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CHINA OUTDOOR MEDIA GROUP LIMITED

中國戶外媒體集團有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code : 254



2012  
Interim Report

## RESULTS

The Board of Directors of China Outdoor Media Group Limited (the “Company”) hereby presents the unaudited condensed consolidated interim financial report of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 31 December 2011 (the “Current Period”).

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2011

		<b>Six months ended 31 December</b>	
	Notes	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited) (restated)
<b>Revenue</b>	5	<b>6,746</b>	20,530
Cost of services		<b>(4,908)</b>	(8,375)
<b>Gross profit</b>		<b>1,838</b>	12,155
Other income		<b>155</b>	64
Administrative and other operating expenses		<b>(13,579)</b>	(16,173)
Finance costs	6	<b>(6,903)</b>	(18,538)
<b>Loss before tax</b>		<b>(18,489)</b>	(22,492)
Income tax expense	7	<b>(205)</b>	(740)
<b>Loss for the period</b>	8	<b>(18,694)</b>	(23,232)
<b>Attributable to:</b>			
Owners of the Company		<b>(18,567)</b>	(19,722)
Non-controlling interests		<b>(127)</b>	(3,510)
		<b>(18,694)</b>	(23,232)
		<b>HK cent</b>	HK cent
<b>Loss per share attributable to ordinary equity holders of the Company</b>	10		
– Basic		<b>(0.23)</b>	(1.33)
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	<b>Six months ended 31 December</b>	
	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited) (restated)
<b>Loss for the period</b>	<b>(18,694)</b>	(23,232)
<b>Other comprehensive income for the period, net of tax:</b>		
Exchange differences on translating foreign operations	<u>1,236</u>	<u>850</u>
<b>Total comprehensive loss for the period</b>	<b><u>(17,458)</u></b>	<b><u>(22,382)</u></b>
<b>Attributable to:</b>		
Owners of the Company	<b>(17,331)</b>	(18,872)
Non-controlling interests	<b><u>(127)</u></b>	<u>(3,510)</u>
	<b><u>(17,458)</u></b>	<b><u>(22,382)</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	As at 31 December 2011 HK\$'000 (unaudited)	As at 30 June 2011 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	751	1,324
Club membership		150	150
Goodwill	12	1,252,228	1,252,228
Investments in associates		–	–
Total non-current assets		<b>1,253,129</b>	1,253,702
<b>Current assets</b>			
Trade and other receivables	13	72,609	51,687
Bank and cash balances		26,920	35,660
Total current assets		<b>99,529</b>	87,347
<b>Current liabilities</b>			
Trade and other payables	14	29,371	7,363
Other borrowings	15	2,401	2,401
Finance lease payables	16	151	151
Tax payable		3,903	3,660
Total current liabilities		<b>35,826</b>	13,575
<b>Net current assets</b>		<b>63,703</b>	73,772
<b>Total assets less current liabilities</b>		<b>1,316,832</b>	1,327,474
<b>Non-current liabilities</b>			
Finance lease payables	16	100	175
Convertible loan notes	17	–	627,464
Total non-current liabilities		<b>100</b>	627,639
<b>NET ASSETS</b>		<b>1,316,732</b>	699,835
<b>Capital and reserves</b>			
Share capital	18	108,435	51,438
Reserves		1,211,745	651,718
Equity attributable to owners of the Company		<b>1,320,180</b>	703,156
Non-controlling interests		(3,448)	(3,321)
<b>TOTAL EQUITY</b>		<b>1,316,732</b>	699,835

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

(Unaudited)

