



MEDIA NATION INC.

Incorporated in the Cayman Islands with limited liability

Second Quarterly Report 2005



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This report, for which the directors (the “Directors”) of MediaNation Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

BUSINESS REVIEW AND OUTLOOK

The Group operates three business lines: bus advertising, metro system advertising and street furniture advertising. Bus advertising is carried on approximately 15 cities in the PRC, plus the entire underground metro system in Beijing city center and two metro lines in Shanghai, offering national-wide network services to international and domestic renowned brands. There has also been an expansion into street furniture advertising business in recent years.

	For the three months ended 30th June						
	2005			2004			
	PRC Bus HK\$m	Metro* HK\$m	Street Furniture HK\$m	PRC Bus HK\$m	HK Bus HK\$m	Metro* HK\$m	Street Furniture HK\$m
Turnover	68.7	65.0	5.1	63.2	22.8	63.3	2.4
Cost of Sales	(57.5)	(29.2)	(2.6)	(52.9)	(23.7)	(23.5)	(1.7)
Gross Profit/ (loss)	11.2	35.8	2.5	10.3	(0.9)	39.8	0.7

	For the six months ended 30th June						
	2005			2004			
	PRC Bus HK\$m	Metro* HK\$m	Street Furniture HK\$m	PRC Bus HK\$m	HK Bus HK\$m	Metro* HK\$m	Street Furniture HK\$m
Turnover	117.4	117.3	8.7	116.4	40.7	105.0	2.9
Cost of Sales	(106.8)	(54.2)	(6.0)	(98.6)	(38.5)	(42.8)	(2.6)
Gross Profit	10.6	63.1	2.7	17.8	2.2	62.2	0.3

* Note: Includes the turnover for an associated company, Beijing Metro

Bus Advertising

The turnover of PRC bus advertising operation represented 66.3% of the Group's total turnover for the six months ended 30th June 2005. PRC bus operations recorded HK\$68.7 million turnover in the second quarter of 2005, which was a 41.1% increase compared to HK\$48.7 million in the first quarter of 2005 and 8.7% increase compared to HK\$63.2 million in the second quarter of 2004. The gross profit generated by PRC bus operations was recorded at HK\$11.2 million and HK\$10.6 million for the three months and six months ended 30th June 2005, respectively.

Metro System Advertising

Metro turnover, including the turnover from an associated company, Beijing Metro, was HK\$65.0 million and HK\$117.3 million for the three months and six months ended 30th June 2005 respectively, which represented a growth of 2.7% and 11.7% as compared to HK\$63.3 million and HK\$105.0 million for the same periods in 2004.

Street Furniture

The Shanghai Newspaper Kiosk project received the advertising license approvals from government authorities in December 2003 for about 700 newspaper kiosks installed in 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.

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 above two projects recorded gross profit of HK\$2.5 million and HK\$2.7 million for the three months and six months ended 30th June 2005, respectively, and they generated a combined turnover of HK\$5.1 million and HK\$8.7 million for the three months and six months ended 30th June 2005, respectively.

Business outlook

The Group was into the second years with positive EBITDA. This has helped 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 the traditional transit media.

Given the improving global economy, the management is seeing stronger demand for advertising media in the PRC, especially for the two metros.

FINANCIAL REVIEW

Revenue and Profitability

The Group recorded turnover of HK\$103.0 million and HK\$177.1 million for the three months and six months ended 30th June 2005 respectively. Negligible turnover was generated from the Hong Kong operation in 2005 after the contract with KMB expired in October 2004. The turnover generated in the same period last year amounted to HK\$22.8 million and HK\$40.7 million respectively. Total turnover generated from the PRC business for the three-month and six-month period increased from HK\$90.8 million and HK\$159.2 million last year to HK\$103.0 million and HK\$177.1 million this year respectively.

Total turnover for the six-month period ended 30th June 2005 was generated by: (i) bus advertising of HK\$117.4 million (66.3% of total turnover); (ii) metro system advertising of HK\$51.0 million (28.8% of total turnover); and (iii) other operations of HK\$8.7 million (4.9% of total turnover).

Cost of sales for the six-month period ended 30th June 2005 was HK\$156.1 million, a decrease of 9.0% from HK\$171.5 million in the same period last year. The decrease was mainly due to the reduction of concession fees resulting from the expiry of the KMB bus advertising agreement in Hong Kong in October 2004.

