advertising**

As the PRC's major cities continue to modernize, there will be an increasing need for street furniture that enhances the quality of urban life both by improving a city's appearance and public amenities. MediaNation Inc. sees the value in tapping the street furniture sector, has expanding into this sector with the following projects.

Street Furniture

City Showcase - Shanghai Newspaper Kiosk

MediaNation Inc. has the exclusive right to operate newspapers kiosks network in Shanghai.


SONY
Sony「語言學習線控」系列隨身聽 WM-GX808 / WM-FX900
紅十字緊急救助 FIRST-AID
急救箱

Street Furniture

Dynamic Showcase - First Aid Advertising Display

Our strategy to build a nationwide network of first aid light boxes commenced in Beijing, with the support of China General Chamber of Commerce and Red Cross.

Chairman's Statement • *annual report* 2004

Sun Qiang, Chang
Chairman

Dear stakeholders,

I am delighted to report that in 2004 we recorded our first profitable year since IPO in early 2002, which is a tremendous turnaround achieved by our tenacious and hard working management team led by our CEO, Mr. Francis Chu. On behalf of all shareholders, I would like to express our appreciation to Mr. Chu and his team for this remarkable result.

A YEAR OF PROGRESS

We have achieved a record profit figure of HK$2.5 million, and our adjusted EBITDA stands at HK$84.6 million.

This is now our second year under the stewardship of our re-invigorated management team. We have continued to build our people strength, extending our focus to middle management, this is having a direct and tangible impact on our P&L bottom line.

This ongoing renewal is providing us with the actively and aggressively seek out new opportunities, particularly in the PRC.

LOOKING AHEAD

Given improvements in the global economy and in Asia in particular, we are seeing a much stronger demand for advertising media in the PRC and Hong Kong.

We are also exploring some exciting new mediums for our customers, featuring leading-edge electronic technology, in the PRC and elsewhere. We are also confident of some significant new contract opportunities in the PRC in 2005.

Looking ahead we have a strong and stable management team steering our clear vision. We are back on track and ready to seize the abundant opportunities in China.

I also want to thank all our stakeholders for your continued support and commitment to our vision for growth. MediaNation will continue to strive to improve shareholder value in the years ahead.

Sun Qiang, Chang
Chairman

Francis Chu
Chief Executive Officer

It gives me great pleasure to report a benchmark year, which saw the Company achieves significant operational and financial improvements. Most importantly, we have managed to achieve a turnaround of the bottom line and record our first profitable year since IPO in early 2002.

This turnaround was achieved despite a continuation of the challenging environment for our industry in 2004. City governments in the major centers of Beijing and Shanghai have been reorganizing their outdoor media environments, resulting in more clients using our network of outdoor media opportunities. Similarly, many of our business partners are undergoing their own re-organization process to meet the changing environment, and their resources re-allocation are affecting all players in the market.

Despite this unpredictable environment, the fine effort made by our management team continues to steer us toward our goals. EBITDA and cash flows remain positive, while the Company has also benefited from a reduction in selling, general and administrative expenses through a sustained tightening of control over costs. The Company has HK$92.3 million cash on hand, without any loans outstanding.

There are a number of highlights from 2004 that I would like to share with you.

SOME HIGHLIGHTS FROM 2004

Due to the re-organizations made by some of our business partners, we have adopted a strategy that focuses on prime locations and routes for our bus advertising operations in the PRC. The Company recorded a 15% increase in turnover in this sector, despite reducing the total number of buses to 17,000 in 2004 from 19,000 in 2003. This focus on prime quality sites is paying great dividends.

In Hong Kong, the licence agreement with The Kowloon Motor Bus Company (1933) Limited expired in October last year. After serious consideration, the Company decided not to renew the licence agreement for sound commercial reasons. Since the operation has been loss making, discontinuing this business has not had any negative financial impact on the Company. This move is also in line with our strategy to focus on our PRC business.

Our associated company, Beijing Metro, continued to deliver excellent financial performance in 2004, recording a 27% increase in turnover and 32% increase in profit delivery. This was due to the better utilization of our sales network with more cross-selling from other business units in the group.

The Shanghai Metro operations have managed an outstanding financial performance in 2004. Most significantly, the business recorded an increase of 65% in turnover and managed to turn around its bottom line from a HK$12 million loss to a HK$15 million profit year-on-year.

This is the first year of the official launch for the Shanghai Newspaper Kiosk project and the Red Cross first aid light boxes project. The newspaper kiosks in Shanghai recently gained significant attention from central government as they are selling government publications such as The People's Daily – previously these publications were available through subscription only. We aim to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in the near term.

Approximately 4,800 Red Cross first aid light boxes are now installed across major cities, including Beijing, Shanghai and Guangzhou - focusing on universities and schools, locations that are not populated with competing media.

We continue to receive many inquiries and favorable responses from both clients and advertising agencies with regard to some of our new product solutions, and we believe this momentum will continue in 2005.

AN EXCITING AND DYNAMIC 2005 AWAITS

We are already well into the year of the Rooster and our focus on growth and expansion remains unchanged. With the Company now in a healthy financial position, we will continue to look into opportunities both within and outside transit advertising, to cater for the ever-growing demand for innovating advertising media solutions.

With this in mind, the Company recently signed a five-year sole sales agency contract with CGEN, a Shanghai-based company specializing in in-store TV at mega stores outlets, this will likely to significantly boost our revenue base.

We have a solid management team in place, and a firm focus on our business strategy going forward. With a year of turnaround and consolidation behind us we can now look forward to sustained growth in what must be one of the most exciting and dynamic advertising media markets in the world today.

Francis Chu
CEO

Mr. Sun Qiang, Chang
Chairman

Mr. Sun Qiang, Chang, aged 48, became a non-executive director of the Company in September 1996 and became the chairman in July 2001. He is also a managing director of Warburg Pincus, Hong Kong. Mr. Sun has been with Warburg Pincus since 1995. He holds a master of business administration degree from the Wharton School of the University of Pennsylvania, a master of arts degree from the Joseph H. Lauder Institute of Management and International Studies at the University of Pennsylvania and a bachelor of arts degree in English literature from the Beijing Foreign Languages Institute. Prior to joining Warburg Pincus, he was an executive director in the investment banking division and the principal investment area of Goldman Sachs (Asia) LLC. Mr. Sun previously worked for Lepercq, de Neuflize and Co., an investment bank and leveraged buyout firm in New York.

Mr. Chu Chung Hong, Francis
Executive Director

Mr. Chu Chung Hong, Francis, aged 49, became the Company's new chief executive officer and executive director in December 2002 and January 2003, respectively. He is also the authorized representative and the compliance officer of the Company. Mr. Chu joins the Company from advertising agency Lowe, where he was the managing director of its operations in the PRC. Mr. Chu has 26 years of experience in the advertising industry, having held senior management positions with Ogilvy & Mather Taiwan, Euro RSCG and FCB Megacom.

Mr. Cheung Leung Hong, Cliff
Non-Executive Director

Mr. Cheung Leung Hong, Cliff, aged 43, became a non-executive director of the Company in March 1998. He is the managing director and chief investment officer of PAMA Group and a member of its investment committee. PAMA Group, is one of the largest and longest established private equity firms in Asia. Since joining PAMA in 1986 at its inception, Mr. Cheung has held various investment and post investment responsibilities with PAMA in Asia and with the corporate finance and leverage buyout groups of The Prudential Insurance Company of America in the United States. Prior to joining PAMA, Mr. Cheung worked with the Hong Kong branch of Hamburgische Landesbank and the investment team of American International Assurance Co., Ltd. in Hong Kong. Mr. Cheung holds the Chartered Financial Analyst designation and is a graduate of the University of Hong Kong.

Ms. Ho Ming Yee
Non Executive Director

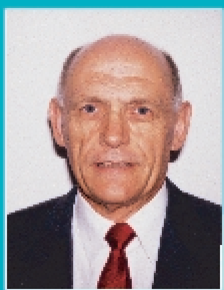
Ms. Ho Ming Yee, aged 42, became a non-executive director of the Company and a member of the audit committee of the Company in September 2002. Ms. Ho joined PAMA Group (Hong Kong) Limited in March 1995. As a director of direct investment, she is responsible for PAMA Group's private equity investment activities in North Asia. Prior to joining PAMA Group, Ms. Ho worked for HSBC Private Equity Management Limited for nearly 6 years, where she was responsible for acquiring new investments and monitoring portfolio companies in the Asia Pacific region. She had also previously worked for Lazard Asia Asset Management managing listed investments in the region. Ms. Ho obtained a master of business administration degree in finance and accounting from the University of California, Los Angeles and a bachelor of science degree in industrial engineering from Stanford University.

Mr. Cheng Cheung Lun, Julian
Non Executive Director

Mr. Cheng Cheung Lun, Julian, aged 31, became a non-executive director of the Company in March 2003. Mr. Cheng has been with Warburg Pincus group since 2000. He received his bachelor of arts degree from Harvard University. Prior to joining Warburg Pincus group, he worked with Salomon Smith Barney and Deutsche Bank in Hong Kong.

Mr. Johannes Schöter
Independent Non-Executive Director

Mr. Johannes Schöter, aged 49, became an idependent non-executive director of the Company in July 2002. He is also the managing partner of Victoria Capital Limited in Hong Kong. Victoria Capital is a corporate finance advisory firm with main activities in merger and acquisition and fundraising. Mr. Schöter joined Deutsche Bank AG ("DB") in 1979 after his graduation from university and became the chief representative of DB in Beijing in 1983 till 1988. Mr. Schöter returned to Germany afterwards and joined the Duisburg branch of DB as general manager. In 1991 Mr. Schöter was appointed as the general manager of Tokyo branch of DB. Mr. Schöter became the general manager of DB for China, Hong Kong and Macau in 1995 before he founded Victoria Capital in 1998 together with a partner. Mr Schöter holds a master degree in business administration from the Augsburg University in 1978.



Mr. Barry John Buttifant
Independent Non-Executive Director

Mr. Barry John Buttifant, aged 60, became an independent non-executive director of the Company in June 2003. He is the managing director of Hsin Chong International Holdings Ltd. and is an alternate director to Mr. V-Nee Yeh, chairman of Hsin Chong Construction Group Ltd. and Mrs. Yvette Yeh Fung, deputy chairman of Synergis Holdings Ltd. He has over 30 years of experience in corporate and financial management and has lived in Hong Kong for over 25 years. Prior to joining Hsin Chong Group, he was an operating partner of Baring Private Equity Asia Ltd. and was the managing director of Wo Kee Hong (Holdings) Ltd. from 2001 to 2002 and was the adviser to the board of directors of Wo Kee Hong from November 2002 to April 2004, the managing director of IDT International Limited for over 8 years and had worked for Sime Darby Hong Kong Limited and Polly Peck Group for more than 11 years in the capacity as finance director and managing director, respectively during the period. He is also an independent non-executive director of Giordano International Limited, Daiwa Associate Holdings Limited, China Merchants DiChain (Asia) Limited and a non-executive director of a NASDAQ listed company, China Technology Global Corporation and a NYSE public company, Global-Tech Appliances Inc. Mr. Buttifant is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Chartered Management Institute, the Hong Kong Management Association and the Hong Kong Institute of Directors.

Mr. Duck Young Song
Independent Non-Executive Director

Mr. Duck Young Song, aged 60, became an independent non-executive director of the Company in September 2004. He is currently the chairman and chief executive officer of Diageo Korea Co. Ltd. and a partner of Gravitas Partnership, Ltd., a business consulting group specializing in Asian markets. Mr. Song is an experienced international executive with 20 years of multi-market operational experience in Asia and 13 years in advertising and marketing communication in the United States combined. For the past five years, Mr. Song was the chief executive officer and president of Philip Morris Asia, responsible for restructuring and expanding the firm's business for the entire region except Japan. Prior to that, he was the chief executive officer of Philip Morris Korea for ten years where he successfully established the firm's business operation from top to bottom. Mr. Song graduated from the University of Illinois in 1968 with a bachelor of science degree in industrial management and received a master of business administration degree in marketing from Wharton Graduate Business School, University of Pennsylvania in 1969.