	Attributable to owners of the Company									
	Share capital	Share premium	Share-based payment reserve	Warrants reserve	Convertible loan notes equity component	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)	HK\$'000 (restated)	HK\$'000	HK\$'000 (restated)
At 1 July 2010	11,493	826,671	20,446	600	27	382	(792,466)	67,153	(1,365)	65,788
Total comprehensive loss for the period	-	-	-	-	-	850	(19,722)	(18,872)	(3,510)	(22,382)
Acquisition of a subsidiary (note 19)	1,000	21,300	-	-	-	-	-	22,300	-	22,300
Share issued upon exercise of warrants	150	2,888	-	(38)	-	-	-	3,000	-	3,000
Issue of convertible loan notes (note 17)	-	-	-	-	228,488	-	-	228,488	-	228,488
Share issued upon conversion of convertible loan notes (note 17)	5,000	60,461	-	-	(12,085)	-	-	53,376	-	53,376
Share options lapsed during the period	-	-	(73)	-	-	-	73	-	-	-
Acquisition of a subsidiary (note 19)	-	-	-	-	-	-	-	-	1,847	1,847
Changes in equity for the period	6,150	84,649	(73)	(38)	216,403	850	(19,649)	288,292	(1,663)	286,629
At 31 December 2010	17,643	911,320	20,373	562	216,430	1,232	(812,115)	355,445	(3,028)	352,417
At 1 July 2011	51,438	1,333,162	20,373	138	137,767	1,965	(841,687)	703,156	(3,321)	699,835
Total comprehensive loss for the period	-	-	-	-	-	1,236	(18,567)	(17,331)	(127)	(17,458)
Share issued upon conversion of convertible loan notes (note 17)	56,997	715,125	-	-	(137,767)	-	-	634,355	-	634,355
Share options lapsed during the period	-	-	(653)	-	-	-	653	-	-	-
Changes in equity for the period	56,997	715,125	(653)	-	(137,767)	1,236	(17,914)	617,024	(127)	616,897
At 31 December 2011	108,435	2,048,287	19,720	138	-	3,201	(859,601)	1,320,180	(3,448)	1,316,732

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	<b>Six months ended 31 December</b>	
	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9,987)</b>	(9,164)
Purchases of property, plant and equipment	(9)	(12)
Acquisition of a subsidiary (note 19)	–	4,232
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(9)</b>	4,220
New other borrowings raised	–	878
Repayment of other borrowings	–	(172)
Capital element of finance lease rental payments	(75)	(51)
Proceeds from issue of shares	–	3,000
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>(75)</b>	3,655
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,071)</b>	(1,289)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>35,660</b>	10,733
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>1,331</b>	900
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>26,920</b>	10,344
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	26,920	10,344

# **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the six months ended 31 December 2011

## **1. GENERAL INFORMATION**

The Company was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance. The address of its registered office and principal place of business is Unit 1803, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries during the Current Period were the provision of outdoor media advertising and media related services.

## **2. BASIS OF PREPARATION**

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed consolidated interim financial statements should be read in conjunction with the 2011 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2011 except as stated below.

### **3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the Current Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (“HKASs”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies and amounts reported for the Current Period and prior years, other than as further explained below regarding the impact of HKAS 24 (Revised) “Related Party Disclosures”.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 23 to the condensed consolidated interim financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. 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 material impact on its results of operations and financial position.



## **4. OPERATING SEGMENT INFORMATION**

### **(a) Reportable segment**

From the perspective of the Group's senior management, it is considered that assessment of operating performance is focused on the Group as a whole for the purposes of resource allocation and performance assessment. Therefore management considers the Group has one reporting segment i.e. the media and advertising business.

Reconciliation of segment information to the information presented in the condensed consolidated interim financial statements has not been presented, as the reconciling items are considered to be immaterial.

### **(b) Geographical information**

No geographical information is shown as the revenue from external customers and non-current assets of the Group are substantially derived from activities or located in the People's Republic of China (the "PRC").

### **(c) Information about major customers**

Revenue of approximately HK\$5,191,000 (2010: HK\$5,156,000) were derived from four (2010: one) customers from the media and advertising business segment which contributed 10% or more to the Group's revenue for the period ended 31 December 2011.

## **5. REVENUE**

Revenue, which is also the Group's turnover, represents the value of services rendered during the period.

## 6. FINANCE COSTS

	<b>Six months ended 31 December</b>	
	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited) (restated)
Bank charges	6	10
Interest on convertible loan notes	<b>6,891</b>	18,514
Finance lease charges	6	4
Interest on other borrowings	—	10
	<b>6,903</b>	<b>18,538</b>

## 7. INCOME TAX EXPENSE

	<b>Six months ended 31 December</b>	
	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited)
Current tax – Hong Kong Profits Tax		
Underprovision in prior years	—	80
Current tax – PRC Enterprise Income Tax		
Provision for the period	<b>205</b>	660
	<b>205</b>	<b>740</b>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong for the Current Period (2010: Nil).

PRC Enterprise Income Tax is calculated at a statutory rate of 25% (2010: 25%) of the taxable income from operations of the Company's subsidiaries carried on in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC during the Current Period.

## 8. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging/(crediting) the following:

	<b>Six months ended 31 December</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest income	<b>(1,118)</b>	–
Depreciation	<b>164</b>	184
Directors' remuneration	<b>258</b>	249
(Gain)/loss on disposal of property, plant and equipment	<b>427</b>	(61)
Minimum lease payments under operating leases in respect of land and buildings	<b>817</b>	923

## 9. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Current Period (2010: Nil).

## 10. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$18,567,000 (2010: HK\$19,722,000 (restated)) and the weighted average number of ordinary shares of 7,932,304,531 (2010: 1,487,083,913) in issue during the Current Period.