The Group recorded a gross profit of HK\$21.0 million for the six-month period ended 30th June 2005, a decrease of 26.1% compared with HK\$28.4 million for the same period last year.

Selling, general and administrative expenses for the six-month period ended 30th June 2005 was comparable with the same period last year, amounted to HK\$47.4 million.

Finance costs

Finance cost for the three months and six months ended 30th June 2005 was negligible (2004: NIL). The Group had no borrowing as at 30th June 2005.

Share of profit of an associated company

Share of profit of an associated company before taxation recorded at HK\$9.6 million and HK\$17.5 million for the three months and six months ended 30th June 2005.

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

Adjusted EBITDA represents profit/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. The Adjusted EBITDA for the six months ended 30th June 2005 was HK\$28.2 million, compared with a profit of HK\$36.3 million in the same period last year.

Net Profit/(Loss) Attributable to Shareholders

As a result of the above factors, the Group recorded a net profit for the three months ended 30th June 2005 of HK\$2.8 million and a net loss of HK\$14.0 million for the six months ended 30th June 2005.

Financial Resources, Security and Liquidity

The gearing ratio, defined as the ratio of total liabilities to total assets, was 30.2% at 30th June 2005, compared to 30.7% at 31st December 2004.

The Group had net assets of HK\$426.1 million at 30th June 2005 (at 31st December 2004: HK\$440.9 million), including cash and bank balances of HK\$97.9 million (at 31st December 2004: HK\$92.3 million).

Employees

At 30th June 2005, the Group had 515 employees (at 31st December 2004:551; at 30th June 2004:527). The total employee remuneration, including that of the directors, for the six months ended 30th June 2005 amounted to HK\$25.6 million (six months ended 30th June 2004: HK\$26.0 million).

Foreign Exchange

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

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

FINANCIAL RESULTS

The Directors of MediaNation Inc. (the “Company”) announce the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30th June 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

	Note(s)	For the three months ended 30th June		For the six months ended 30th June	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (As restated)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (As restated)
Turnover	2	102,985	113,552	177,098	199,888
Cost of sales		(83,137)	(95,470)	(156,130)	(171,488)
Gross profit/(loss)		19,848	18,082	20,968	28,400
Other revenues		429	108	586	192
Selling, general and administrative expenses		(23,935)	(24,352)	(47,426)	(46,166)
Loss from operations		(3,658)	(6,162)	(25,872)	(17,574)
Finance costs		—	(1)	—	(11)
		(3,658)	(6,163)	(25,872)	(17,585)
Share of profits of an associated company		9,605	9,617	17,494	15,559
Profit/(loss) before taxation	4	5,947	3,454	(8,378)	(2,026)
Income tax expenses					
— Group		—	(4)	—	(4)
— Associated company		(3,170)	(3,278)	(5,773)	(5,441)
	5	(3,170)	(3,282)	(5,773)	(5,445)
Profit/(loss) after taxation but before minority interests		2,777	172	(14,151)	(7,471)
Minority interests		(8)	(172)	132	234
Net profit/(loss) attributable to shareholders		2,769	—	(14,019)	(7,237)
Profit/(loss) per share (HK cents)					
— Basic	6	0.15	—	(0.78)	(0.40)
— Diluted	6	N/A	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

	Note(s)	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Non-current assets			
Investment deposit placed with a joint venture partner		14,145	14,145
Fixed assets, net	7	70,157	74,841
Intangible assets, net	8	235,961	263,939
Long-term deposits		28,291	—
Investment in an associated company		42,391	49,537
Deposits for fixed assets		5,792	5,792
Other non-current assets		—	275
		396,737	408,529
Current assets			
Prepayments, deposits and other receivables		30,576	74,638
Inventories		773	1,672
Trade receivables, net	9	86,815	61,422
Bank balances and cash		97,905	92,281
		216,069	230,013
Current liabilities			
Trade payables	10	48,765	55,269
Provisions, accrued liabilities and other payables		43,170	36,034
Deferred income		60,800	61,028
Amounts due to related companies		850	1,169
Amount due to an associated company		31,600	42,512
Obligations under finance leases		25	25
		185,210	196,037
Net current assets		30,859	33,976
Total assets less current liabilities		427,596	442,505
Financed by:			
Share capital	11	180,349	180,349
Reserves	12	245,748	260,515
		426,097	440,864
Minority interests		1,415	1,547
Non-current liabilities			
Obligations under finance leases		84	94
		427,596	442,505