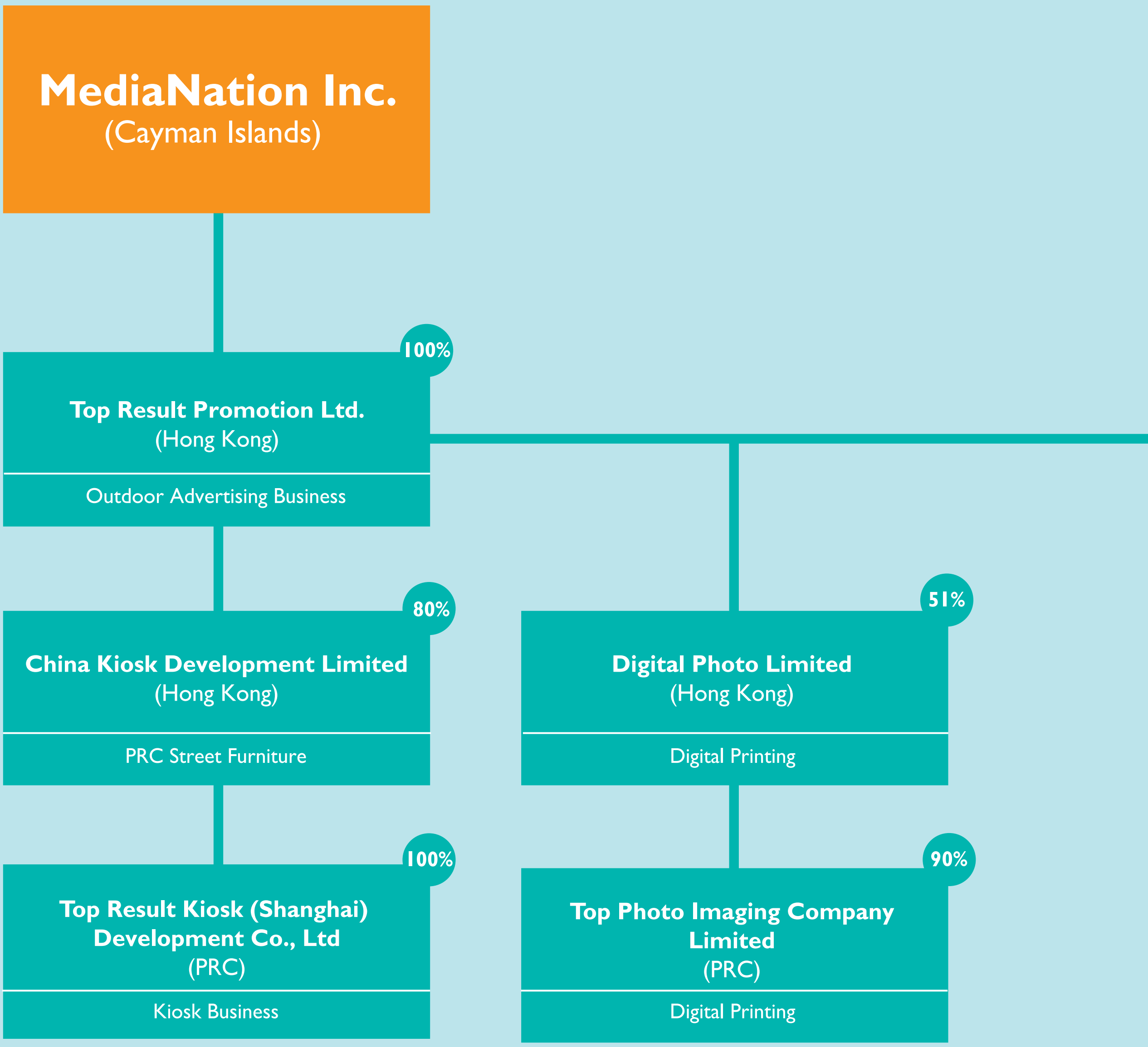
Ms. Mo Li Yan
Chief Operation Officer

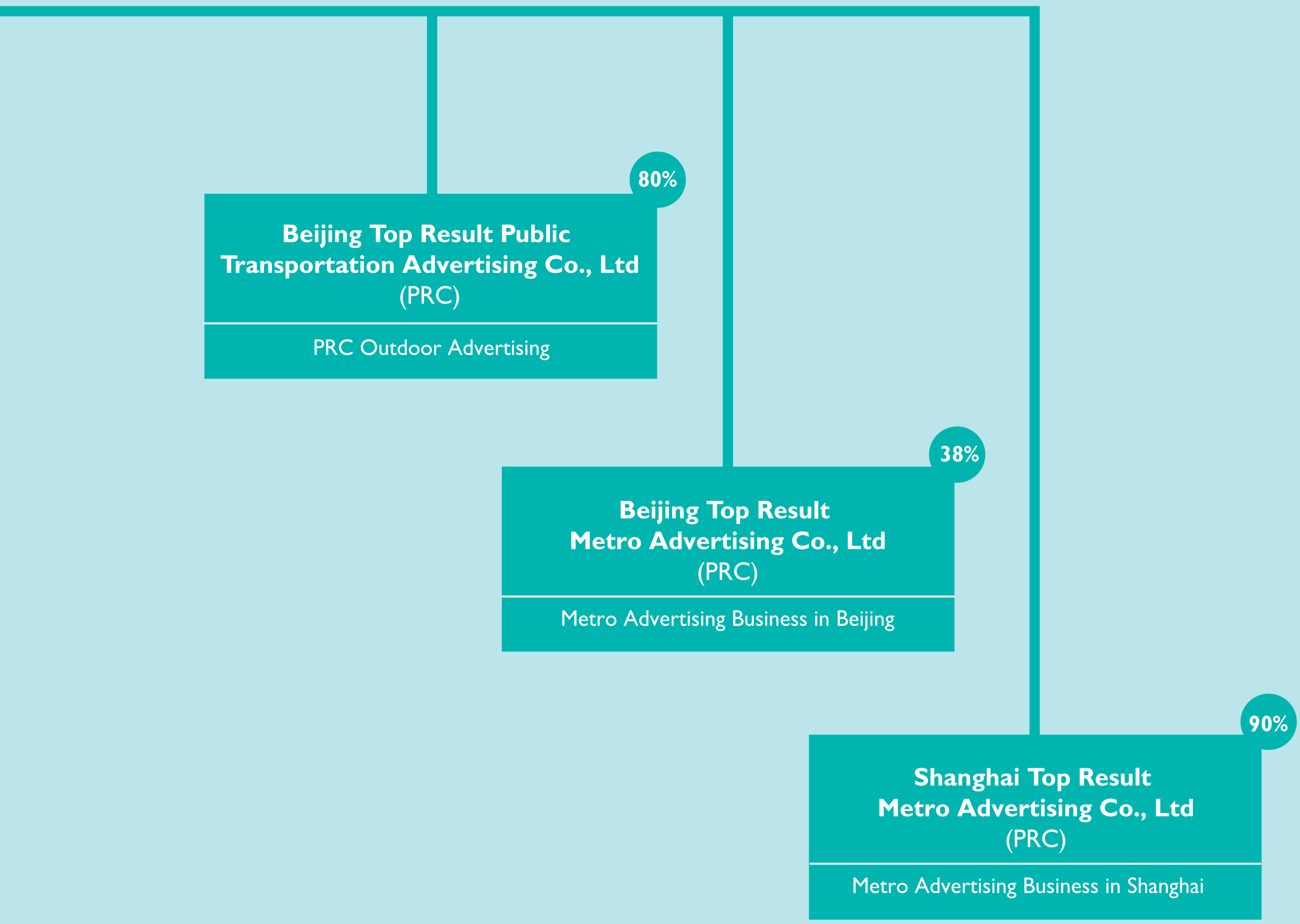
Ms. Mo Li Yan, aged 53, is currently the chief operation officer of the Group, with a focus on the PRC operations. Ms. Mo also plays an active role in government lobbying. Ms. Mo was a government official for more than 20 years, and previously held senior positions in various government departments including: Central Commission of Discipline and Inspection of Chinese Communist Party; the Ministry of Domestic Trade; General Corporation of China Material Development Investment and General Corporation of China Storage and Transportation. Ms. Mo is a diploma holder of physics, as well as the recipient of a master of business administration degree from Beijing University.

Mr. Bill Han
Chief Financial Officer

Mr. Bill Han, aged 41, joined the Group as chief financial officer in January 2005. For the previous 5 years, he worked in investments, outdoor advertising, and the Internet. From 1992 to 1999, Mr. Han worked for various entities of Time Warner in both the US and China, including as vice president and chief financial officer of Beijing Time Warner Cable and senior advisor to The Road Runner Group. Mr. Han holds a bachelor and a master degree from Wuhan University and a master of business administration degree from Yale University.

Corporate Structure • *annual report* 2004




80%
Beijing Top Result Public Transportation Advertising Co., Ltd
(PRC)
PRC Outdoor Advertising
38%
Beijing Top Result Metro Advertising Co., Ltd
(PRC)
Metro Advertising Business in Beijing
90%
Shanghai Top Result Metro Advertising Co., Ltd
(PRC)
Metro Advertising Business in Shanghai

BOARD OF DIRECTORS

Executive Directors

Mr. Chu Chung Hong, Francis

Non-Executive Directors

Mr. Sun Qiang, Chang
Mr. Cheung Leung Hong, Cliff
Ms. Ho Ming Yee
Mr. Cheng Cheung Lun, Julian

Independent Non-Executive Directors

Mr. Johannes Schöter
Mr. Barry John Buttifant
Mr. Duck Young Song

COMPANY SECRETARY

Mr. Cheng Ka Chung (AHKICPA)

QUALIFIED ACCOUNTANT

Mr. Cheng Ka Chung (AHKICPA)

COMPLIANCE OFFICER

Mr. Chu Chung Hong, Francis

AUDIT COMMITTEE

Mr. Johannes Schöter
Mr. Barry John Buttifant
Ms. Ho Ming Yee

AUTHORISED REPRESENTATIVES

Mr. Chu Chung Hong, Francis
Mr. Cheng Ka Chung

AUDITORS

PricewaterhouseCoopers
33/F., Cheung Kong Center
2 Queen's Road, Central,
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3507, 35th Floor
The Center
99 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citic Ka Wah Bank Limited
Standard Chartered Bank
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Hong Kong

WEBSITE ADDRESS

www.medianationinc.com

STOCK CODE

8160

FINANCIAL HIGHLIGHTS

(HK'm)	For the three months ended 31-Mar-04	30-Jun-04	30-Sep-04	31-Dec-04	For the year ended 31-Dec-04	31-Dec-03	YoY Fav/ (unfav)
Turnover	86.3	113.6	124.3	115.4	439.6	375.6	17.0%
Cost of sales	(76.0)	(95.5)	(98.1)	(88.5)	(358.1)	(395.4)	9.4%
SG&A	(21.7)	(24.2)	(26.7)	(28.6)	(101.2)	(110.9)	8.7%
Adjusted EBITDA	13.7	22.6	27.2	21.1	84.6	(51.9)	
Net profit/(loss)	(7.1)	0.1	4.6	4.9	2.5	(143.8)	

The Group achieved significant operational and financial improvements in 2004, recording its first profitable year since its IPO in early 2002. Net profit was HK$2.5 million, which was a marked improvement over the net loss of HK$143.8 million in 2003. Turnover continued to grow, from HK$375.6 million in 2003 to HK$439.6 million in 2004, an increase of 17.0 % year-on-year. Cost of sales decreased from HK$395.4 million in 2003 to HK$358.1 million in 2004, mainly due to reduction in concession fees. There was an 8.7% reduction in SG&A to HK$101.2 million, mainly because of tightened cost controls, particularly in staff cost and office rental. Adjusted EBITDA continued to improve and turned positive in 2004, reaching HK$84.6 million in 2004.

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group operates two core business lines: bus advertising and metro system advertising. Advertising is carried on approximately 16,855 buses in 15 cities in the PRC and 469 buses in Hong Kong (the contract in Hong Kong expired on 31st October 2004 and was not renewed), plus the entire underground metro system in Beijing city center and two metro lines in Shanghai, offering nationwide network services to renowned international and domestic brands. There has also been an expansion into the street furniture advertising business in recent years.

	For the year ended 31st December					
	2004			2003		
	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000	Hong Kong HK$'000	The PRC HK$'000	Total HK$'000
Turnover						
Metro system advertising	—	91,680	91,680	—	55,446	55,446
Bus advertising	74,295	263,292	337,587	87,566	228,197	315,763
Other operations including street furniture	—	10,334	10,334	318	4,041	4,359
Total turnover	74,295	365,306	439,601	87,884	287,684	375,568

China

Bus Advertising

PRC bus represented 60.0% of the Group's total turnover in 2004. It recorded HK$77.8 million in turnover in the fourth quarter of 2004, a 37.9% increase over the HK$56.4 million achieved in the fourth quarter of 2003. The operation recorded a net profit of HK$0.4 million in the fourth quarter of 2004, which was a significant improvement over the net loss of HK$22.6 million for the corresponding period in 2003. For full year 2004, PRC bus narrowed its loss to HK$7.7 million, which represented an improvement of 87.5% compared with 2003. This improvement was mainly attributable to the better sales performance and the cost cutting measures implemented by the management in 2003. In 2003, the Group renegotiated bus contracts in some key PRC cities and terminated some unprofitable contracts relating to buses running on non-prime routes in the city or city outskirts, both resulting in substantial reductions in media rental costs. The reduced fixed cost base enabled this operation to achieve better financial results this year. The average occupancy rate of the PRC bus advertising space was 45.1% in 2004.

Metro System Advertising

Shanghai Metro recorded strong growth and made up 20.9% of the Group's total turnover in 2004. With sales of HK$23.2 million in the fourth quarter of 2004, it achieved a growth of 47.8% compared with HK$15.7 million in the same period in 2003. Shanghai Metro made a net profit of HK$4.3 million and HK$15.1 million in the fourth quarter and full year of 2004, respectively, which marked a strong turnaround from the net loss of HK$0.9 million and HK$11.5 million in the corresponding periods in 2003. The average occupancy rate of the operation was 51.6% in 2004 and the Group will continue to work on improving the occupancy rate.

The Group's associated company, Beijing Metro, continued to deliver strong financial performance in 2004. The turnover was HK$30.1 million and HK$128.7 million for the fourth quarter and full year of 2004, respectively, which represented a growth of 7.5% and 26.5% over the corresponding periods in 2003. The Group's "share of net profit (after taxation)" of Beijing Metro was HK$5.7 million and HK$20.8 million for the fourth quarter and full year of 2004, respectively, an improvement of 5.6% and 32.5% over the corresponding periods in 2003.