The effect of all potential ordinary shares are anti-dilutive for the periods ended 31 December 2011 and 2010. No diluted loss per share were disclosed.

## 11. PROPERTY, PLANT AND EQUIPMENT

During the Current Period, the Group acquired property, plant and equipment of approximately HK\$9,000.

At 31 December 2011, the carrying amount of property, plant and equipment held by the Group under finance leases amounted to approximately HK\$415,000 (30 June 2011: HK\$493,000).

## 12. GOODWILL

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
<b>Cost</b>		
At beginning of the period/year	<b>1,275,151</b>	28,168
Acquisition of subsidiaries (note 19)	–	1,246,983
	<hr/>	<hr/>
At end of the period/year	<b>1,275,151</b>	1,275,151
	<hr/>	<hr/>
<b>Accumulated impairment</b>		
At beginning and end of the period/year	<b>22,923</b>	22,923
	<hr/>	<hr/>
<b>Net carrying amount</b>		
At beginning and end of the period/year	<b>1,252,228</b>	1,252,228
	<hr/>	<hr/>

### 13. TRADE AND OTHER RECEIVABLES

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Trade receivables	<b>1,980</b>	1,609
Prepayments, deposits and other receivables	<b>72,907</b>	52,356
	<b>74,887</b>	53,965
Impairment (note (a))	<b>(2,278)</b>	(2,278)
	<b>72,609</b>	51,687

Note:

- (a) An impairment loss of HK\$2,278,000 was provided for other receivable from an independent third party with a carrying amount of HK\$45,560,000 (before deducting the impairment loss) during the year ended 30 June 2011. There was no change in the impairment account during the Current Period.

The Group's trading terms with customers are mainly on credit. The credit terms generally are 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Within 30 days	<b>1,357</b>	1,189
31 – 60 days	–	132
61 – 90 days	–	–
Over 90 days	<b>623</b>	288
	<b>1,980</b>	1,609

## 14. TRADE AND OTHER PAYABLES

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Trade payables	4,007	–
Other payables and accruals	<u>25,364</u>	<u>7,363</u>
	<b><u>29,371</u></b>	<b><u>7,363</u></b>

The Group normally obtains credit terms ranging from 30 to 60 days from its suppliers.

The ageing analysis of the trade payables, based on the invoice date, is as follows:

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Within 30 days	<u>4,007</u>	<u>–</u>

## 15. OTHER BORROWINGS

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Other loans	<u>2,401</u>	<u>2,401</u>

The other loans are unsecured, interest-free and has no fixed term of repayment.

## 16. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	As at 31 December 2011 HK\$'000 (unaudited)	As at 30 June 2011 HK\$'000 (audited)	As at 31 December 2011 HK\$'000 (unaudited)	As at 30 June 2011 HK\$'000 (audited)
Within one year	161	161	151	151
In the second to fifth years, inclusive	108	189	100	175
	<b>269</b>	350	<b>251</b>	<b>326</b>
Less: Future finance charges	(18)	(24)		
Present value of lease obligations	<b>251</b>	326		
Less: Amount due for settlement within one year	(151)	(151)		
Non-current portion	<b>100</b>	175		

The Group leases a motor vehicle under finance lease. The lease term is three years. The effective borrowing rate was 2.4% (30 June 2011: 2.4%) per annum.

## 17. CONVERTIBLE LOAN NOTES

### (a) CB Feb 2010

On 26 February 2010, the Company issued convertible loan notes with principal amounts of HK\$9,800,000 ("CB Feb 2010"). CB Feb 2010 are convertible into ordinary shares of the Company at any time between the date of issue of CB Feb 2010 and their settlement date. CB Feb 2010 are convertible at 6,250,000 shares per HK\$1,000,000 principal amounts. If CB Feb 2010 have not been converted, they will be redeemed at par on 25 February 2012. Interest of 4% per annum will be paid annually until that settlement date.

In April 2011, CB Feb 2010 had been fully converted and 61,250,000 ordinary shares of the Company had been issued.