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30TH JUNE 2005 AND 2004**

	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	14,010	13,079
NET CASH USED IN INVESTING ACTIVITIES	(8,333)	(7,792)
NET CASH (USED IN)/INFLOW FROM FINANCING ACTIVITIES	(10)	270
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,667	5,557
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	92,281	53,582
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(43)	(8)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	97,905	59,131
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	97,905	60,560
Less: Non-cash and cash equivalents	—	(1,429)
	97,905	59,131

**CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE 2005 AND 2004**

	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (As restated)
Total equity as at 1st January	440,864	438,633
– Cancellation of share options	(705)	—
– Exchange difference arising from the translation of accounts of foreign subsidiaries	(43)	(8)
Net loss for the period	(14,019)	(7,237)
Total equity as at 30th June	426,097	431,388

NOTES TO THE INTERIM FINANCIAL STATEMENTS:

1. Basis of presentation

The condensed interim financial statements 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”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. 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 adopted the New HKFRSs in the preparation of accounts for the period from 1st January 2005 onward, and the applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS Int 15	Operating Leases — Incentives
HKFRS-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities

Except for the adoption of HKFRS 2 and HKFRS 3, the adoption of New HKFRSs did not result in substantial changes to the Group’s accounting policies.

Under HKFRS 2 “Share-based payment”, the Group is required to determine the fair value of all share-based payments to employees as remuneration and recognise an expense in the profit and loss account. This treatment results in a reduction in profit as such items have not been recognised as expenses under the previous accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment applies to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7th November 2002 and had not yet vested on 1st January 2005 and to liabilities arising from share-based payment transactions existing on 1st January 2005.

Under HKFRS 3 “Business Combinations”, goodwill is no longer amortised but instead will be subject to rigorous annual impairment testing. This has resulted in a change to the Group’s accounting policy under which goodwill is amortised over the shorter of 20 years or the tenure of the investments and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation is no longer charged, but goodwill is tested annually for impairment, as well as when there are indications of impairment. According to HKFRS 3, this new HKFRS is applied prospectively.

Based on the Group’s latest assessment, had the new HKFRSs (except for those new standards for which retrospective application was not required) been adopted from 1st January 2004 onwards, there will be no material impact to the Group’s shareholders’ equity as at 31st December 2004 and the Group’s net profit attributable to shareholders for the year then ended would decrease by approximately HK\$574,000. The Group’s net profit attributable to shareholders for the six months ended 30th June 2004 would decrease by HK\$286,000.

Certain comparative figures have been reclassified to conform with the current period’s presentation.

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

2. Turnover and revenues

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

	For the three months ended 30th June		For the six months ended 30th June	
	2005 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2005 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)
Media rental	83,130	87,505	145,374	153,939
Production income	18,010	25,324	26,929	41,226
Agency commission income	1,845	723	4,795	4,723
Total turnover	102,985	113,552	177,098	199,888
Interest income from bank deposits	429	108	586	192
Total revenue	103,414	113,660	177,684	200,080

3. Segment information

The Group is engaged in providing outdoor media advertising services under three major business segments, namely, Metro system advertising, Bus advertising and Street furniture advertising business. The Group's activities are conducted mainly in the PRC. Analysis by business segments and geographical segments is as follows:

Business segment

	For the six months ended 30th June (Unaudited)											
	Metro system advertising		Bus advertising		Other operations incl. Street Furniture		Corporate		Eliminations		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)	(as restated)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER												
Sales to external customers	50,977	39,874	117,374	157,120	8,747	2,894	—	—	—	—	177,098	199,888
Inter-segment sales	225	559	5,414	9,197	3,167	—	—	—	(8,806)	(9,756)	—	—
Total turnover	51,202	40,433	122,788	166,317	11,914	2,894	—	—	(8,806)	(9,756)	177,098	199,888
RESULTS												
Segment profit (loss) before amortization and depreciation	5,557	5,693	11,627	22,957	1,011	(2,798)	(8,065)	(6,689)	—	—	10,130	19,163
Amortization and depreciation	(2,908)	(1,592)	(29,669)	(33,387)	(3,897)	(1,844)	(114)	(106)	—	—	(36,588)	(36,929)
Segment profit (loss) from operation	2,649	4,101	(18,042)	(10,430)	(2,886)	(4,642)	(8,179)	(6,795)	—	—	(26,458)	(17,766)
Other revenues											586	192
Loss from operations											(25,872)	(17,574)
Finance costs											—	(11)
Share of profit of an associated company											17,494	15,559
Income tax expense											(5,773)	(5,445)
Loss after taxation but before minority interests											(14,151)	(7,471)
Minority interests											132	234
Net loss attributable to shareholders											(14,019)	(7,237)