Street Furniture

The Shanghai Newspaper Kiosk project received the advertising license approvals from government authorities in December 2003 for about 700 newspaper kiosks installed on the streets of Shanghai. Out of these 700 kiosks, approximately 620 were installed with advertising panels and the remaining ones are in the process of being relocated to better locations or being installed with additional advertising panels. The newspaper kiosks in Shanghai recently gained nationwide attention as these kiosks started to sell government publications, such as The People's Daily, that were previously only available through subscription. The Group aims to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in the near term.

For the First Aid Advertising Display project, approximately 4,800 light boxes have so far been installed across major cities, including Beijing, Shanghai and Guangzhou. The focus is on universities and schools that are not populated by other advertising media. The Group is aiming to enhance the school media network by installing additional light boxes in 2005. In the past few months, the sales and marketing team has been pushing advertising sales and the response from clients has been encouraging.

The above two projects incurred start-up losses of HK$0.8 million and HK$6.6 million for the fourth quarter and full year of 2004, respectively. In the fourth quarter, they generated a combined turnover of HK$4.6 million. The Group appreciates the growth opportunity and will continue to focus on these projects in the coming year.

Hong Kong

Hong Kong bus represented 16.9% of the Group's total turnover in 2004. The operation generated turnover of HK$10.6 million and HK$74.3 million in the fourth quarter and full year of 2004.

The licence agreement with The Kowloon Motor Bus Company (1933) Limited expired on 31st October 2004. After serious consideration, the Group decided not to renew the licence agreement for sound commercial reasons. Since the operation was loss making, discontinuing this business would not have any negative financial effect on the Group. As disclosed in the 2003 Annual Report, a provision for onerous contract was made in 2003 regarding this agreement. However, as the operating results of this unit were still below expectation, the Hong Kong bus operation recorded a loss of approximately HK$8.1 million in 2004.

BUSINESS OUTLOOK

Further to achieving the turnaround of EBITDA since the third quarter of 2003, the Group has recorded the first profitable year since its IPO in early 2002. There has been a strong momentum in advertising growth in the PRC, as can be seen in advance bookings by customers for the early part of 2005, particularly in the two metro operations in Shanghai and Beijing.

From a cash flow perspective, the fourth quarter was now the sixth consecutive quarter that the EBITDA continued positive. The business should continue to generate positive operating cash flow in the near future and this will further strengthen the financial position of the Group. When appropriate opportunities are identified, the Group would cautiously consider further expansion of its existing out-of-home media network within and outside of the traditional transit media. The Group recently signed a five-year sole sales agency contract with CGEN, a Shanghai-based company specializing in in-store TV at mega stores outlets, which will likely significantly boost our revenue base.

Given the improving global economy, business outlook for year 2005 is promising. The management is seeing stronger demand for advertising media in the PRC. Sales contracts secured so far in the early part of 2005 have been very encouraging. The Group anticipates a year of high growth in the outdoor advertising market in the PRC in 2005.

FINANCIAL REVIEW

Revenue and Profitability

The Group recorded turnover of HK$439.6 million for the year ended 31st December 2004, which represented a strong growth of 17.0% compared with HK$375.6 million for the previous year. Total turnover generated from Hong Kong decreased from HK$87.9 million in 2003 to HK$74.3 million in 2004, a drop of 15.4% mainly due to the expiry of the contract with KMB in October 2004. Total turnover generated from PRC increased by 27.0% from HK$287.7 million in 2003 to HK$365.3 million in 2004. The increase was mainly due to the improvement of performance for the metro and bus advertising businesses during the year. Despite the downsized bus media portfolios in the PRC and Hong Kong, the Group was still able to achieve significant increase in turnover.

Total turnover for the year ended 31st December 2004 was generated from: (i) bus advertising of HK$337.6 million (76.8% of total turnover); (ii) metro system advertising of HK$91.7 million (20.9% of total turnover); and (iii) other operations including street furniture of HK$10.3 million (2.3% of total turnover).

Cost of sales for the year ended 31st December 2004 decreased by 9.4% to HK$358.1 million from HK$395.4 million in 2003. The decrease was mainly due to the reduction of concession fees resulting from (i) a downsized bus media portfolio in the PRC; (ii) the realization of the onerous contract provision made in 2003; and (iii) the expiry of the New World First Bus Services Limited ("NWFB") bus body advertising agreement in Hong Kong in July 2003 and the expiry of The Kowloon Motor Bus Company (1933) Limited ("KMB") bus body advertising agreement in Hong Kong in October 2004.

As a result of the above mentioned increase in turnover and reduction in cost of sales at the same time, the Group recorded a gross profit of HK$81.5 million in 2004, which was a significant improvement over the HK$19.9 million gross loss for the previous year.

Selling, general and administrative expenses for the year ended 31st December 2004 decreased by 8.7% from HK$110.9 million in 2003 to HK$101.2 million in 2004. The decrease was mainly due to tightened cost controls, particularly in staff cost and office rental.

Finance Costs

Finance costs for the year was negligible (2003: HK$1.6 million).

Share of Profit of An Associated Company

Share of profit of an associated company before taxation coming from Beijing Metro increased from HK$23.3 million in 2003 to HK$31.0 million in 2004. Beijing Metro demonstrated continuing improvement and achieved higher profit in 2004.

Taxation

No provision for Hong Kong profits tax has been provided as the Group had no estimated assessable profit in Hong Kong for the year (2003: Nil). The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax ("EIT") on their taxable income at a combined national and local tax rate of 33% (2003: 33%). The Group's taxation consists primarily of HK$10.2 million EIT levied on profit from an associated company where the EIT rate is 33%.

Minority Interests

Minority interests in the Group's results were HK$1.9 million in 2004 (2003: HK$0.1 million).

Pursuant to general accounting practice, where a subsidiary reports losses, the minority interest presented in the consolidated profit and loss account should reflect an appropriate share of those losses. However, if the recognition of the minority share of such losses results in a debit balance for the minority interest in the consolidated balance sheet, such debit balance should be recognised only if there is a binding obligation on the minority shareholders to make good losses incurred which they are able to meet. During the year, the excess of the losses attributable to the minority of the subsidiaries in Beijing and the printing group, namely Beijing Top Result and Digital Photo group over the minority interest in the equity of the Beijing Top Result and Digital Photo group was charged against the Group, amounting to HK$1.3 million and HK$1.8 million, respectively.

Net Profit Attributable to Shareholders

As a result of the above, the Group recorded a net profit for the year ended 31st December 2004 of HK$2.5 million (2003: a net loss of HK$143.8 million).

Adjusted Earning Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA)

Adjusted EBITDA represents gain/(loss) from operations excluding (i) depreciation of fixed assets; (ii) amortisation of intangible assets; (iii) interest income and expense; (iv) tax but including the Group's proportional share of EBITDA (with the same definition) from its associated company. The Group uses adjusted EBITDA to measure its performance:-

	For the year ended 31st December 2004	For the year ended 31st December 2003
	HK$ million	HK$ million
Adjusted EBITDA	84.6	(51.9)

Financial Resources, Security and Liquidity

The Group had net assets of HK$440.9 million as at 31st December 2004 (2003: HK$438.3 million), including cash and bank balances of HK$92.3 million (2003: HK$55.3 million).

The Group had no material outstanding borrowing as at 31st December 2004.

The gearing ratio, defined as the ratio of total liabilities to total assets, was 30.7% as at 31st December 2004, comparable to 30.0% as at 31st December 2003.

Pledge of Assets

As at 31st December 2004, the Group did not have any pledged assets.

Assets

The total assets of the Group increased by 1.1% from HK$631.5 million in 2003 to HK$638.5 million in 2004. The majority of the non-current assets are intangible assets of advertising license rights.

Material Investments/Acquisitions/Disposals

The Group made no material acquisition or disposal during the year. As at 31st December 2004, the Group had no future plans for material investments or capital assets.

Employees

As at 31st December 2004, the Group had 551 (2003: 507) employees. Total employee remuneration, including that of the directors, for the year ended 31st December 2004 amounted to HK$54.9 million (2003: HK$57.2 million). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The remuneration of directors is from time to time determined by the board of directors of the Company by reference to their duties and responsibilities. In addition, the Group also has a medical scheme and a share option scheme for directors and employees.

Foreign Currency Translation and Treasury Policies

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 during the year, no hedging or other alternatives had been implemented. The Group considers that 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 pressure on 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 foreign currency speculative activities.

Contingent Liabilities

As at 31st December 2004, the Group had no material contingent liabilities.

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 changing circumstances, the project was shelved. The Group may reassess the feasibility of such investment in the future using cash flow generated from operation.
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.
Introduce new media formats	
Roll out the street furniture project - newspaper kiosks in the PRC.	The Group has installed approximately 700 newspaper kiosks, of which approximately 620 are equipped with advertising display panels. The Group aim to install another 300 kiosks to complete the installation of the initial phase of 1,000 kiosks in the near term. 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.

Business objectives as stated in the listing prospectus:	**Actual business progress to date:**
Install and market first aid light boxes in shopping malls in the PRC.	The Group has installed approximately 4,800 advertising light boxes across China. The design of the first aid light boxes has been modified so that the appearance is more appealing and less bulky. The Group decided to focus on outlets such as schools that are not populated by other advertising media, and is major cities of Beijing, Shanghai, Guangzhou and Shenzhen.
Upgrade and begin marketing New World First Bus Services Limited's (NWFB) bus shelters.	The bus shelter business with NWFB was terminated in July 2004 due to commercial reasons.
Begin development of new mobile broadcasting display units such as LEDs and LCDs in existing bus and metro media portfolio in the PRC.	In view of the changing circumstances, the project was shelved. The Group may reassess the feasibility of such investment in the future using cash flow generated from operation.
Provide integrated outdoor advertising	
Further develop and improve the outdoor services media database for i-Result.	As announced in the announcement dated 10th February 2003, the Group decided to discontinue this operation.
Selectively pursue acquisitions	
Selectively pursue acquisitions of high quality assets and outdoor advertising related businesses.	The Group has no current plan to use the IPO proceeds in pursuing this objective but will consider using cash flow generated by operation or using other funding alternatives to finance acquisition if the Group can identify suitable acquisition targets.

GEM LISTING

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, the supplemental prospectus dated 22nd January 2002 (collectively the "Prospectus") as follows:

	As stated in the Prospectus	Actual amount used up to 31st December 2004	Further amount to be used
	HK$ million	HK$ million	HK$ million
Development of printing and Media Inventory Management System	7.0	—	—
Expansion of street furniture business:			
newspaper kiosks	120.0	70.5	3.2
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	26.0	—
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	390.8	3.2

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 intends to use the remaining listing proceeds of HK$3.2 million for the expansion of its street furniture business.

OPEN OFFER

The net proceeds raised from the Open Offer in August 2003 were HK$116.0 million. The net proceeds have been applied to implement various objectives as set out in the prospectus dated 10th July 2003 as follows:

	As stated in the prospectus for the Open Offer dated 10th July 2003	Actual amount used up to 31st December 2004	Further amount to be used
	HK$ million	HK$ million	HK$ million
Repayment of certain existing debts from independent third parties including overdue media rental fees	50.3	36.2	14.1
Repayment of outstanding investment commitments for investment buses in China acquired during 2001	5.7	5.7	—
Repayment of shareholders' loan advanced by SMI and Warburg	60.0	60.0	—
	116.0	101.9	14.1

The remaining net proceeds from the Open Offer as at 31st December 2004 was approximately HK$14.1 million.

The directors present their report together with the audited accounts of MediaNation Inc. (hereinafter as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are shown as Note 15 to the accounts.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by geographical and business segment is set out in Note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2004.

INTANGIBLE ASSETS

Details of movements in intangible assets of the Group during the year ended 31st December 2004 are set out in Note 11 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year ended 31st December 2004 are set out in Note 12 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31st December 2004 are set out in Note 22 to the accounts.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31st December 2004 are set out in Note 24 to the accounts.

DISTRIBUTABLE RESERVES

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.

As at 31st December 2004, in the opinion of the directors, the Company had no reserves available for distribution to its shareholders.

RETIREMENT BENEFIT OBLIGATION

Particulars of retirement benefit obligation of the Group are set out in Note 29 to the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Group's transactions with its major customers and suppliers during the year ended 31st December 2004 are set out below:

Customers

For the year ended 31st December 2004, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The largest customer represented 2.0% (2003: 2.3%) of the Group's total turnover.

The Group has over 1,300 customers spreading over a diverse range of industries such as food and beverage, pharmaceutical, telecoms and consumer products. At no time during the year ended 31st December 2004 have the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's issued share capital had a beneficial interest in these major customers.

Suppliers

Due to the nature of our business, the Group does not rely on a large number of suppliers. The directors of the Company consider bus and metro operators to be its long term business partners and have therefore not included them as suppliers. The suppliers the Group uses primarily perform printing, posting, deposting, painting and cleaning services.

The largest supplier for the year ended 31st December 2004 represented 8.9% (2003: 7.9%) of the Group's total production expenses (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for 36.6% (2003: 28.0%) of the Group's total expenses for the year. At no time during the year ended 31st December 2004 have the directors, their associates or any shareholder of the Company which to the knowledge of the directors owned more than 5% of the Company's issued share capital had a beneficial interest in these major suppliers.