## 17. CONVERTIBLE LOAN NOTES (continued)

### (b) Restated CB Jul 2010

On 22 July 2010, the Company issued convertible loan notes with principal amounts of HK\$1,228,890,000 ("CB Jul 2010") as part of the consideration for the acquisition of a subsidiary, GMG Media Group Limited ("GMG Media"), as mentioned in note 19 below. On 13 August 2010 the Company and Fully Wealthy Inc. (the "Bondholder") entered into a deed (the "Deed") to alter and restate the terms of CB Jul 2010 ("Restated CB Jul 2010"). On 17 August 2010, the Company and the Bondholder entered into a supplemental deed to amend certain terms of the Deed. The Deed and supplemental deed had been approved at extraordinary general meeting held on 15 September 2010. Restated CB Jul 2010 are convertible into ordinary shares of the Company at any time between 16 September 2010 and their settlement date. Restated CB Jul 2010 are convertible at 7,692,307 shares per HK\$1,000,000 principal amounts. The Company may at any time before 21 July 2015 by serving at least ten days prior written notice to the Bondholder with the total amount proposed to be redeemed from the Bondholder.

On 21 July 2015, if any Restated CB Jul 2010 have not been converted, subject to the Hong Kong Code of Turnovers and Mergers and public float requirement of the Listing Rules, the remaining Restated CB Jul 2010 shall converted into shares of the Company. Any remaining outstanding Restated CB Jul 2010 which cannot be converted will be cancelled. Restated CB Jul 2010 are non-interest bearing.

During the Current Period, Restated CB Jul 2010 had been fully converted and 5,699,721,000 (30 June 2011: 3,753,279,000) ordinary shares of the Company had been issued.

The fair values of the liability components of CB Feb 2010 and Restated CB Jul 2010 were estimated at the issuance dates using an equivalent market interest rate (approximately 4.2% and 4.2% respectively) for a similar bond without a conversion option. The residual amounts are assigned as the equity component and are included in shareholders' equity.



## 17. CONVERTIBLE LOAN NOTES (continued)

The movements of the liability component and equity component of the CB Feb 2010 and Restated CB Jul 2010 during the period/year are set out as follows:

	CB Feb 2010		Restated CB Jul 2010		Total	
	31 December 2011 HK\$'000	30 June 2011 HK\$'000	31 December 2011 HK\$'000	30 June 2011 HK\$'000	31 December 2011 HK\$'000	30 June 2011 HK\$'000
	At beginning of the period/year	-	9,912	627,464	-	627,464
Nominal value of convertible loan notes issued during the year	-	-	-	1,228,890	-	1,228,890
Equity component	-	-	-	(228,488)	-	(228,488)
Liability component at issuance date	-	-	-	1,000,402	-	1,000,402
Conversion	-	(9,789)	(634,355)	(408,187)	(634,355)	(417,976)
Interest expense	-	318	6,891	35,249	6,891	35,567
Interest paid	-	(441)	-	-	-	(441)
Liability component at end of the period/year	-	-	-	627,464	-	627,464

The interest charged for the period is calculated by applying an effective interest rate of 4.198% (30 June 2011: 4.198%) per annum to the liability component of Restated CB Jul 2010 for the 6 months period since the beginning of the Current Period. The interest charged for the last year ended 30 June 2011 was calculated by applying an effective interest rate of 4.146% per annum to the liability component of CB Feb 2010.

## 18. SHARE CAPITAL

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<b>200,000</b>	200,000
Issued and fully paid:		
10,843,535,000 (30 June 2011: 5,143,814,000) ordinary shares of HK\$0.01 each	<b>108,435</b>	51,438

A summary of the movements in the issued share capital of the Company is as follows:

	Notes	<b>Number of shares '000</b>	<b>Par value HK\$'000</b>
1 July 2010		1,149,285	11,493
Issue of shares for acquisition of a subsidiary	(a)	100,000	1,000
Conversion of CB Feb 2010	(b)	61,250	613
Conversion of Restated CB Jul 2010	(c)	3,753,279	37,532
Exercise of warrants	(d)	80,000	800
At 30 June 2011 and 1 July 2011		5,143,814	51,438
Conversion of Restated CB Jul 2010	(c)	5,699,721	56,997
At 31 December 2011		<b>10,843,535</b>	<b>108,435</b>

Notes:

- (a) On 22 July 2010, 100,000,000 shares of HK\$0.01 each ("Consideration Shares") were issued as part of the consideration for the acquisition of a subsidiary, GMG Media (note 19). The fair value of one Consideration Shares of HK\$0.223 was determined by reference to the Stock Exchange closing price of the Company's shares on the date of issue.