Geographical segment

	For the six months ended 30th June					
	2005			2004		
	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)	Hong Kong HK\$'000 (Unaudited)	The PRC HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
TURNOVER						
Metro system advertising	—	50,977	50,977	—	39,874	39,874
Bus advertising	—	117,374	117,374	40,692	116,428	157,120
Other operations incl. Street Furniture	—	8,747	8,747	—	2,894	2,894
Total turnover	—	177,098	177,098	40,692	159,196	199,888
Interest income from bank deposit	379	207	586	54	138	192
	379	177,305	177,684	40,746	159,334	200,080

4. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging the following:

	For the six months ended 30th June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (As restated)
Charging:		
Depreciation on		
— owned assets	6,026	5,805
Amortization of intangible assets included in cost of sales	30,562	30,883
Amortization of intangible assets included in administrative expenses	—	160
Amortization of goodwill included in		
— administrative expenses	—	81
— share of profit of an associated company	—	634
Operating lease rentals for		
— office premises	3,662	4,302
— advertising spaces	76,067	85,306
Staff costs (including directors' emoluments)	25,550	26,241

5. Taxation

Hong Kong profits tax rate of 17.5% (2004:17.5%) has not been provided as the Group's operations in Hong Kong have no estimated assessable profit for the period ended 30th June 2005 (2004: 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% (2004: 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 charge to the consolidated profit and loss account represents:

	For the three months ended 30th June		For the six months ended 30th June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Current taxation — PRC EIT	—	4	—	4
Share of taxation attributable to an associated company	3,170	3,278	5,773	5,441
	3,170	3,282	5,773	5,445

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

	For the six months ended 30th June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited) (As restated)
Loss before taxation	(8,378)	(2,026)
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(1,466)	(355)
Effect of different taxation rates in other countries	(1,353)	1,388
Income not subject to taxation	(1,750)	(2,887)
Expenses not deductible for taxation purposes	1,931	3,680
Tax losses not recognized	8,411	3,619
Taxation charge	5,773	5,445

6. Profit/(loss) per share

(a) Basic profit/(loss) per share

The calculation of basic profit/(loss) per share for the three months and six months ended 30th June 2005 is based on the Group's net profit/(loss) attributable to shareholders of approximately HK\$2,769,000 and HK\$(14,019,000) respectively (three months ended 30th June 2004: zero; six months ended 30th June 2004: approximately HK\$(7,237,000)), divided by the weighted average number of 1,803,488,985 ordinary shares outstanding during the period (three months and six months ended 30th June 2004: 1,803,488,985 ordinary shares).

(b) Diluted profit/(loss) per share

No diluted profit/(loss) per share for the three months and six months ended 30th June 2005 and 2004 is presented because all the share options were cancelled in June 2005 following the completion of the mandatory cash offer.

7. Fixed assets, net

The movements of fixed assets of the Group were:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Net book value, beginning of period/year	74,841	76,806
Additions	1,428	10,949
Disposal	(86)	(105)
Depreciation	(6,026)	(12,014)
Impairment loss	—	(795)
Net book value, end of period/year	70,157	74,841

8. Intangible assets, net

Intangible assets of the Group comprised:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Net book value, beginning of period/year	263,939	236,899
Additions	2,584	86,985
Amortization	(30,562)	(59,945)
Net book value, end of period/year	235,961	263,939

9. Trade receivables, net

An ageing analysis of trade receivables based on due dates is set out below:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Current	20,593	17,006
1 — 30 days	17,591	14,162
31 — 60 days	16,776	10,635
61 — 90 days	14,022	4,614
91 — 120 days	5,791	6,784
Over 120 days	22,684	19,091
	97,457	72,292
Less: Provision for doubtful debts	(10,642)	(10,870)
	86,815	61,422