DIRECTORS

The directors of the Company who held office during the year ended 31st December 2004 and up to the date of this report were:

Executive Director:

Mr. Chu Chung Hong, Francis

Non-Executive Directors:

Mr. Sun Qiang, Chang *(Chairman)*	
Mr. Cheung Leung Hong, Cliff	
Ms. Ho Ming Yee	
Mr. Cheng Cheung Lun, Julian	
Ms. Chan Man Ki, Summerine	(Resigned on 16th August 2004)
Mr. Kam Wai Sum (former name as Mr. Kam Ling)	(Resigned on 25th January 2004)

Independent Non-Executive Directors:

Mr. Barry John Buttifant	
Mr. Johannes Schöter	
Mr. Duck Young Song	(Appointed on 8th September 2004)

DIRECTORS - *continued*

In accordance with Article 112 of the Company's Articles of Association, one-third of the directors of the Company, including the non-executive directors, will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive directors were not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

Executive director

Mr. Chu Chung Hong, Francis entered into a service agreement with the Company for an initial term of two years commencing from 2nd December 2002, and will continue thereafter until terminated by either party not less than six months' written notice or payment of salary in lieu thereof to the other party, such notice to expire no earlier than 30th November 2004.

Non-executive directors

Mr. Kam Wai Sum entered into a consultancy agreement with the Company commencing from 2nd December 2002 and expiring on 30th June 2004. On 25th January 2004, the consultancy agreement with Mr Kam Wai Sum was terminated following his resignation on that date.

Ms. Chan Man Ki, Summerine entered into a consultancy agreement with the Company commencing from 2nd December 2002. The agreement was renewed on 6th August 2004 and will expire on 30th June 2007. On 16th August 2004, Ms. Chan Man Ki, Summerine resigned from the directorship but remained as a consultant to the Company.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("the GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers the independent non-executive directors to be independent.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreements with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out in the section – Directors and Senior Management of the annual report.

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

As at 31st December 2004, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance, Chapter 571 under the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors pursuant to Rule 5.46 of the GEM Listing Rules (other than options which have been granted under any Pre-IPO share options plans and Post-IPO share option scheme of the Company to certain Directors, details of such options are set out in the paragraphs headed "Pre-IPO Share Options Plans" and "Post-IPO Share Options Scheme" below), were as follows:

	Number of issued ordinary shares of HK$0.10 each in the Company held and nature of interests						Approximate percentage
Name of Director/ chief executive	Personal Interests	Family Interests	Corporate interests	Other interests	Capacity	Total	of the total number of shares in issue
Mr. Chu Chung Hong, Francis	8,138,000	—	—	—	Beneficial Owner	8,138,000	0.45%
Mr. Barry John Buttifant	5,000,000	—	—	—	Beneficial Owner	5,000,000	0.28%
Mr. Johannes Schöter	10,152,000	—	—	—	Beneficial Owner	10,152,000	0.56%
	23,290,000	—	—	—		23,290,000	

Other than as disclosed above and in the paragraphs headed "Pre-IPO Share Options Plans" and "Post-IPO Share Option Scheme" below, as at 31st December 2004, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations and none of the Directors, chief executive or any of their respective spouses or children under the age of 18 were granted any right, and the Company had not made any arrangement enabling any of them to subscribe for any shares or debentures of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Pre-IPO Share Options Plans

Prior to the listing of the Company's shares on GEM, the board was authorized, at its absolute discretion, to grant options (the "Pre-IPO Share Options") to certain directors and employees of the Group to subscribe for ordinary shares in the Company under the terms of several share 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 as at 31st December 2004 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price US$[3]	Outstanding as at 1st January 2004[3]	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31st December 2004[3]
Ms. Chan Man Ki, Summerine (resigned on 16th August 2004)	1st July 1997	1st July 1998 to 30th June 2007[1]	0.038095	2,712,500	—	—	—	2,712,500
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.038095	2,275,000	—	—	—	2,275,000
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.171429	2,835,000	—	—	—	2,835,000
	1st September 2000	1st September 2001 to 31st August 2010[1]	0.038095	1,715,000	—	—	—	1,715,000
	5th May 2001	5th May 2002 to 4th May 2011[1]	0.171429	2,450,000	—	—	—	2,450,000
	9th June 2001	9th June 2001 to 8th June 2011[2]	0.206841	19,036,535	—	—	—	19,036,535
Mr. Kam Wai Sum (former name as Mr. Kam Ling) (resigned on 25th January 2004)	1st July 1997	1st July 1998 to 30th June 2007[1]	0.038095	1,750,000	—	—	1,750,000	—
	1st April 2000	1st April 2001 to 31st March 2010[1]	0.038095	1,750,000	—	—	1,750,000	—
	1st September 2000	1st September 2001 to 31st August 2010[1]	0.038095	1,925,000	—	—	1,925,000	—
	5th May 2001	5th May 2002 to 4th May 2011[1]	0.171429	6,125,000	—	—	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.

(3) Adjustments on the relevant Pre-IPO Share Options Plans are to be made in accordance with the terms of the Pre-IPO Share Options Plans as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.

During the year ended 31st December 2004, a total number of 11,550,000[3] options under the Pre-IPO Shares Options Plans had lapsed. No options were granted nor exercised during the year.

Save as disclosed above, during the year ended 31st December 2004, no Pre-IPO Share Options were granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under any of the Pre-IPO Share Options Plans to any Directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY *- continued*

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 maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option scheme of the Company shall initially not exceed 10% of the issued share capital of the Company excluding, for this purpose, shares issued on the exercise of options under the Share Option Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the issued share capital of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the Share Option Scheme when aggregate with shares to be issued under any other share option scheme of the Group, may be increased by the board of directors provided that the shares to be issued upon the exercise of all outstanding options does not exceed 30% of the issued share capital from time to time.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company from time to time.

The subscription price under the Share Option Scheme will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the closing price of the shares as stated in the Exchange's daily quotation sheet on the date of grant, which must be a business day; and (iii) the average closing price of the shares as stated in the Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the options. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Share Option Scheme) and to have taken effect when the duplicate of offer letter as described in the Share Option Scheme, comprising acceptance of the option is signed and returned by the grantee with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant.

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 made until fully vested and expiring on not less than three years nor more than ten years from the date of offer.

The Company granted options on 10th July 2002 to 5 senior management staffs and 24 employees to purchase 5,000,000[(1)] ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.89[(1)] per share. These options are exercisable in the period from 10th July 2003 to 9th July 2012.

The Company granted options on 13th August 2003 to 3 senior management staffs and 14 employees to purchase 17,500,000 ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.119 per share. These options are exercisable in the period from 13th August 2004 to 12th August 2013.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY - *continued*

Post-IPO Share Option Scheme - *continued*

The Company granted options on 25th May 2004 to 3 directors and 2 senior management staffs to purchase 10,000,000 ordinary shares of the Company under Share Option Scheme at the exercise price of HK$0.115 per share. These options are exercisable in the period from 25th May 2005 to 24th May 2014. The closing price of the shares immediately before the date on which the options were granted is HK$0.115.

During the year, a director who held 5,425,000(1) unvested share options under Pre-IPO Share Options Plan at exercise price of US$0.038095(1) and the 6,125,000(1) unvested share options under Pre-IPO Share Options Plan at exercise price of US$0.171429(1) had resigned and hence, these options had lapsed. One employee holding 210,000(1) unvested share options under Pre-IPO Share Options Plan at exercise price of US$0.171429(1) had resigned and hence, these options had lapsed. Seven employees holding 3,344,000(1) unvested share options under Post-IPO Share Option Scheme had resigned and hence, these options had lapsed. No options were exercised during the year.

(1) Adjustments on the relevant Pre-IPO Share Options Plans and Share Option Scheme are to be made in accordance with the terms of the Pre-IPO Share Options Plans and Share Option Scheme as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.

Details of the movements in share options under the Pre-IPO Share Options Plans and Share Option Scheme of the Company are set out in Note 23 to the accounts.

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 31st December 2004 were as follows:

Name of Director	Date of offer*	Exercisable period	Exercise price HK$	Outstanding as at 1st January 2004	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31st December 2004
Mr. Chu Chung Hong, Francis	13th August 2003	13th August 2004 to 12th August 2013	0.119	3,000,000	—	—	—	3,000,000
	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	4,000,000	—	—	4,000,000
Mr. Barry John Buttifant	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	1,000,000	—	—	1,000,000
Mr. Johannes Schöter	25th May 2004	25th May 2005 to 24th May 2014	0.115	—	1,000,000	—	—	1,000,000

* The options shall vest in respect of one third of the total number of share upon each anniversary of the date of offer until fully vested.

Save as disclosed above, at no time during the year ended 31st December 2004 was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares, or debt security of the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18, had any right to subscribe for any shares or debentures of the Company, or had exercised any such right during the year ended 31st December 2004.

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

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31st December 2004.

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

So far as is known to any Director or chief executive of the Company, as at 31st December 2004, the following substantial shareholders of the Company (within the meaning of the GEM Listing Rules) had interests or short positions in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO (other than those interests of Directors disclosed above):

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")	718,428,083	Beneficial Owner	39.8 %
Warburg Pincus Ventures, L.P., ("Warburg Pincus")	718,428,083	Beneficial Owner	39.8 %

Save as disclosed above, and as far as the Directors are aware, as at 31st December 2004, no other substantial shareholders had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

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

So far as is known to any Director or chief executive of the Company, as at 31st December 2004, no other persons (other than those interests of Directors and substantial shareholders disclosed above and interests of persons as recorded in the register to be kept under section 336 of the SFO pursuant to Division 5 of Part XV of the SFO) had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Deutsche Bank AG, Hong Kong Branch (the "Sponsor"), one employee of the Sponsor held 8,000 shares in the capital of the Company as at 31st December 2004. Apart from this interest, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 31st December 2004.

Pursuant to an agreement dated 23rd January 2002 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 4th January 2002 until 31st December 2004. Such agreement expired on 31st December 2004 and has not been renewed by the parties.

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 the 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 31st December 2004, none of the Directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as the related party transactions disclosed in note 28 to the accounts, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year ended 31st December 2004.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 10th September 2001 and formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Committee comprised a non-executive Director, Ms. Ho Ming Yee and two independent non-executive Directors, namely Mr. Johannes Schöter (the Chairman of the Committee) and Mr. Barry John Buttifant.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, throughout the year ended 31st December 2004, the Company has complied with the "Board Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will comply with such requests in subsequent financial reports in accordance with the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the Companies Law (2001 Second Revision) of the Cayman Islands or any applicable laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDITORS

PricewaterhouseCoopers is the auditor of the Company since 2002 following the resignation of Arthur Andersen & Co in July 2002.

PricewaterhouseCoopers retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By the order of the board

Sun Qiang, Chang
Chairman

Hong Kong, 21st March 2005

PRICEWATERHOUSECOOPERS
羅兵咸永道會計師事務所

AUDITORS' REPORT TO THE SHAREHOLDERS OF MEDIANATION INC.
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts of MediaNation Inc. (the "Company") and its subsidiaries (together with the Company, collectively referred to as the "Group") on pages 46 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21st March 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	2	439,601	375,568
Cost of sales	28	(358,148)	(395,430)
Gross profit/(loss)		81,453	(19,862)
Other revenues	2	395	603
Selling, general and administrative expenses		(101,200)	(110,934)
Provision for onerous contract		—	(13,760)
Impairment of assets	3	(795)	(14,065)
Operating loss	3	(20,147)	(158,018)
Finance costs	4	(29)	(1,568)
Share of profit of an associated company	16	31,005	23,264
Profit/(loss) before taxation		10,829	(136,322)
Taxation			
-The Company and subsidiaries		(4)	(34)
-An associated company		(10,202)	(7,565)
	5	(10,206)	(7,599)
Profit/(loss) after taxation		623	(143,921)
Minority interests		1,903	146
Net profit/(loss) attributable to shareholders		2,526	(143,775)
Dividend	7	—	—
Profit/(loss) per share (HK cents)			
-Basic	8	0.14	(13.25)
-Diluted	8	N/A	N/A

As at 31st December 2004

	Note(s)	2004	2003
		HK$'000	HK$'000
Non-current assets			
Intangible assets	11	263,939	236,899
Fixed assets	12	74,841	76,806
Investment deposit placed with a joint venture partner	13	14,145	14,145
Long-term deposits		—	35,000
Deposits for intangible assets		—	76,998
Deposits for fixed assets	14	5,792	13,544
Investment in an associated company	16	49,537	42,559
Other non-current assets		275	764
		408,529	496,715
Current assets			
Prepayments, deposits and other receivables	17	74,638	18,077
Inventories		1,672	4,732
Income tax recoverable		—	20
Trade receivables	18	61,422	56,462
Pledged bank deposits		—	241
Bank balances and cash	19,26(c)	92,281	55,281
		230,013	134,813
Current liabilities			
Trade payables	20	55,269	63,685
Provisions, accrued liabilities and other payables	21	36,034	48,344
Deferred income		61,028	43,352
Amount due to an associated company	16	42,512	27,125
Amount due to a joint venture partner		—	406
Amounts due to related companies	28	1,169	1,091
Obligations under finance leases		25	—
Taxation payable		—	32
		196,037	184,035
Net current assets/(liabilities)		33,976	(49,222)
Total assets less current liabilities		442,505	447,493

