

powerful  
impactful  
bold  
clear  
reliable  
outdoor  
media

Management's Discussion and Analysis  
Operations Review

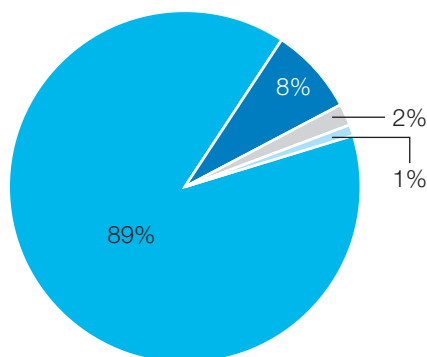


# outdoor media

Management's Discussion and Analysis  
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one of the leading outdoor operators with the biggest billboard and unipole network in Mainland China

## Asset Mix



- Billboard / Unipole
- Street Furniture
- Neon Sign
- Transport Ad



Revenues of the Outdoor Media Group (“OMG”) were HK\$412 million, a growth of 12% from last year. EBITDA dropped 46% to HK\$44 million for the year compared to HK\$82 million in the past year. EBITDA margin was 11% versus last year’s 22%. Segment profit was HK\$16 million compared to HK\$58 million in year 2004.

Total outdoor media revenues made up 64% of OMG total revenues, of which 51% from billboard /unipole and 26% from media buying business. Revenues from cross media accounted for 36% of the group’s total. The top ten clients of OMG including Samsung and Kia Motors made up 27% of total revenues for the year. Clients of OMG include industries of tobacco, electronic products, consumer products, property, finance, communication, home appliance as well as government bodies.

The decrease in EBITDA and EBITDA margin of OMG for the year partly revealed pressure in the selling price of the group as well as the increase in media asset costs. During the year, media asset costs increased 19% over that in the past year. We recognise the trend of increasing media asset costs is not very favorable to us in the short term, but we also recognise it is the results of more regulated and stable operating environment and in the long run should benefit OMG, one of the leading outdoor operators with the biggest billboard and unipole network in Mainland China.

The average selling price of the group’s billboard and unipole for the year was at the same level of last year amid competitive operating environment. With a view to improve margin, OMG is exploring the opportunities in developing new outdoor media such as some special designed or animated billboard /unipole for clients or borrowing the successful cases from overseas to the Mainland China market. During the year, the group is strengthening its value added services to clients.





In year 2005, a total of HK\$18 million provisions for bad debts were made for two subsidiaries of OMG; a closer monitor system has been adopted by OMG to improve the credit controls.

In December 2005, the group acquired 51% stake in two joint ventures, namely 上海唐碼浩盛傳媒有限公司 (“Haosheng”) and 深圳唐碼之光廣告有限公司 (“Rays”) for a total considerations of HK\$16 million; the transactions are expected to be completed in the first half of 2006. Media asset space of Haosheng and Rays amounted to about 4,000 and 6,000 square metres respectively with the main focus on billboard/unipole. Contributions from the two joint ventures will begin in year 2006.

As at 31 December 2005, OMG operated about 300,000 square metres media asset space, over 85% of them were billboard and unipole, and a small percentage in street furniture, transportation and some cross media businesses. 60% of the media asset space in billboard and unipole were self-owned/self-built by OMG, with the balance of 40% were media buying.

OMG operated 16 subsidiaries throughout Mainland China in year 2005, including Kunming, Chongqing, Dalian, Qingdao, Shanghai, Beijing, Shenzhen, Guangzhou, Wuhan, Chengdu, Fuzhou, Xiamen, Changchun, Shenyang, Jinan and Zhengzhou.

The unification of brand name in OMG, which marked the beginning of the consolidation and integration within the

group, was formally completed at the end of 2005. Under “TOM Outdoor”, the branding of all subsidiaries within the group was unified and their local marks became a sub-brand. The total cost for the re-branding was HK\$1.2 million.

In year 2005, a new information system was developed to gather all the media asset information including asset spaces, selling prices and locations of the media assets within the group. The system should increase the efficiency of the operations and build a stronger sale network for OMG to have a stronger client reach. A system of knowledge management was also established to facilitate the sharing of industry information, successful cases at OMG and training materials.

OMG adopts a direct management system in its operations and does not foresee significant negative impacts from the expiry of profit guarantee in year 2004 and 2005. Senior management of the group has meetings with middle to senior management of the subsidiaries every two weeks to review and monitor their operations. A daily reporting system was established to enhance daily monitoring of subsidiaries’ operations. The group has made much of staff training and encourages internal promotion.

During the year, OMG won *the Gold Award* among *the Golden 10 Cases*

recommended by *the Second Case Award of ADMEN China*, and was awarded as one of the *Top Five Most Influential Advertising Company in Mainland China* recommended by *2005 Influence on China Award Ceremony*, OMG is the only Chinese company which won the award.

Looking to the future, OMG will continue to acquire quality outdoor media assets in Mainland China to further strengthen its leading position in the market and enlarge its nationwide media network; and will explore the opportunities of bringing in strategic investors for additional funding, clientele and their expertise in outdoor media businesses.

### Top 10 outdoor advertisers

|    |  |
|----|--|
| 1  | Hong Yun Group                               |
| 2  | Fujian Longyan Cigarette Factory             |
| 3  | HAKUHODO Media                               |
| 4  | Hongta Materials Co. Ltd.                    |
| 5  | Yuxi Hongta Tobacco (Group) Co. Ltd.         |
| 6  | Honghe Cigarette Factory                     |
| 7  | DongFeng Yueda Kia Motors Co. Ltd.           |
| 8  | Beijing Heng Mei Advertising Co. Ltd.        |
| 9  | Fujian Sedrin (Sanmin) Co. Ltd.              |
| 10 | The First Korean Enterprise (Korean Samsung) |