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

10. Trade payables

An ageing analysis of trade payables based on due dates is set out below:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Current	174	4,564
1 — 30 days	5,814	16,413
31 — 60 days	2,691	1,762
61 — 90 days	2,460	1,216
91 — 120 days	1,682	12,758
Over 120 days	35,944	18,556
	48,765	55,269

11. Share capital

	For the six months ended 30th June 2005		For the twelve months ended 31st December 2004	
	No. of shares (Unaudited)	Amount HK\$'000 (Unaudited)	No. of shares (Audited)	Amount HK\$'000 (Audited)
Authorized — <i>Ordinary shares of HK\$0.10 each</i>				
Beginning and end of period/year	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid — <i>Ordinary shares of HK\$0.10 each</i>				
Beginning and end of period/year	1,803,488,985	180,349	1,803,488,985	180,349

12. Reserves

Movements in reserves of the Group for the six months ended 30th June 2005 and 2004 were as follows:

	Share premium HK\$'000	Addition paid-in capital HK\$'000	Deferred compensation expenses HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000 (Note (i))	Accumulated losses HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
As at 1st January 2004 (Audited)	631,807	—	—	2,069	883	(377,151)	390	257,998
Effect of adopting HKFRS 2: share-based payment	—	754	(623)	—	—	(131)	—	—
As restated	631,807	754	(623)	2,069	883	(377,282)	390	257,998
Granting of share options	—	728	(728)	—	—	—	—	—
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	—	—	(8)	—	—	—	(8)
Amortisation of deferred compensation expenses	—	—	286	—	—	—	—	286
Loss for the period as restated	—	—	—	—	—	(7,237)	—	(7,237)
As at 30th June 2004 (Unaudited)	631,807	1,482	(1,065)	2,061	883	(384,519)	390	251,039
As at 1st January 2005 (Audited)	631,807	—	—	2,060	883	(374,625)	390	260,515
Effect of adopting HKFRS 2: share-based payment	—	1,482	(777)	—	—	(705)	—	—
As restated	631,807	1,482	(777)	2,060	883	(375,330)	390	260,515
Cancellation of share options following the completion of the Offer	—	(1,482)	777	—	—	—	—	(705)
Exchange difference arising from the translation of accounts of foreign subsidiaries	—	—	—	(43)	—	—	—	(43)
Loss for the period	—	—	—	—	—	(14,019)	—	(14,019)
As at 30th June 2005 (Unaudited)	631,807	—	—	2,017	883	(389,349)	390	245,748

- (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 therefore.
- (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 six months ended 30th June 2005 and 2004, no transfer was made by the subsidiaries to these statutory reserves.

13. Commitments

- (a) Capital commitments for fixed assets:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Authorized and contracted for	2,111	2,111

- (b) Capital commitments for investment:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Authorized and contracted for	1,233	29,524

- (c) Commitments under operating leases:

- (i) At 30th June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Not later than one year	7,856	6,941
Later than one year and not later than five years	5,560	9,531
	13,416	16,472

- (ii) The Group has entered into certain media rental contracts under which the Group has committed to pay to various media owners concession fees calculated based on various arrangements as stipulated in the respective contracts. At 30th June 2005, the Group had future aggregate minimum concession fee payments under the aforementioned contracts as follows:

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
Not later than one year	86,780	92,414
Later than one year and not later than five years	348,550	351,817
Later than five years	595,060	632,890
	1,030,390	1,077,121

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 Beijing Metro's distributable profit will not be lower than RMB13,000,000 (approximately HK\$12,150,000) for each year over the remaining joint venture period until 2015.

14. Related party transactions

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

	Note	For the six months ended 30th June	
		2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Income			
Agency commission income for marketing services from BJ Metro	(ii)	7,356	2,775
Expenses			
Sub-contracting fees charged by PP	(i)	—	268
Administrative expenses charged by PP	(i)	—	102
Media rental costs to BJ Metro	(ii)	215	573
Agency commission expenses charged by BJ Metro	(ii)	179	501

- (i) PP is a minority shareholder of Digital Photo. Income from leasing of equipment and sales of materials are determined based on a cost recovery basis. Sub-contracting fees charged by PP were determined based on terms as agreed between the two parties. Administrative expenses charged by PP are determined based on a cost recovery basis.