## 18. SHARE CAPITAL (continued)

Notes: (continued)

- (b) On 11 April 2011, 61,250,000 shares of HK\$0.01 each were issued for the fully conversion of CB Feb 2010 (note 17) with the principal amounts of HK\$9,800,000. An amount of HK\$27,000 was transferred from the convertible loan notes equity components to share premium upon the conversion of the CB Feb 2010.
- (c) On 5 October 2010, 21 January 2011, 24 January 2011, 28 January 2011, 14 March 2011, 21 March 2011, 12 April 2011, 4 May 2011, 20 May 2011 and 23 May 2011, total of 3,753,279,000 shares of HK\$0.01 each were issued in the conversion of Restated CB Jul 2010 (note 17) with the principal amounts of HK\$487,926,000. Total amount of HK\$90,721,000 was transferred from the convertible loan notes equity components to share premium upon the conversion of the Restated CB Jul 2010.

During the Current Period, on 19 July 2011, 4 August 2011, 25 October 2011, 28 November 2011, 8 December 2011 and 12 December 2011, total of 5,699,721,000 shares of HK\$0.01 each were issued for the conversion of Restated CB Jul 2010 (note 17) with the principle amounts of HK\$740,964,000. Total amount of HK\$137,767,000 was transferred from the convertible loan notes equity component to share premium upon the conversion of the Restated CB Jul 2010.

- (d) On 26 August 2010, 18 October 2010, 4 March 2011 and 28 April 2011, a total of 60,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.20 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$12,000,000.

On 20 May 2011, 20,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$0.16 per share pursuant to the exercise of the Company's warrants for a cash consideration, before expenses, of HK\$3,200,000.

## 19. ACQUISITION OF A SUBSIDIARY

On 22 July 2010, the Group acquired the entire issued share capital of GMG Media at a consideration of HK\$1,241,890,000, satisfied by (i) the issue and allotment of 100,000,000 new shares of the Company, credited as fully paid, in the sum of HK\$13,000,000; and (ii) the issuance of CB Jul 2010, carrying no interest for a term of 5 years at a conversion price of HK\$0.13 for each new share of the Company. GMG Media was principally engaged in investment holding, with its subsidiaries engaged in operating chain broadcasting networks in the PRC.

## 19. ACQUISITION OF A SUBSIDIARY (continued)

The fair value of the identifiable assets and liabilities of GMG Media acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	<b>HK\$'000</b>
Net assets acquired:	
Property, plant and equipment	407
Trade and other receivables	1,621
Bank and cash balances	4,232
Trade and other payables	(206)
	<hr/>
Net identifiable assets at the date of acquisition	6,054
Non-controlling interests	(1,847)
	<hr/>
Net assets acquired	4,207
Goodwill	1,246,983
	<hr/>
	<b>1,251,190</b>
	<hr/>
Satisfied by:	
Fair value of shares issued (note 18(a))	22,300
CB Jul 2010 issued	1,228,890
	<hr/>
	<b>1,251,190</b>
	<hr/>
Net cash inflow arising on acquisition:	
Cash consideration	–
Bank and cash balances acquired	4,232
	<hr/>
	<b>4,232</b>
	<hr/>

The goodwill arising on the acquisition of GMG Media is attributable to the anticipated profitability of the expansion of Group's operation and income base in the new markets and the anticipated future operating synergies from the combination.

The acquired subsidiaries contributed net loss of approximately HK\$74,000 to the Group's loss for the period between the date of acquisition and the year ended 30 June 2011.

Had the business combination taken place at 1 July 2010, the revenue of the Group would remain unchanged and the loss of the Group for the year ended 30 June 2011 would have been HK\$49,105,000.

## 20. CONTINGENT LIABILITIES

### Financial guarantees issued

At the end of the reporting period, the Group had contingent liabilities as follows:

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Indemnity related to a former subsidiary (note 21(b))	<b><u>7,527</u></b>	<u>7,359</u>

## 21. PENDING LITIGATIONS

At the end of the reporting period, the Group had the following pending litigations:

- (a) In September 2004, a Writ of Summons was served on the Company by an individual third party demanding immediate repayment of borrowings of approximately HK\$1,600,000 together with the interest thereon. As the Company had never borrowed money from that individual third party, the directors of the Company were of the opinion that the Company had no obligation to pay the demanded amount. In January 2005, an amended writ of summons was served on the Company by the lender of the Group to clarify that the individual third party acted as an agent of the lender. The directors of the Company have instructed the lawyer of the Company to handle this matter. The loan advanced by the lender of HK\$1,523,000 together with interest and penalty of HK\$1,149,000, totaling of approximately HK\$2,672,000, were accrued in the condensed consolidated interim financial statements (included in other borrowings and other payables and accruals, respectively) and has not yet been settled as at 31 December 2011.

The Court has granted an order to adjourn sine die the plaintiffs' application to set down this case on 15 March 2006. That is to say, the lender and its agent have temporarily withheld the proceedings against the Company. This claim has not been settled up to the date of approval of these condensed consolidated interim financial statements.