As at 31st December 2004

	Note(s)	2004	2003
		HK$'000	HK$'000
Financed by:			
Capital and reserves			
Share capital	22	180,349	180,349
Reserves	24	260,515	257,998
		440,864	438,347
Minority interests		1,547	3,450
Non-current liabilities			
Obligations under finance leases		94	—
Long-term payables		—	5,696
		94	5,696
		442,505	447,493

Sun Qiang, Chang
Director

Chu Chung Hong, Francis
Director

As at 31st December 2004

	Note	2004	2003
		HK$'000	HK$'000
Non-current asset			
Investments in subsidiaries	15	432,155	421,334
Current assets			
Prepayments, deposits and other receivables		613	317
Bank balances and cash		644	18,731
		1,257	19,048
Current liabilities			
Accrued liabilities and other payables		2,893	2,035
Net current (liabilities)/assets		(1,636)	17,013
Total assets less current liabilities		430,519	438,347
Financed by:			
Capital and reserves			
Share capital	22	180,349	180,349
Reserves	24	250,170	257,998
		430,519	438,347

Sun Qiang, Chang
Director

Chu Chung Hong, Francis
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

	2004	2003
	HK$'000	HK$'000
Total equity as at 1st January	438,347	465,367
Issue of ordinary shares upon the Open Offer in August 2003	—	120,233
Share issuing expenses	—	(3,703)
Net gains not recognised in the consolidated profit and loss account		
-Exchange difference arising from the translation of accounts of foreign subsidiaries	(9)	225
Net profit/(loss) for the year	2,526	(143,775)
Total equity as at 31st December	440,864	438,347

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004	2003
		HK$'000	HK$'000
Net cash inflow/(outflow) from operations	26(a)	39,781	(76,816)
Interest paid		(29)	(1,568)
Overseas taxation paid		(16)	(70)
Net cash inflow/(outflow) from operating activities		39,736	(78,454)
Investing activities			
Purchase of fixed assets		(3,074)	(6,971)
Proceeds from disposals of fixed assets		47	341
Payments for acquisition of intangible assets		(11,822)	(16,120)
Payment for deposits for fixed assets		—	(1,139)
Payment for deposits for intangible assets		—	(2,487)
Dividend received from an associated company		13,825	12,919
Net cash used in investing activities		(1,024)	(13,457)
Net cash inflow/(outflow) before financing		38,712	(91,911)
Financing activities			
New loans repayable within one year		—	68,000
Repayment of loans repayable within one year		—	(68,000)
Issue of new shares upon the Open Offer in August 2003		—	120,233
Share issuing expenses		—	(3,703)
Repayment of principal portion of obligations under finance lease		(4)	—
Net cash (outflow)/inflow from financing		(4)	116,530
Increase in cash and cash equivalents		38,708	24,619
Cash and cash equivalents at 1st January		53,582	28,739
Effect of foreign exchange rates changes		(9)	224
Cash and cash equivalents at 31st December	26(c)	92,281	53,582

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 **PRINCIPAL ACCOUNTING POLICIES** *- continued*

(b) Group accounting *- continued*

(ii) Joint ventures

The Group's investment in joint ventures in the People's Republic of China (the "PRC") are in the form of Sino-foreign equity joint ventures. In respect of the Sino-foreign cooperative joint ventures, the partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture periods may not be in proportion to their equity ratio, but are as defined in the respective joint venture contracts.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Where the Group's investment is made by means of joint venture structure, such investment is accounted for as a subsidiary when the Group can control the board of directors or is in a position to exercise control over the financial and operating policies of the joint venture.

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated using the average rate during the year. Exchange differences are dealt with as a movement in reserves.

(v) Related parties

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 also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(c) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/associated company at the date of acquisition. With respect to investment in the associated company accounted for under the equity method of accounting, goodwill is included in the carrying amount of the investment. Goodwill on acquisitions of subsidiaries is included in the intangible assets. Goodwill is amortised using the straight-line method over the shorter of 20 years or the tenure of the investments.

(ii) Advertising license rights

Advertising license rights represent license fees paid for the acquisition of exclusive rights of advertising on certain buses and newspaper kiosks in the PRC. These fees are capitalised and amortised using the straight-line method over their respective license periods that do not exceed 20 years. Amortisation of license rights commences when the rights are available for use.

(iii) Computer software

Purchased computer software is capitalised and amortised using the straight-line method over its estimated useful life of 5 years.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

(i) Construction-in-progress

Construction-in-progress is an investment in advertising display panels which are not ready for use at the balance sheet date and management intends to hold for operating purposes. Construction-in-progress is carried at cost that includes development and construction expenditure incurred and other direct costs attributable to the development less accumulated impairment losses. On completion, the construction-in-progress is transferred to other fixed assets at cost less accumulated impairment losses. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture, fixtures and equipment, production equipment, motor vehicles and advertising display panels are stated at cost less accumulated depreciation and accumulated impairment losses.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(d) Fixed assets - *continued*

(iii) Depreciation

Fixed assets other than construction-in-progress are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis and, in the case of fixed assets under Beijing Top Result Public Transportation Advertising Co., Ltd., Shanghai Metro Top Result Advertising Co., Ltd. and Top Result Kiosk (Shanghai) Development Co., Ltd, all being subsidiaries established in the PRC, after taking into account an estimated residual value of 10% of the costs of the fixed assets. The principal annual rates are as follows:

Leasehold improvements	over the period of the lease
Furniture, fixtures and equipment	10% – 33.33%
Production equipment	33.33%
Motor vehicles	20%
Advertising display panels	10%

Major costs incurred in restoring the fixed assets to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the expected useful lives. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on disposal

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES - *continued*

(e) Assets under leases - *continued*

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Inventories

Inventories comprise of printing materials and are stated at cost. Cost is calculated on the first-in, first-out basis.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Onerous Contract

The Group recognises a provision for onerous contract when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(j) Employee benefit

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

1 PRINCIPAL ACCOUNTING POLICIES *- continued*

(j) Employee benefit *- continued*

(ii) Bonus plans

Provision for bonus plans due wholly within twelve months after balance sheet date are recognised where the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong, the assets of which are generally held in separate trustee administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies based on a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are expensed as incurred and are reduced by contributions forfeited by those employees who leave the plan prior to the full vesting of their contributions.

(k) Deferred taxation

Deferred income taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income taxation is provided on temporary differences arising on investments in subsidiaries, associate and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 **PRINCIPAL ACCOUNTING POLICIES** *- continued*

(m) Revenue recognition

(i) Media rental

Media rental income from the provision of outdoor media advertising services is recognised on a time apportionment basis throughout the contract periods. The unearned portion of media rental attributable to future accounting periods is accounted for as deferred income.

(ii) Production income

Production income from the provision of advertising production services, which generally is of short duration, is recognised when the contracts are completed and the services are rendered.

(iii) Agency commission income

Agency commission income, which is generated from the provision of service in assisting customers in buying advertising spaces, is recognised when the services are rendered.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

In respect of geographical segment reporting, sales are based on the country in which the customers are located. Total assets and capital expenditure are based on where the assets are located.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets. Unallocated costs represent corporate expenses. Unallocated assets represent corporate assets.

Inter-segment transactions: segment revenue, segment expenses and segment performance include transfer between geographical segments and business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated on consolidation.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of outdoor advertising media services in Hong Kong and the PRC. Revenues recognised during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Turnover		
Media rental	343,832	287,224
Production income	87,072	83,059
Agency commission income	8,697	5,285
	439,601	375,568
Other revenues		
Interest income from bank deposits	357	232
Interest income from trade deposits	38	369
Interest income from trade receivables	—	2
	395	603
Total revenues	439,996	376,171

2 TURNOVER, REVENUE AND SEGMENT INFORMATION - *continued*

(a) Primary reporting format - geographical segments

The Group's principal activities are conducted mainly in Hong Kong and the PRC.

An analysis by geographical segment is as follows:

	Hong Kong		PRC		Eliminations		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover								
Sales to external customers	74,295	87,884	365,306	287,684	—	—	439,601	375,568
Inter-segment sales	6,416	7,073	21,092	11,197	(27,508)	(18,270)	—	—
Total turnover	80,711	94,957	386,398	298,881	(27,508)	(18,270)	439,601	375,568
Segment operating (loss)/profit	(21,523)	(68,648)	3,612	(93,628)	(2,236)	4,258	(20,147)	(158,018)
Finance costs							(29)	(1,568)
Share of profit of an associated company							31,005	23,264
Profit/(loss) before taxation							10,829	(136,322)
Taxation							(10,206)	(7,599)
Profit/(loss) after taxation							623	(143,921)
Minority interests							1,903	146
Net profit/(loss) attributable to shareholders							2,526	(143,775)
Assets								
Segment assets	180,782	195,053	408,223	393,916	—	—	589,005	588,969
Interest in an associated company							49,537	42,559
Total assets							638,542	631,528
Liabilities								
Segment liabilities	17,894	23,929	178,237	165,802	—	—	196,131	189,731
Other information								
Capital expenditure	1,531	35	9,418	22,246	—	—	10,949	22,281
Provision for doubtful debts								
Trade receivables	908	—	2,186	1,517	—	—	3,094	1,517
Amount due from an associated company	—	1,252	—	—	—	—	—	1,252
Deposits and other receivables	—	—	—	1,591	—	—	—	1,591
Write-off of doubtful debt for amount due from an associated company	—	401	—	—	—	—	—	401
Impairment of assets	—	—	795	14,065	—	—	795	14,065
Depreciation of fixed assets	486	1,061	11,528	12,771	—	—	12,014	13,832
Amortisation of intangible assets	31	67	59,914	66,940	—	—	59,945	67,007

2 TURNOVER, REVENUE AND SEGMENT INFORMATION - *continued*

(b) Secondary reporting format – business segments

The Group is organised into three main business segments, namely metro system advertising, bus advertising and street furniture advertising.

The Group's turnover, segment results, segment assets and capital expenditure for the year, analysed by business segments are as follows:

	Turnover		Segment results		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Metro system advertising	91,680	55,446	15,343	(9,500)	88,431	51,178	661	870
Bus advertising	337,587	315,763	(16,340)	(116,098)	372,451	386,391	2,565	8,429
Other operations including street furniture	10,334	4,359	(6,208)	(10,914)	76,567	132,637	7,723	12,982
	439,601	375,568	(7,205)	(136,512)	537,449	570,206	10,949	22,281
Unallocated costs			(12,942)	(21,506)				
Operating loss			(20,147)	(158,018)				
Interest in an associated company					49,537	42,559		
Unallocated assets					51,556	18,763		
Total assets					638,542	631,528		

3 OPERATING LOSS

Operating loss is stated after charging the following:

	2004	2003
	HK$'000	HK$'000
Charging		
Depreciation:		
Owned fixed assets	12,010	13,832
Leased fixed asset	4	—
Loss on disposals of fixed assets	58	340
Impairment of assets:		
Advertising display panel	795	—
Intangible assets	—	14,065
Staff costs (including directors' emoluments) (Note 9)	54,884	57,198
Auditors' remuneration	1,630	1,029
Amortisation of intangible assets:		
Advertising license rights (included in cost of sales)	59,527	66,712
Computer software (included in cost of sales)	231	239
Goodwill (included in administrative expenses)	187	56
Operating lease:		
Office premises	8,631	10,911
Advertising spaces	142,030	217,929
Provision for doubtful debts:		
Trade receivables	3,094	1,517
Amount due from an associated company	—	1,252
Deposits and other receivables	—	1,591
Provision for onerous contract	—	13,760
Write-off of doubtful debts for amount due from an associated company	—	401
Net exchange losses	49	263

4 FINANCE COSTS

	2004	2003
	HK$'000	HK$'000
Interest on bank loans and overdrafts	—	8
Interest on loans from financial institutions	—	6
Interest on trade payables	29	—
Interest on amount due to an associated company	—	73
Interest on long-term payables	—	145
Interest on loan from substantial shareholders	—	1,289
Interest on loan from a related company	—	47
	29	1,568

5 TAXATION

Hong Kong profits tax at the rate of 17.5% (2003: 17.5%) has not been provided as the Group's operations in Hong Kong have no estimated assessable profit for the year (2003: Nil).

The joint ventures established in the PRC in which the Group has invested are generally subject to enterprise income tax ("EIT") on their taxable income at a combined national and local tax rate of 33% (2003: 33%). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	HK$'000	HK$'000
Current taxation		
PRC EIT	4	34
Share of taxation attributable to:		
An associated company	10,202	7,565
Taxation charge	10,206	7,599

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of the country where the Company operates as follows:

	2004	2003
	HK$'000	HK$'000
Profit/(loss) before taxation	10,829	(136,322)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	1,895	(23,856)
Effect of different taxation rates in the PRC	4,557	(11,153)
Income not subject to taxation	(2,651)	(2,635)
Expenses not deductible for taxation purposes	8,150	13,078
Tax losses not recognised	420	32,165
Utilisation of previously unrecognised tax losses	(2,165)	—
Taxation charge	10,206	7,599

6 NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK$7,828,000 (2003: HK$143,550,000).

7 DIVIDEND

No dividends were paid or declared by the Company during the year (2003: Nil).