- (ii) BJ Metro is an associated company of the Group. Agency commission income and expenses are 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 interim financial statements, balances with a joint venture partner and related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

Subsequent event

As stated in the announcement dated 10th June 2005, since valid acceptances have been received for not less than 90% in value of the Offer Shares, the Offeror intends to proceed with the Compulsory Acquisition of all those Offer Shares which have not been acquired under the Offer, under section 88(1) of the Companies Law (2004 Revision) of the Cayman Islands. The Company will apply to the Stock Exchange for the withdrawal of listing of the Shares on the Stock Exchange on completion of the Compulsory Acquisition.

The Company has applied to the Stock Exchange for the suspension of trading of the Shares from 9:30 a.m. on 27th June 2005 until the withdrawal of listing of the Shares on the Stock Exchange following completion of the Compulsory Acquisition.

Terms used above shall have the same meanings as those defined in the Composite Document dated 29th April 2005 unless otherwise defined herein.

USE OF PROCEEDS

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 HK\$ million	Actual amount used up to 30th June 2005 HK\$ million	Further amount to be used 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	60.0	60.0	—
	116.0	101.9	14.1

The remaining net proceeds from the Open Offer as at 30th June 2005 was approximately HK\$14.1 million.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2005 (2004: nil).

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

As at 30th June 2005, other than as disclosed in the paragraphs headed "Pre-IPO Share Options Plans" and "Post-IPO Share Option Scheme" below, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules.

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 options 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 30th June 2005 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price HK\$ (After Open Offer adjustment)	Outstanding as at 1st January 2005 (After Open Offer adjustment)	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period (After Open Offer adjustment)	Outstanding as at 30th June 2005
Mr. Kam Wai Sum, Brian	1st July 1997	1st July 1998 to 30th June 2007 ⁽¹⁾	0.266	8,137,500	—	—	8,137,500	—
(Indirect interest through the holding of these share options by his wife, Ms. Chan)	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	0.266	6,825,000	—	—	6,825,000	—
	1st April 2000	1st April 2001 to 31st March 2010 ⁽¹⁾	1.195	8,505,000	—	—	8,505,000	—
	1st September 2000	1st September 2001 to 31st August 2010 ⁽¹⁾	0.266	5,145,000	—	—	5,145,000	—
Man Ki, Summerine, a former director of the Company)	5th May 2001	5th May 2002 to 4th May 2011 ⁽¹⁾	1.195	7,350,000	—	—	7,350,000	—
	9th June 2001	9th June 2001 to 8th June 2011 ⁽²⁾	1.442	57,105,605	—	—	57,105,605	—

(1) Each of these Pre-IPO Share 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 Share 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.

All the Pre-IPO Share Options were cancelled following the completion of the mandatory cash offer (the "Offer") in June 2005.

Post-IPO Share Options Scheme

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

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

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

Under the terms of the Share Option Scheme, details of the options granted to and held by the Directors as at 30th June 2005 were as follows:

Name of Director	Date of offer	Exercisable period	Exercise price HK\$	Outstanding as at 1st January 2005	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30th June 2005
Mr. Chu Chung Hong, Francis	13th August 2003	13th August 2004 to 12th August 2013	0.119	3,000,000	—	—	3,000,000	—
(resigned on 21st May 2005)	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	—

All the Share Options were cancelled following the completion of the mandatory cash offer (the “Offer”) in June 2005.

Save as disclosed above, at no time during the six months ended 30th June 2005 was the Company or any of its holding companies, fellow subsidiaries or 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 six months ended 30th June 2005.

A summary of the movement of share options granted to employees (including directors) under Pre-IPO Share Options Plans and Post-IPO Share Options Scheme during the period is as follows:

	Pre-IPO Share Options Plans at exercise price of			Post-IPO Share Option Scheme at exercise price of		
	HK\$0.266 ⁽¹⁾	HK\$1.195 ⁽¹⁾	HK\$1.442 ⁽¹⁾	HK\$0.795 ⁽¹⁾	HK\$0.119	HK\$0.115
At 1st January 2005	21,647,640	26,355,000	85,664,250	8,390,000	15,000,000	10,000,000
Cancelled during the period	(21,647,640)	(26,355,000)	(85,664,250)	(8,390,000)	(15,000,000)	(10,000,000)
At 30th June 2005	—	—	—	—	—	—

Note

1. The exercise price and the number of these share options are adjusted pursuant to the Open Offer stated in the Company's prospectus dated 10th July 2003.