## 21. PENDING LITIGATIONS (continued)

- (b) According to an agreement entered into by the Company, two of its subsidiaries and two independent third parties in February 2003, the Group had disposed of a subsidiary, World Giant Limited ("World Giant"), a company engaged in property investment in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant, including the late payment surcharge levied by the tax authority, of which approximately an amount of RMB6,100,000 related to transactions on or before the completion date. The existing management of World Giant had indicated to the directors of the Company that the amount in respect of transactions on or before the completion date should be paid by the Company. In February 2005, a Writ of Summons was served on the Company demanding the payment of approximately RMB6,100,000. However, such amounts were covered by the amount accrued in the financial statements of World Giant at the time of disposal. Accordingly, in the opinion of the directors of the Company and having obtained an opinion from the Company's lawyer, the Group or the Company has no obligation to pay the above taxes. Because of the uncertainty of the outcome of this matter, the amount involved of approximately RMB6,100,000, equivalent to approximately HK\$7,527,000 (30 June 2011: RMB6,100,000, equivalent to approximately HK\$7,359,000), has been shown as contingent liabilities in note 20.

The Writ of Summons was served on the Company in February 2005. The Company has not received further claims from the plaintiff up to the date of approval of these condensed consolidated interim financial statements.

## 22. OPERATING LEASE COMMITMENTS

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>As at 31 December 2011 HK\$'000 (unaudited)</b>	As at 30 June 2011 HK\$'000 (audited)
Within one year	<b>1,388</b>	2,772
In the second to fifth years inclusive	<b>33</b>	1,636
	<b>1,421</b>	4,408

Operating lease payments represented rental payables by the Group for certain of its offices, office equipment and billboards. Leases are negotiated for terms ranged from three months to five years and lease payments are fixed over the lease terms and do not include contingent rentals.

## 23. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated interim financial statements, the Group had the following transactions with its related parties during the Current Period:

	<b>Six months ended 31 December</b>	
	<b>2011 HK\$'000 (unaudited)</b>	2010 HK\$'000 (unaudited)
Advertising expenses paid to an associate	<b>909</b>	1,977
Advertising income received from an associate	<b>167</b>	56
Consultancy fee paid to a related company (note (a))	<b>462</b>	396
Consultancy fee paid to a related company (note (b))	<b>298</b>	–
Advertising expense paid to a related company (note (c))	<b>706</b>	588

## **23. RELATED PARTY TRANSACTIONS (continued)**

Notes:

- (a) A Director, Mr. Tang Lap Chin, Richard, has significant influence over the related company and is a director and a substantial shareholder of the related company.
- (b) A Director, Mr. Lau Chi Yuen, Joseph, has significant influence over the related company and is a director and a substantial shareholder of the ultimate holding company of the related company.
- (c) A Director, Mr. Lau Chi Yuen, Joseph, has significant influence over the related company and is a director and a substantial shareholder of the related company.

## **24. SHARE OPTIONS**

### **Share option scheme adopted in 2002**

On 25 July 2002, a share option scheme was adopted by the Company (the "2002 Share Option Scheme"), pursuant to which the Board of Directors of the Company may grant options to any employees, Directors, shareholders, suppliers, customers of the Group and any other person or company who has contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company at any price which is at least the highest of (i) the closing price of the shares of the Company on the date of the grant of the options; (ii) the average closing price of the shares of the Company on the Stock Exchange for the 5 trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of the shares of the Company. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme shall not exceed 10% of the shares in issue as at the adoption date of the 2002 Share Option Scheme or the date of approval by the shareholders in general meeting where the limit is refreshed. The total number of shares issued and to be issued upon exercise of the options granted to each eligible person under the 2002 Share Option Scheme in any twelve months period must not exceed 1% of the shares in issue at the date of such grant unless approved by the shareholders in general meeting.