8 PROFIT/(LOSS) PER SHARE

The calculation of basic profit/(loss) per share is based on the Group's net profit/(loss) attributable to shareholders of approximately HK$2,526,000 (2003: loss of HK$143,775,000) and the weighted average of 1,803,488,985 ordinary shares in issue during the year (2003: weighted average of 1,085,387,435 ordinary shares after the Open Offer). The diluted profit per share for the year ended 31st December 2004 is not presented because the effect of the assumed conversion of all potential dilutive securities is anti-dilutive.

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004	2003
	HK$'000	HK$'000
Wages and salaries	41,417	45,614
Unutilised annual leave	70	412
Termination benefits	1,786	828
Pension costs – defined contribution plan (Note 29)	2,868	1,338
Social security costs	4,951	5,991
Other staff benefits	3,792	3,015
	54,884	57,198

10 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Directors' fees		
Executive directors	—	—
Non-executive directors	569	700
Independent non-executive directors	452	400
	1,021	1,100
Consultancy fees		
Non-executive directors	58	200
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	2,160	1,767
Discretionary bonuses	350	—
Pension scheme contributions		
- for other offices	12	12
Compensation for loss of office		
- as other offices paid by the Company	—	—
	3,601	3,079

10 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS - *continued*

(a) Directors' emoluments - *continued*

Details of emoluments paid to individual directors during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Executive directors		
Mr. Chu Chung Hong, Francis		
- Fee	—	—
- Salaries and other allowances	2,510	1,767
- Retirement benefit scheme contributions	12	12
	2,522	1,779
Fees paid to non-executive directors and independent non-executive directors		
Non-executive directors		
Mr. Sun Qiang, Chang	100	100
Mr. Cheung Leung Hong, Cliff	100	100
Ms. Ho Ming Yee	200	200
Mr. Cheng Cheung Lun, Julian	100	81
Ms. Chan Man Ki, Summerine	114	200
Mr. Kam Wai Sum	13	200
Mr. Li Chun, Daniel	—	19
Independent non-executive directors		
Mr. Liu Hong Ru	—	88
Mr. Barry John Buttifant	200	112
Mr. Johannes Schöter	220	200
Mr. Duck Young Song	32	—
	1,079	1,300
	3,601	3,079

During the year, no emoluments were paid to the directors as an inducement to join the Group (2003: Nil). None of the directors (2003: None) waived emoluments in respect of the financial year ended 31st December 2004.

10 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENT - *continued*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for 2004 include one (2003: One) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: Four) individuals during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	4,344	4,945
Discretionary bonuses	980	558
Pension scheme contributions	89	100
Compensation for loss of office - contractual payment	89	—
Total	5,502	5,603

The emoluments (excluding directors) fell within the following bands:

	Number of individuals 2004	2003
HK$1,000,001 - HK$1,500,000	4	3
HK$1,500,001 - HK$2,000,000	—	1
Total	4	4

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group (2003: Nil).

11 INTANGIBLE ASSETS – GROUP

	Advertising license rights	Computer software	Goodwill	Website development costs	Premium for redemption of a profit sharing right	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2004	233,452	196	3,251	—	—	236,899
Transfer (Note 26b)	76,998	—	—	—	—	76,998
Additions	9,825	162	—	—	—	9,987
Amortisation charge (Note 3)	(59,527)	(231)	(187)	—	—	(59,945)
At 31st December 2004	260,748	127	3,064	—	—	263,939
At 31st December 2004						
Cost	703,855	2,021	4,494	—	7,595	717,965
Accumulated amortisation	(400,244)	(1,894)	(503)	—	(7,595)	(410,236)
Accumulated impairment losses	(42,863)	—	(927)	—	—	(43,790)
Net book value	260,748	127	3,064	—	—	263,939
At 31st December 2003						
Cost	617,032	10,457	4,494	168	7,595	639,746
Accumulated amortisation	(340,717)	(4,386)	(316)	(58)	(7,595)	(353,072)
Accumulated impairment losses	(42,863)	(5,875)	(927)	(110)	—	(49,775)
Net book value	233,452	196	3,251	—	—	236,899

Management have prepared an updated assessment of the value in use of the advertising license rights of the Group's outdoor advertising business. In assessing the value in use, the estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflects the then current market assessment of the time value of money and the risk specific to the assets.

12 FIXED ASSETS – GROUP

	Leasehold improvements	Furniture, fixtures and equipment	Production equipment	Motor vehicles	Advertising display panels	Construction-in-progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost							
At 1st January 2004	21,570	22,053	5,666	4,221	60,917	7,125	121,552
Transfer*	—	(56)	56	—	14,791	(7,039)	7,752
Additions	288	800	1,422	—	687	—	3,197
Disposals	(2,187)	(3,522)	(88)	—	—	—	(5,797)
Impairment loss (Note 3)	—	—	—	—	(795)	—	(795)
At 31st December 2004	19,671	19,275	7,056	4,221	75,600	86	125,909
Accumulated depreciation and impairment							
At 1st January 2004	15,104	14,198	5,483	2,455	7,506	—	44,746
Transfer	—	(49)	49	—	—	—	—
Charge for the year (Note 3)	2,405	2,783	310	528	5,988	—	12,014
Disposals	(2,187)	(3,417)	(88)	—	—	—	(5,692)
At 31st December 2004	15,322	13,515	5,754	2,983	13,494	—	51,068
Net book value							
At 31st December 2004	4,349	5,760	1,302	1,238	62,106	86	74,841
At 31st December 2003	6,466	7,855	183	1,766	53,411	7,125	76,806

* As disclosed in Note 26b, during the year, an amount of HK$7,752,000 was transferred from deposits for fixed assets to fixed assets as the advertising display panels were received by the Group.

As at 31st December 2004, the net book value of fixed assets (furniture, fixtures and equipment) held under finance leases was approximately HK$119,000 (2003: Nil).

13 INVESTMENT DEPOSIT PLACED WITH A JOINT VENTURE PARTNER – GROUP

The amount of approximately HK$14,145,000 (2003: HK$14,145,000) represents the remaining portion of the refundable security deposit of RMB30,000,000 placed with a joint venture partner of Shanghai Metro Top Result Advertising Co. Ltd. ("Shanghai Metro") under an agency agreement entered into by the Group in November 2000. Under the agency agreement, the Group is entitled to place advertisements within designated areas of certain metro stations in Shanghai for 15 years. The deposit is refundable to the Group in three annual instalments of RMB10,000,000 (approximately HK$9,984,000) each commencing from the sixth anniversary of the agency agreement through offsetting concession fees payable to the joint venture partner. In 2003, as agreed with the joint venture partner, part of total RMB30,000,000 deposit amounting to RMB15,000,000 (approximately HK$14,146,000) was temporarily used to offset a portion of the concession fees payable (included in trade payables) at 31st December 2004. The Group will replenish this security deposit of RMB15,000,000 in 2005.

14 DEPOSITS FOR FIXED ASSETS – GROUP

As at 31st December 2004, the Group has paid approximately HK$5,792,000 (2003: HK$13,544,000) to independent third parties to acquire certain advertising display panels.

15 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	2,804	2,804
Amounts due from subsidiaries	776,099	765,278
	778,903	768,082
Less: provision for impairment losses and doubtful debts	(346,748)	(346,748)
	432,155	421,334

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The following is a list of the subsidiaries at 31st December 2004:

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/ registered capital held by the Company		Attributable percentage of distributable profit to the Group	Principal activities
				Directly	Indirectly		
				%	%	%	
Top Result Promotion Limited ("Top Result")	Hong Kong 18th July 1991	HK$1,000,000	Company with limited liability	100	—	100	Provide media advertising services
Top Result Interactive Limited	The Cayman Islands 16th December 1999	US$124	Company with limited liability	100	—	100	Investment holding
i-Result Media Limited	Hong Kong 29th March 2000	US$2	Company with limited liability	—	100	100	Provide media advertising services
Beijing Top Result Public Transportation Advertising Co., Ltd. ("Beijing Joint Venture") (Note (i))	The PRC 22nd February 1994	RMB99,600,000	Cooperative joint venture	—	99.5	80	Provide media advertising services

15 INVESTMENTS IN SUBSIDIARIES – COMPANY - *continued*

Name	Place and date of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/ registered capital held by the Company Directly %	Indirectly %	Attributable percentage of distributable profit to the Group %	Principal activities
Digital Photo Limited	Hong Kong 6th July 1998	HK$200,000	Company with limited liability	—	51	51	Provide large scale digital colour printing services
Top Photo Imaging Company Limited	The PRC 2nd November 1999	US$400,000	Equity joint venture	—	45.9	45.9	Provide large scale digital colour printing services
China Kiosk Development Limited ("China Kiosk") (Note (ii))	Hong Kong 20th June 2001	HK$1,000	Company with limited liability	—	80	80	Investment holding
Top Result Kiosk (Shanghai) Development Co. Ltd. ("Shanghai Kiosk") (Note (ii))	The PRC 9th April 2002	USD2,000,000	Wholly-foreign-owned enterprise	—	80	80	Develop and manage media assets
Shanghai Metro Top Result Advertising Co. Ltd. ("Shanghai Metro") (Note (iii))	The PRC 20th February 2002	RMB16,000,000	Cooperative joint venture	—	50	90	Provide media advertising services

Note:

(i) Beijing Joint Venture is a Sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to 22nd February 2009. Pursuant to the joint venture agreement and the supplemental agreement dated 10th December 1993 and 24th May 1995, respectively, signed between Top Result and the Chinese joint venture partner of Beijing Joint Venture, Top Result is entitled to 100% of the distributable profit of Beijing Joint Venture for the first 4 years from the date of issuance of the business license. Thereafter, Top Result is entitled to 80% of the distributable profit of Beijing Joint Venture.

Upon the expiry of the joint venture agreement, the net assets of Beijing Joint Venture will be distributed according to the amount of capital contributed. Where there is any surplus of net assets after the return of the capital contributed, the net assets will be distributed to the joint venture partners according to the profit sharing ratio.

15 INVESTMENTS IN SUBSIDIARIES – COMPANY - *continued*

(ii) On 29th October 2001, the Group entered into an agreement with business partners to establish a Company in Hong Kong, China Kiosk, in which the Group has 80% beneficial equity interest. Under the agreement, China Kiosk established a wholly-foreign-owned enterprise, Shanghai Kiosk in Shanghai, the PRC for a period of 20 years up to 8th April 2022, to expand the street furniture (newspaper kiosk) business in the PRC. In July 2002, China Kiosk transferred its 100% equity interest in Shanghai Kiosk to Top Result with 20% equity interest held on behalf of the minority shareholder of China Kiosk. The Group was required to provide an investment of US$12,500,000 (approximately HK$97,500,000). The Group will contribute to Shanghai Kiosk the deposits for fixed assets of approximately HK$5,791,000 (Note 14), fixed assets of approximately HK$16,915,000 and intangible assets of approximately HK$75,826,000 as the Group's capital contribution of approximately HK$97,500,000 and as a working capital loan to be advanced by the Group of approximately HK$1,032,000. The minority shareholder of China Kiosk will not be required to make any capital contribution for the initial investment of US$12,500,000.

(iii) Shanghai Metro is a sino-foreign cooperative joint venture established in the PRC for a period of 15 years up to 19th February 2017. Pursuant to the joint venture agreement dated 5th September 2000, the Group contributed RMB14,800,000 (approximately HK$13,956,000), of which RMB8,000,000 (approximately HK$7,544,000) represents 50% of the registered capital to Shanghai Metro while the remaining RMB6,800,000 (approximately HK$6,412,000) represents a working capital loan advanced by the Group. The Chinese joint venture partner contributed the remaining portion of the registered capital by way of contributing advertising display panels amounting to RMB8,000,000 (approximately HK$7,544,000). The Group is entitled to 90% of the distributable profit of Shanghai Metro but is required to bear 50% of the operating losses of Shanghai Metro.

Upon the expiry of the joint venture agreement, the Chinese joint venture partner will be entitled to all fixed assets of Shanghai Metro and the Group will be entitled to 50% of the remaining net assets.

16 INVESTMENT IN AN ASSOCIATED COMPANY AND AMOUNT DUE FROM/(TO) AN ASSOCIATED COMPANY – GROUP

	2004	2003
	HK$'000	HK$'000
Investment in an associated company		
Share of net assets	36,749	28,503
Goodwill on acquisition of an associated company		
Cost	20,280	20,280
Accumulated amortisation	(7,492)	(6,224)
	49,537	42,559
Amount due from an associated company	1,252	7,271
Less: Provision for doubtful debts	(1,252)	(1,252)
	—	6,019
Amount due to an associated company	(42,512)	(33,144)
	(42,512)	(27,125)

The amount due from/(to) an associated company is unsecured, non-interest bearing and has no fixed terms of repayment.

16 INVESTMENT IN AN ASSOCIATED COMPANY AND AMOUNT DUE FROM/(TO) AN ASSOCIATED COMPANY – GROUP - *continued*

The following are the details of the associated company at 31st December 2004:

Name	Place and date of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Legal structure	Attributable percentage of issued capital/registered capital held by the Company indirectly	Attributable percentage of distributable profit to the Group	Principal activities
				%	%	
Beijing Top Result Metro Advertising Co., Ltd. ("BJ Metro")	The PRC 28th April 1997	RMB35,000,000	Cooperative joint venture	100	38	Provide media advertising services

BJ Metro was formed under a cooperative joint venture agreement and a supplemental agreement dated 8th November 1996 and 6th April 1999, respectively. BJ Metro obtained its business license on 11th June 1997 with a term of 18 years. The Group has contributed all the registered share capital of BJ Metro of RMB35,000,000 (approximately HK$32,710,000).