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. There was a sale of Shares by Mr. Buttifant, who is one of the independent non-executive directors of the Company, on 5th May 2005 which constituted dealing in shares within the "black-out period" by a director of the Company contrary to Rule 5.56 of the GEM Listing Rules. The Company has an established system whereby the directors of the Company are required to first notify the chairman of the Board in writing, and receive a dated written acknowledgement from the Chairman, before dealing in the Shares. The Company also maintains a written record of the notifications and acknowledgements in accordance with the GEM Listing Rules. However, the sales of Shares by Mr. Buttifant had not been first notified in writing to the Chairman and no written acknowledgement had been issued by the Chairman to Mr. Buttifant. Mr. Buttifant has stated that the sale of Shares on 5th May 2005 was a complete administrative over-sight on his part and that he notified the Company immediately upon realizing the mistake.

Except for the above, 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 six months ended 30th June 2005.

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

So far as is known to any Director or chief executive of the Company, as at 30th June 2005, 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
JCDecaux Pearl & Dean Ltd*	1,778,097,594	Beneficial Owner, direct holding	98.59%
JCDecaux Asia (S) Pte. Ltd*	1,778,097,594	Beneficial Owner, indirect holding	98.59%
JCDecaux SA*	1,778,097,594	Beneficial Owner, indirect holding	98.59%
JCDecaux Holding*	1,778,097,594	Beneficial Owner, indirect holding	98.59%
Mr. Jean-Claude Decaux*	1,778,097,594	Beneficial Owner, indirect holding	98.59%

* Mr. Jean-Claude Decaux holds 84% equity interest in JCDecaux Holding
 JCDecaux Holding holds 70.29% equity interest in JCDecaux SA
 JCDecaux SA holds 100% equity interest in JCDecaux Asia (S) Pte. Ltd
 JCDecaux Asia (S) Pte. Ltd holds 100% equity interest in JCDecaux Pearl & Dean Ltd

Save as disclosed above, and as far as the Directors are aware, as at 30th June 2005, no other substantial shareholders had any interest or short position in the shares or underlying shares of the Company which are recorded in the register of the Company to be kept under section 336 of the SFO.

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

So far as is known to any Director or chief executive of the Company, as at 30th June 2005, 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.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

As the management shareholder of the Company upon the completion of the sale and purchase agreement that took place on 26th April 2005, JCDecaux Pearl & Dean Ltd (JCDecaux) has business operations in the outdoor advertising markets in Hong Kong which may compete with the business of the Group. The group companies of JCDecaux also have business operations in the outdoor advertising markets in the PRC that may compete with the business of the Group.

Mr. Jean-Michel Jacques Geffroy, a non-executive director of the Company and Mr. Wong Hon Chiu, Stephen, an executive director of the Company, are directors of JCDecaux. Mr. Kam Wai Sum, Brian, an executive director of the Company, and Mr. Jean-Charles Decaux, Ms. Isabelle Claude Michele Vitry Schlumberger and Mr. David Bourg, the three non-executive directors of the Company are officers and/or employees of the group companies of JCDecaux and/or its parent company. The group companies of JCDecaux have business operations in the outdoor advertising markets in Hong Kong and the PRC that may compete with the business of the Group.

Save as disclosed above, as at 30th June 2005, none of the Directors or the management shareholders of the Company or their respective associates had any interest in any business that directly or indirectly competes with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 10th September 2001 and formulated its written terms of reference in compliance with Rules 5.28 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 comprises a non-executive Director, Mr. David Bourg and two independent non-executive Directors, namely Mr. Johannes Schtöer (the Chairman of the Committee) and Mr. Barry John Buttifant.

The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

With effect from 14th June 2005, Mr. Duck Young Song has tendered his resignation as an independent non-executive director of the Company. Following Mr. Song's resignation, the Company has two independent non-executive directors. Hence, the Company is not able to comply with Rule 5.05 (1) of the GEM Listing Rules in which it requires the Board to have at least three independent non-executive directors. Under Rule 5.06 of the GEM Listing Rules, the Company is required to meet the minimum number required under Rule 5.05 (1) within 3 months. The Company will ensure compliance with such provisions of the GEM Listing Rules by 13th September 2005.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors to be independent.

BOARD PRACTICES AND PROCEDURES

In the opinion of the Directors, throughout the six months ended 30th June 2005, 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 and also the Code on Corporate Governance Practices under the Appendix 15 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed security.

By Order of the Board
Kam Wai Sum, Brian
Chairman

Hong Kong, 8th August 2005