## 24. SHARE OPTIONS (continued)

### Share option scheme adopted in 2002 (continued)

Details of the share options outstanding during the Current Period are as follows:

Name or category of grantees	Date of grant	Number of share options outstanding as at 1 July 2011	Number of share options lapsed during the Current Period	Number of share options outstanding as at 31 December 2011	Exercise price	Exercise period
Directors						
Mr. Lu Liang	29 November 2007	3,200,000	–	3,200,000	0.64	29 November 2007 – 28 November 2017
Mr. Tang Lap Chin, Richard	29 November 2007	8,403,175	–	8,403,175	0.64	29 November 2007 – 28 November 2017
Employees						
	29 November 2007	5,900,000	–	5,900,000	0.64	29 November 2007 – 28 November 2017
	27 June 2008	4,070,000	(4,070,000)	–	0.64	27 June 2008 – 26 June 2018
Consultants						
	29 November 2007	32,859,525	–	32,859,525	0.64	29 November 2007 – 28 November 2017
	27 June 2008	30,970,000	–	30,970,000	0.64	27 June 2008 – 26 June 2018
		<u>85,402,700</u>	<u>(4,070,000)</u>	<u>81,332,700</u>		

The closing prices of the Company's shares immediately before the dates of grant on 29 November 2007 and 27 June 2008 were HK\$0.64 and HK\$0.44 respectively. No share options had been granted or exercised during the Current Period.

## 25. SEASONALITY

The Group considers that the turnover from provision of outdoor media advertising and media related services are not subject to material seasonal fluctuations.

## 26. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated in order to conform to the Current Period presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Connected Transactions

The Group has entered into the following connected transactions during the Current Period and up to the date of this report:

#### (a) Advertising Services Income

During the Current Period, China New Media (Hong Kong) Company Limited has received advertising services income of approximately HK\$0.2 million from an associate, iKanTV Limited (“iKanTV”), which is also a non-wholly owned subsidiary of a related company, China Post E-Commerce (Holdings) Limited (“CPEC”).

#### (b) Advertising Expenses

During the Current Period, the Company has paid advertising expenses of approximately HK\$1.0 million to iKanTV.

#### (c) Marketing Expenses

During the Current Period, the Company had paid marketing expenses of approximately HK\$0.7 million to CPEC.

Mr. Lau Chi Yuen, Joseph is a connected person of the Company by virtue of his beneficial interest in CPEC. Accordingly, the payment and receipt of marketing and advertising expenses constituted connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Except for the aforesaid, during the Current Period and up to the date of this report, no other connected transactions were entered into between the Company or any of its subsidiaries and a connected person as defined under the Listing Rules.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **Business and Financial Review**

For the Current Period, loss attributable to owners of the Company was approximately HK\$18.6 million (2010: HK\$19.7 million (restated)) and the Group's total turnover amounted to approximately HK\$6.7 million and gross profit of HK\$1.8 million respectively (2010: HK\$20.5 million and HK\$12.2 million respectively), representing a decrease of 67.3% and 85.2% respectively compared with the corresponding period of last year. The total revenue for the Current Period was contributed from provision of media and advertising services. The Board of Directors does not recommend the payment of any dividend for the Current Period (2010: Nil). Details of the decrease in turnover and gross profit are discussed as below.

#### *Media and advertising – PRC segment*

The turnover derived from operating segment of media and advertising – PRC was approximately HK\$6.7 million (2010: HK\$20.5 million) which represented a decrease of 67.3% comparing to the corresponding period of last year and the gross profit ratio was 27.2% (2010: approximately 59.2%) which represented a decrease of 54.1% comparing to the corresponding period of last year. The decrease in the turnover of this operating segment was mainly due to most existing advertising contracts were expired in the Current Period while the services related to new advertising contracts formed in the Current Period will be commenced in early 2012. Accordingly, the turnover and gross profit for the Current Period decreased significantly.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **Liquidity and Financial Resources**

As at 31 December 2011, the Group has net current assets of approximately HK\$63.7 million (30 June 2011: HK\$73.8 million) and equity attributable to owners of the Company of approximately HK\$1,320.2 million (30 June 2011: HK\$703.2 million). The increase in equity attributable to owners of the Company as compared with 30 June 2011 was mainly attributable to total of HK\$634.4 million generated from the issuance of ordinary shares by conversion of Restated CB Jul 2010 during the Current Period.

As at 31 December 2011, the Group had short term borrowings of approximately HK\$2.6 million (30 June 2011: HK\$2.6 million) and long term borrowings of approximately HK\$0.1 million (30 June 2011: HK\$627.6 million). The decrease in long term borrowings was mainly attributable to the conversion of Restated CB Jul 2010 with the principle amounts of HK\$740,964,000 during the Current Period. Together with the conversion of Restated CB Jul 2010 taken place during the year ended 30 June 2011, the Restated CB Jul 2010 was fully converted as at 31 December 2011. The short term borrowings of HK\$0.2 million and the long term borrowings bear interest at prevailing market rates. The remaining short term borrowings of HK\$2.4 million are interest-free. The gearing ratio of the Group as at 31 December 2011, which was computed on the basis of the aggregate borrowings divided by the amount of total assets, was 0.2% (30 June 2011: 47%).