In addition, 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) each year, effective from 1st January 2000, for the remaining tenure of the joint venture. The Group's share of distributable profit of BJ Metro for the year ended 31st December 2004 amounted to approximately HK$22,071,000 (2003: HK$16,966,000).

The net assets of BJ Metro will be distributed according to the profit sharing ratio upon the expiry of the joint venture agreement. Accordingly, 62% of the capital contributed to BJ Metro by the Group is recorded as goodwill and is amortised over the joint venture period. The amortisation expense for the year ended 31st December 2004 amounted to approximately HK1,268,000 (2003: HK$1,268,000) and was included in the share of profit of an associated company in the consolidated profit and loss account.

The summary of financial information of BJ Metro based on the adjusted accounts prepared under the accounting principles generally accepted in Hong Kong for the year is as follows:

	2004	2003
	HK$'000	HK$'000
Balance Sheet		
Current assets	140,228	114,136
Non-current assets	17,191	19,295
Current liabilities	63,012	60,523
Profit and loss account		
Turnover	128,724	101,696
Profit before taxation	84,928	64,557
Profit after taxation	58,080	44,648

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables is an amount of approximately HK$317,000 (2003: Nil) receivable from one of the Group's officers. This amount is non-interest bearing and is repayable within one year. There is no other receivable or payable with officers of the Group that existed during the year or at 31st December 2004.

18 TRADE RECEIVABLES – GROUP

	2004	2003
	HK$'000	HK$'000
Trade receivables	72,292	65,820
Less: provision for doubtful debts	(10,870)	(9,358)
	61,422	56,462

At 31st December 2004, the ageing analysis of trade receivables was as follows:

	2004	2003
	HK$'000	HK$'000
Current	17,006	18,482
1 - 30 days	14,162	9,766
31 - 60 days	10,635	8,856
61 - 90 days	4,614	5,161
91 - 120 days	6,784	4,384
Over 120 days	19,091	19,171
	72,292	65,820

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

19 BANK BALANCES AND CASH – GROUP

At 31st December 2004, bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to approximately HK$83,601,000 (2003: HK$30,368,000). RMB is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

20 TRADE PAYABLES – GROUP

At 31st December 2004, the ageing analysis of trade payables based on due date was as follows:

	2004	2003
	HK$'000	HK$'000
Current	4,564	16,089
0 - 30 days	16,413	8,908
31 - 60 days	1,762	5,015
61 - 90 days	1,216	1,921
91 - 120 days	12,758	710
Over 120 days	18,556	31,042
	55,269	63,685

21 PROVISIONS, ACCRUED LIABILITIES AND OTHER PAYABLES

	2004	2003
	HK$'000	HK$'000
Provisions, accrued liabilities and other payables		
Others	36,034	34,584
Provision for onerous contract	—	13,760
	36,034	48,344

At 31st December 2003, the directors considered an advertising contract to which the Group in Hong Kong was a party to had become onerous. Accordingly, a provision for onerous contract was made, based on the excess of the least net loss of terminating this contract over the expected economic benefits to be derived therefrom. This provision for onerous contract was fully utilised in 2004.

22 SHARE CAPITAL

	Authorised Ordinary shares of HK$0.10 each	
	No. of shares	Amount
		HK$'000
At 1st January 2004 and 31st December 2004	5,000,000,000	500,000
At 1st January 2003 and 31st December 2003	5,000,000,000	500,000

	Issued and fully paid Ordinary shares of HK $0.10 each	
	No. of shares	Amount
		HK$'000
At 1st January 2003	601,162,995	60,116
Issue of ordinary shares upon the Open Offer	1,202,325,990	120,233
As at 31st December 2003	1,803,488,985	180,349
At 1st January 2004 and 31st December 2004	1,803,488,985	180,349

In August 2003, following the prospectus dated 10th July 2003, 1,202,325,990 shares of HK$0.10 each were issued to the public by way of the Open Offer on the basis of two Open Offer shares for every one share held (the "Open Offer") for a total consideration of approximately HK$120,233,000 before related issuing expenses. The issuing expenses of approximately HK$3,703,000 were debited to the share premium account and 1,202,325,990 ordinary shares were listed on GEM of The Stock Exchange of Hong Kong Limited in August 2003.

23 SHARE OPTIONS

Pre-IPO Share Options Plans

Pursuant to an Executive Share Option Plan ("Plan 1") approved by the shareholders of the Company on 7th April 1995 and amended and restated on 9th June 2001, the board of directors may at its discretion within five years after 1st July 1997, invite employees, including directors of the Company and its subsidiaries, to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under Plan 1 may not exceed 17,500,000(1) ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.038095(1) per share.

On 9th June 2001, the shareholders of the Company rectified and approved another Executive Share Option Plan ("Plan 2"). Pursuant to Plan 2, the board of directors may at its discretion within three years after 1st April 2000, invite employees, including directors of the Company and its subsidiaries, to take up their options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under Plan 2 may not exceed 21,000,000(1) ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.171429(1) per share.

On 9th June 2001, the shareholders of the Company approved another Executive Share Option Plan ("Plan 3"). Pursuant to Plan 3, the board of directors granted 28,554,750(1) share options to senior executives to replace all outstanding warrants then held by them. The maximum number of shares in respect of which options may be granted under Plan 3 may not exceed 28,554,750(1) ordinary shares in aggregate. The exercise price of the option post the Capitalisation Issue is US$0.206841(1) per share.

All the outstanding options, except for those under Plan 3, may be exercised at any time during the period commencing one year after the date of grant of the options and ending 10 years after the date of the options with the following schedule:

Period since date of grant	**Portion of shares comprised in options which become exercisable**
Date of grant - first anniversary	Zero
The date after the first anniversary - second anniversary	Up to one-third
The date after the second anniversary - third anniversary	Up to two-third (less the portion of shares which arose upon the exercise of options between the first anniversary and the second anniversary)
The date after the third anniversary and thereafter	All shares in respect of which the option has not been previously exercised

The outstanding options under Plan 3 is fully vested upon its grant and may be exercised at any time during the period commencing on the date upon which the offer of the option is accepted and ending 10 years after the date of the options.

Save as disclosed above, no share options have been granted or agreed to be granted by the Company and no further options will be offered or granted by the Company under Plan 1, Plan 2 and Plan 3.

23 SHARE OPTIONS - *continued*

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.

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 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 subscription price will be determined by the Company's board of directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, which must be a trade day, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

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 made until fully vested and expiring on not less than three years nor more than ten years from the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

A summary of the movement of share options granted to employees (including directors) under Plan 1, Plan 2, Plan 3 and Share Option Scheme during the year is as follows:

	Pre-IPO Share Options Plans at exercise price of			Pre-IPO Share Option Scheme at exercise price of		
	US$0.038095(1)	US$0.171429(1)	US$0.206841(1)	HK$0.89(1)	HK$0.119	HK$0.115
At 1st January 2004	12,640,880(1)	15,120,000(1)	28,554,750(1)	3,734,000(1)	17,500,000	—
Granted during the year	—	—	—	—	—	10,000,000
Lapsed during the year*	(5,425,000)(1)	(6,335,000)(1)	—	(844,000)(1)	(2,500,000)	—
At 31st December 2004	7,215,880(1)	8,785,000(1)	28,554,750(1)	2,890,000(1)	15,000,000	10,000,000

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

During the year, an employee holding 210,000(1) unvested share options under Pre-IPO Share Options Plan at exercise price of US$0.171429(1) had resigned and hence, these options had lapsed. Seven employees holding 3,344,000(1) unvested share options under Post-IPO Share Option Scheme had resigned and hence, these options had lapsed.

Note:

1) Pending adjustments on the relevant Share Options are to be made in accordance with the terms of the Pre-IPO Share Options Plans and Share Option Scheme as a result of the Open Offer stated in the Company's prospectus dated 10th July 2003.

24 RESERVES

	Share premium	Translation reserve	Capital reserve	Accumulated losses	Capital redemption reserve	Total
	HK$'000 (Note (iii))	HK$'000	HK$'000 (Note (i) and (iii))	HK$'000	HK$'000	HK$'000
Group						
At 1st January 2003	635,510	1,844	883	(233,376)	390	405,251
Write-off of share issuance expenses related to the Open Offer (Note 22)	(3,703)	—	—	—	—	(3,703)
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	225	—	—	—	225
Loss for the year	—	—	—	(143,775)	—	(143,775)
At 31st December 2003	631,807	2,069	883	(377,151)	390	257,998
At 1st January 2004	631,807	2,069	883	(377,151)	390	257,998
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	(9)	—	—	—	(9)
Profit for the year	—	—	—	2,526	—	2,526
At 31st December 2004	631,807	2,060	883	(374,625)	390	260,515
The Company and subsidiaries	631,807	2,069	883	(386,837)	390	248,312
Associated company	—	—	—	9,686	—	9,686
At 31st December 2003	631,807	2,069	883	(377,151)	390	257,998
The Company and subsidiaries	631,807	2,060	883	(391,289)	390	243,851
Associated company	—	—	—	16,664	—	16,664
At 31st December 2004	631,807	2,060	883	(374,625)	390	260,515

24 RESERVES - *continued*

	Share premium	Translation reserve	Capital reserve	Accumulated losses	Capital redemption reserve	Total
	HK$'000 (Note (iii))	HK$'000	HK$'000 (Note (i) and (iii))	HK$'000	HK$'000	HK$'000
Company						
At 1st January 2003	635,510	—	2,687	(233,336)	390	405,251
Write-off of share issuance expenses related to the Open Offer (Note 22)	(3,703)	—	—	—	—	(3,703)
Loss for the year	—	—	—	(143,550)	—	(143,550)
At 31st December 2003	631,807	—	2,687	(376,886)	390	257,998
At 1st January 2004	631,807	—	2,687	(376,886)	390	257,998
Loss for the year	—	—	—	(7,828)	—	(7,828)
At 31st December 2004	631,807	—	2,687	(384,714)	390	250,170

(i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a group reorganisation in February 1995, and the nominal value of the Company's shares issued in exchange therefor.

Capital reserve of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

(ii) 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 year ended 31st December 2004, no transfer was made by the subsidiaries (2003: Nil).

(iii) 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 31st December 2004, in the opinion of the directors, the Company had no reserves available for distribution to its shareholders.

25 DEFERRED TAXATION

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses for the operation in Hong Kong and PRC of approximately HK$189,557,000 and HK$241,669,000 (2003: HK$156,717,000 and HK$246,932,000), respectively, which are subject to the agreement by relevant tax authorities. The tax loss generated from Hong Kong operations has no expiry date while the tax losses from PRC operations will expire in the period of 2005 to 2009. There were no other significant unprovided deferred tax liabilities at 31st December 2004.

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash inflow/(outflow) from operations:

	2004	2003
	HK$'000	HK$'000
Profit/(loss) before taxation	10,829	(136,322)
Provision for doubtful debts		
Trade receivables	3,094	1,517
Amount due from an associated company	—	1,252
Deposits and other receivables	—	1,591
Provision for onerous contract	—	13,760
Write-off of doubtful debts for amount due from an associated company	—	401
Depreciation	12,014	13,832
Loss on disposals of fixed assets	58	340
Impairment loss on fixed assets	795	—
Impairment loss on intangible assets	—	14,065
Amortisation of intangible assets	59,945	67,007
Amortisation of goodwill on acquisition of an associated company	1,268	1,268
Share of profit of an associated company	(32,273)	(24,532)
Interest expense	29	1,568
Operating profit/(loss) before working capital changes	55,759	(44,253)
(Increase)/decrease in prepayments, deposits and other receivables	(21,561)	15,300
Decrease/(increase) in other non-current assets	489	(17)
Decrease in long-term payables	(5,696)	(6,238)
Decrease/(increase) in inventories	3,060	(1,991)
Increase in trade receivables	(8,054)	(4,560)
Decrease in trade payables, provisions, accrued liabilities and other payables	(18,891)	(38,176)
Increase in deferred income	17,676	10,433
(Decrease)/increase in amount due to a joint venture partner	(406)	142
Increase/(decrease) in amounts due to related companies	78	(78)
Decrease in pledged bank deposits	241	—
Decrease in restricted cash	1,699	84
Increase/(decrease) in amount due to an associated company	15,387	(7,462)
Net cash inflow/(outflow) from operations	39,781	(76,816)

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT - *continued*

(b) Major non-cash transactions

During the year, deposits for fixed assets amounting to HK$7,752,000 were transferred to fixed assets as the advertising display panels were received during the year.

Deposits for intangible assets amounting to HK$76,998,000 were transferred to intangible assets as the rights to place advertisements on specially designed newspaper kiosks were obtained.

(c) Analysis of balance of cash and cash equivalents

	2004	2003
	HK$'000	HK$'000
Bank balance and cash	92,281	55,281
Less: Non-cash and cash equivalents	—	(1,699)
	92,281	53,582

27 COMMITMENTS

(a) Capital commitments for fixed assets – Group

	2004	2003
	HK$'000	HK$'000
Authorised and contracted for	2,111	2,111

(b) Capital commitments for investment – Group

	2004	2003
	HK$'000	HK$'000
Authorised and contracted for	29,524	1,233

27 COMMITMENTS - *continued*

(c) Commitments under operating leases

(i) At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Not later than one year	6,941	8,418	—	230
Later than one year and not later than five years	9,531	6,570	—	—
Later than five years	—	111	—	—
	16,472	15,099	—	230

(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 31st December 2004, the Group had future aggregate minimum concession fee payments under the aforementioned contracts as follows:

	2004	2003
	HK$'000	HK$'000
Not later than one year	92,414	139,902
Later than one year and not later than five years	351,817	330,207
Later than five years	632,890	698,026
	1,077,121	1,168,135

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.

(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) each year effective from 1st January 2000 for the remaining tenure of the joint venture for each year over the remaining joint venture period until 2015 (Note 16).

28 RELATED PARTY TRANSACTIONS

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

	Note	2004	2003
		HK$'000	HK$'000
Income			
Equipment leasing income from Pro Photo Processing Limited ("PP")	(i)	2	14
Sales of materials to PP	(i)	141	149
Agency commission income for marketing services from BJ Metro	(ii)	5,170	3,901
Costs and expenses			
Sub-contracting fees charged by PP	(i)	507	398
Administrative expenses charged by PP	(i)	329	387
Media rental costs to BJ Metro	(ii)	1,324	1,600
Agency commission expenses charged by BJ Metro	(ii)	604	302

(i) PP is a minority shareholder of Digital Photo Limited. 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 were determined based on cost recovery.

(ii) BJ Metro is an associated company of the Group. Agency commission income and expenses is determined based on the agreement executed between the two parties. The commission is based on 12.5% of the sales contract amounts. Media rental costs charged by BJ Metro is determined based on negotiations between the two parties in the ordinary course of business.

Save as disclosed in other notes to the accounts, balances with the related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

29 RETIREMENT BENEFIT OBLIGATION

The Group has participated in the defined contribution Mandatory Provident Fund (the "MPF Scheme") in Hong Kong since 1st December 2000, in which all the employees are entitled to join this scheme. The assets of the MPF Scheme are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, the Group makes monthly contributions to the MPF Scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK$12,000 per annum per person. Contributions in excess of the 5% or HK$1,000 per month limit are made to the MPF Scheme as voluntary contribution by the Group and its Hong Kong employees so as to maintain the previous level of contributions before the MPF Scheme was established. The pension cost charged to the consolidated profit and loss account represents contributions paid or payable by the Group at the aforesaid rates. Where employees leave the scheme prior to the full vesting of their contributions, the amount of forfeited voluntary contributions is used to reduce the future voluntary contributions payable by the Group. During the year, the Group's contributions to the MPF Scheme were approximately HK$364,000 (2003: HK$44,000) after deduction of forfeited voluntary contributions of approximately HK$225,000 (2003: HK$712,000).

All subsidiaries of the Company in the PRC provide government-sponsored defined contribution retirement schemes for its full-time employees. The subsidiaries and the employees are required to contribute 19% and 7% respectively of the employees' average salary to the schemes, and the subsidiaries have no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The government sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. During the year, the PRC subsidiaries contributed approximately HK$2,503,000 (2003: HK$1,294,000).

30 POST BALANCE SHEET EVENT

The suspension of trading in the shares

At the request of the Company trading in the shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited was suspended on 17th March 2005 pending a further announcement in relation to certain price sensitive information. A further announcement will be made as soon as possible together with a request for the resumption of trading in the shares of the Company.

31 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21st March 2005.

RESULTS

	2000	2001	2002	2003	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	418,781	473,882	370,672	375,568	439,601
Net profit/(loss) attributable to shareholders	12,714	3,461	(252,783)	(143,775)	2,526

ASSETS AND LIABILITIES

	2000	2001	2002	2003	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	633,166	783,707	695,795	631,528	638,542
Total liabilities	(307,019)	(452,312)	(229,952)	(189,731)	(196,131)
	326,147	331,395	465,843	441,797	442,411

Notes:

1. The Company was incorporated in the Cayman Islands on 27th February 1995 and became the holding company of the companies now comprising the Group, as a result of the reorganisation took place in June 2001 regarding the acquisition of the entire share capital of Top Result Interactive Group through a share exchange.

2. The results, assets and liabilities of the Group for the two years ended 31st December 2003 and 2004 have been extracted from the audited consolidated profit and loss account and consolidated balance sheet as set out on the accounts.

3. The results, assets and liabilities of the Group for the year ended 31st December 2002 and 2001 have been extracted from the Company's 2002 Annual Report dated 27th March 2003.

4. The results, assets and liabilities of the Group for the year ended 31st December 2000 have been extracted from the Company's 2001 Annual Report dated 26th March 2002.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of MediaNation Inc. (the "**Company**") will be held at Room 6703, Two International Finance Centre, 8 Finance Street, Central, Hong Kong SAR on Monday, 9th May 2005, at 2:00 p.m. for the following purposes:

1. To consider, approve and adopt the audited financial statements of the Company for the year ended 31st December 2004, the report of the directors of the Company (the "**Directors**") for the year ended 31st December 2004 and the report of the auditors of the Company (the "**Auditors**") for the year ended 31st December 2004;

2. To re-elect retiring Directors, namely Mr. Cheung Leung Hong, Cliff, Mr. Johannes Schöter and Mr. Duck Young Song for a further and additional term of three years from the date of the Annual General Meeting, and to authorise the Board of Directors to determine the Directors' fees;

3. To re-appoint the Auditors and to authorise the Board of Directors to determine their remuneration;

4. As special business, to consider and, if thought fit, pass, with or without modifications, the following resolution upon the terms set out below which will be proposed as an ordinary resolution (Note 3):

"4. MANDATE TO ALLOT SHARES

THAT:-

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"), the exercise by the directors of the Company ("**Directors**") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued ordinary shares of HK$0.10 each in the capital of the Company ("**Shares**") and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:-

(i) a Rights Issue (as defined below); or

(ii) the exercise of the subscription rights under any option scheme of the Company or similar arrangement for the time being adopted for the grant or issue to participants of such scheme or arrangement or rights to acquire Shares; or

(iii) any issue of Shares upon the exercise of the subscription rights attaching to any warrants or convertible notes of the Company or any securities which are convertible into Shares; or

(iv) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company

shall not exceed the aggregate of:-

(A) 20 percent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution; and

(B) an amount representing the aggregate nominal value of Shares repurchased by the Company pursuant to the mandate referred to in ordinary resolution no. 5 set out in the Notice of which this resolution forms part, provided that such value shall not exceed 10 percent of the aggregate nominal value of the share capital of the Company in issue on the date of the passing of the ordinary resolution no. 5 set out in the Notice of which this resolution forms part

and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:-

"**Relevant Period**" means the period from the date on which this resolution is passed until whichever is the earliest of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the Companies Law of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting; and

"**Rights Issue**" means an offer of Shares open for a period fixed by the Directors to holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory applicable to the Company)."

5. As special business, to consider and, if thought fit, pass, with or without modifications, the following resolution upon the terms set out below which will be proposed as an ordinary resolution (Note 4):

"5. MANDATE TO REPURCHASE SHARES

THAT:-

(a) subject to paragraph (b) below and subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"), the exercise by the directors of the Company ("**Directors**") during the Relevant Period (as defined below) of all the powers of the Company to repurchase ordinary shares of HK$0.10 each in the capital of the Company ("**Shares**") on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 percent of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution:-

"**Relevant Period**" means the period from the date on which this resolution is passed until whichever is the earliest of:-

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the Companies Law of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting."

By Order of the Board
Cheng Ka Chung
Company Secretary

Hong Kong, 30th March 2005

Head office and principal place of business:
Room 3507, 35th Floor
The Center
99 Queen's Road Central
Hong Kong SAR

Registered office:
P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands

Notes:

1. Each of the shareholders of the Company (or his proxy) shall exercise his voting rights according to the number of Shares with voting rights represented by him and shall be entitled to one vote for each Share held.

2. Every shareholder of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company. A proxy form is attached. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong SAR at Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong SAR not less than 48 hours before the time appointed for holding the Annual General Meeting. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Annual General Meeting in person if the shareholder so desires.

3. In relation to the proposed Resolution No. 4 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Directors have no immediate plans to issue any new securities of the Company pursuant to the said general mandate other than shares which may fall to be issued upon the exercise of any options granted under the share option scheme of the Company or any scrip dividend scheme.

4. A circular appended with an explanatory statement containing further details regarding the proposed Resolution No. 5 above of the notice of this Annual General Meeting as required by the GEM Listing Rules will be dispatched to the shareholders of the Company together with the 2004 annual report.

5. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. In relation to the proposed Resolution No. 2 above, the details of the directors proposed to be re-elected, namely Mr. Cheung Leung Hong, Cliff, Mr. Johannes Schöter and Mr. Duck Young Song are as below:

Mr. Cheung Leung Hong, Cliff

Mr. Cheung Leung Hong, Cliff, aged 43, became a non-executive director of the Company in March 1998. He is the managing director and chief investment officer of PAMA Group and a member of its investment committee. PAMA Group, is one of the largest and longest established private equity firms in Asia. Since joining PAMA in 1986 at its inception, Mr. Cheung has held various investment and post investment responsibilities with PAMA in Asia and with the corporate finance and leverage buyout groups of The Prudential Insurance Company of America in the United States. Prior to joining PAMA, Mr. Cheung worked with the Hong Kong branch of Hamburgische Landesbank and the investment team of American International Assurance Co., Ltd. in Hong Kong. Mr. Cheung holds the Chartered Financial Analyst designation and is a graduate of the University of Hong Kong.

Mr. Cheung has no service contract with the Company and is not appointed for specific terms. A fixed annual fee will be paid to Mr. Cheung as remuneration for his services rendered as a non-executive director of the Company, which is determined based on the estimated time to be spent by him on the Company's matter.

SMI Investors (PAPE II) Limited, one of the substantial shareholders of the Company, belongs to PAMA Group in which Mr. Cheung is its managing director. In addition, a director of PAMA Group, namely Ms. Ho Ming Yee, is a non-executive director and a member of the audit committee of the Company. Save as the above, Mr. Cheung does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company. Mr. Cheung does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Future Ordinance. Mr. Cheung is currently a director of Meritz Securities Company Limited and was previously a director of KorAm Bank. Save as disclosed herein, there are no other matters that need to be brought to the attention of the Company's shareholders.

Mr. Johannes Schöter

Mr. Johannes Schöter, aged 49, became an independent non-executive director of the Company in July 2002. He is also the managing partner of Victoria Capital Limited in Hong Kong. Victoria Capital is a corporate finance advisory firm with main activities in merger and acquisition and fundraising. Mr. Schöter joined Deutsche Bank AG ("DB") in 1979 after his graduation from university and became the chief representative of DB in Beijing in 1983 till 1988. Mr. Schöter returned to Germany afterwards and joined the Duisburg branch of DB as general manager. In 1991 Mr. Schöter was appointed as the general manager of Tokyo branch of DB. Mr. Schöter became the general manager of DB for China, Hong Kong and Macau in 1995 before he founded Victoria Capital in 1998 together with a partner. Mr. Schöter holds a master degree in business administration from the Augsburg University in 1978.

Mr. Schöter has no service contract with the Company and is not appointed for specific terms. A fixed annual fee will be paid to Mr. Schöter as remuneration for his services rendered as an independent non-executive director and chairman of the audit committee of the Company, which is determined based on the estimated time to be spent by him on the Company's matter.

Mr. Schöter does not have any relationships with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. Mr. Schöter holds 10,152,000 ordinary shares of HK$0.1 each in the Company and 1,000,000 share options with exercise price HK$0.115 pursuant to the Company's share option scheme approved on 8th January 2002. Mr. Schöter did not hold any directorships in listed public companies in the last three years. Save as disclosed herein, there are no other matters that need to be brought to the attention of the Company's shareholders.

Mr. Duck Young Song

Mr. Duck Young Song, aged 61, became an independent non-executive director of the Company in September 2004. He is currently the chairman and chief executive officer of Diageo Korea Co., Ltd. and a partner of Gravitas Partnership, Ltd., a business consulting group specializing in Asian markets. Mr. Song is an experienced international executive with 20 years of multi-market operational experience in Asia and 13 years in advertising and marketing communication in the United States combined. For the past five years, Mr. Song was the chief executive officer and president of Philip Morris Asia, responsible for restructuring and expanding the firm's business for the entire region except Japan. Prior to that, he was the chief executive officer of Philip Morris Korea for ten years where he successfully established the firm's business operation from top to bottom. Before relocating to Asia, Mr. Song spent 13 years in the advertising and marketing communication industry in the United States combined, with the last position as the president of Song Communications. He embarked on his career as an account executive with Ogilvy & Mather, Inc. in the United States. Mr. Song graduated from the University of Illinois in 1968 with a bachelor of science degree in industrial management and received a master of business administration degree in marketing from Wharton Graduate Business School, University of Pennsylvania in 1969.

Mr. Song has no service contract with the Company and is not appointed for specific terms. A fixed annual fee will be paid to Mr. Song as remuneration for his services rendered as an independent non-executive director of the Company, which is determined based on the estimated time to be spent by him on the Company's matter.

Mr. Song does not have any relationships with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. In addition, Mr. Song does not have any interests in shares of the Company within the meaning of Part XV of the Securities and Future Ordinance. Mr. Song did not hold any directorships in listed public companies in the last three years. Save as disclosed herein, there are no other matters that need to be brought to the attention of the Company's shareholders.