As the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, the Group's exposure to exchange rate risk is limited. It is the Group's treasury policy to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

### **Capital Structure**

On 19 July 2011, 4 August 2011, 25 October 2011, 28 November 2011, 8 December 2011 and 12 December 2011, total of 5,699,721,000 new shares of the Company, credited as fully paid, had been issued upon the conversion of Restated CB Jul 2010 in the principle amount of HK\$740,964,000.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (continued)

### **Charge on Assets**

As at 31 December 2011, the Group has pledged property, plant and equipment of approximately HK\$0.4 million to secure the finance lease payables of approximately HK\$0.3 million.

### **Contingent Liabilities**

Details of contingent liabilities are set in note 20 to the condensed consolidated interim financial statements.

### **Employee and Remuneration Policy**

The Group has 36 employees (including Directors) as at 31 December 2011 (30 June 2011: 37). The Group recruits and promotes individuals based on their performance and development potential in the positions held. Remuneration package is determined with reference to an employee's performance and the prevailing salary scale in the market. In addition, the Group adopts a share option scheme for eligible employees (including Directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

### **Prospects**

The Group will continue its focus and effort to expand the outdoor media advertising and media related business and continue to explore potential investment opportunities in Hong Kong and the PRC that can benefit the Group in the long term. The Group will also place emphasis on the improvement of operational efficiency and cost control in order to improve its financial performance and position.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the Directors and their respective associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) had interests in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the SFO as follows:

Name of Directors	Number of shares held Personal interest	Number of underlying ordinary shares held under equity derivatives	Total	Percentage of the issued share capital*
Dr. Gao Hong Xing	230,769,230	–	230,769,230	2.13%
Mr. Lu Liang	–	3,200,000	3,200,000	0.03%
Mr. Tang Lap Chin, Richard	–	8,403,175	8,403,175	0.08%

\* The percentage has been calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2011 (i.e. 10,843,535,000).

All the interests disclosed above represent long position in the shares of the Company.

Other than the holdings disclose above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or his associates of the Company or their respective associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Furthermore, save as disclosed in the "Share Options" section below, at no time during the six months period ended 31 December 2011 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

## SHARE OPTIONS

Details of the Company's share option scheme are set out in note 24 to the condensed consolidated interim financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Note	Name	Capacity and nature of interest	Interest in shares	Percentage of shareholding
1	Fully Wealthy Inc.	Beneficial Owner	3,000,932,163	27.67%
1	Jiang Qi Hang	Interest of controlled corporation	3,000,932,163	27.67%

Note 1: Fully Wealthy Inc. was wholly owned by Mr. Jiang Qi Hang. As such, Mr. Jiang Qi Hang was also deemed to be interest in all the shares and underlying shares held by Fully Wealthy Inc. under the SFO.

Save as disclosed above, as at 31 December 2011, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' Interests and Short Position in Shares and Underlying Shares" above, at no time during the Current Period was the Company or any of its subsidiaries a party to any arrangements to enable the Company's Directors, their respective spouse or children under the age of eighteen, to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the six months ended 31 December 2011.

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance Practices of the Listing Rules**

The Board of Directors of the Company (the "Board") and the management are committed to maintaining and ensuring high standards of corporate governance as good corporate governance can safeguard the interests of all shareholders and enhance corporate value. The Board continuously reviews and improves the corporate governance practices and standards of the Group from time to time to ensure that business activities and decision making processes are regulated in a proper manner.

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 December 2011, except for the deviation from provisions A.4.1 of the Code.

Pursuant to A.4.1 of the Code, Independent Non-executive Directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years. Under the period of review, two of the Independent Non-executive Directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the Code.



## **AUDIT COMMITTEE**

In accordance with Appendix 14 of the Listing Rules, the Directors established an Audit Committee since 2004 and the Audit Committee currently comprises three Independent Non-executive Directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Current Period.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 31 December 2011.

By Order of the Board  
**China Outdoor Media Group Limited**  
**Tsui Wing Cheong, Sammy**  
Director

Hong Kong, 24 February 2012

As at the date of this report, the executive Directors of the Company are Mr. Wang Gang, Mr. Zhu Defu, Mr. Tsui Wing Cheong, Sammy, Ms. Hu Wei, Mr. Lau Chi Yuen, Joseph, Mr. Lu Liang and Mr. Tang Lap Chin, Richard, the non-executive Director of the Company is Dr. Gao Hong Xing, the independent non-executive Directors of the Company are Ms. Tay Sheve Li, Mr. Cheng Sheung Hing and Mr. Cheng Kwong Choi, Alexander.