

REPORT OF THE DIRECTORS

The directors of Clear Media Limited (the “Company”) are pleased to present their first report together with the audited financial statements of the Company for the period from 30 March 2001 (date of incorporation) to 31 December 2001 and of its subsidiaries (together with the Company shall be known as the “Group”) for the year ended 31 December 2001.

Group Reorganisation

The Company was incorporated in Bermuda on 30 March 2001 as an exempted company with limited liability under the Bermuda Companies Act 1981.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired China Outdoor Media Investment Inc., the then holding company of the subsidiaries, and became the holding company of the Group on 28 November 2001 (the “Group Reorganisation”). Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 16, 24 and 25 to the financial statements and in the Company's prospectus dated 10 December 2001.

The Company completed its initial public offering on 19 December 2001 and the shares of the Company became listed on the Stock Exchange on the same date.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year apart from expanding its unipole and point-of-sale operations.

Segment Information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 47 to 78.

The directors do not recommend the payment of any dividends for the year ended 31 December 2001.

Use of Proceeds from the Company's Initial Public Offering

Upon the listing of the Company's shares on the Stock Exchange on 19 December 2001, the proceeds, after netting of related expenses paid and payable, were approximately HK\$648 million. As at 31 December 2001, approximately HK\$26.6 million was used to repay certain outstanding short term bank loans and shareholder's loans. The directors are of the opinion that the remaining proceeds will be applied in the coming year to their intended uses as set out in the Company's prospectus dated 10 December 2001.

Summary Financial Information

The following is a summary of the published combined results and of the assets and liabilities of the Group prepared on the basis set out in the note below:

	Year ended 31 December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
RESULTS				
Turnover	355,004	260,038	169,782	80,256
Profit before tax	70,843	46,318	28,954	12,255
Tax	(6,579)	(2,433)	–	–
Minority interests	(5,358)	(2,195)	(1,471)	(590)
Net profit from ordinary activities attributable to shareholders	58,906	41,690	27,483	11,665
	As at 31 December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
ASSETS AND LIABILITIES				
Non-current assets	707,419	477,902	408,355	303,132
Current assets	1,139,174	403,779	327,859	176,163
Current liabilities	(700,562)	(515,494)	(417,192)	(177,260)
Non-current liabilities	(16,233)	(11,209)	(6,581)	(14,257)
Net assets	1,129,798	354,978	312,441	287,778

Note: The summary of the combined results of the Group for the three years ended 31 December 2000 and the combined balance sheets of the Group as at 31 December 1998, 1999 and 2000 has been extracted from the Company's prospectus dated 10 December 2001. This summary was prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 4 to the financial statements. The results of the Group for the year ended 31 December 2001 and its assets and liabilities as at that date are those set out on pages 47 and 49 of the financial statements, respectively, and are presented on the basis set out in note 4 to the financial statements.

Fixed Assets and Concession Rights

Details of movements in the fixed assets and concession rights of the Group for the year ended 31 December 2001 are set out in notes 15 and 17 to the financial statements, respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options since 30 March 2001 (date of incorporation) to 31 December 2001, together with the reasons therefore, and details of the Company's share option scheme are set out in note 24 to the financial statements.

Reserves

Details of movement of reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

Distributable Reserves

As at 31 December 2001, the Company's share premium, contributed surplus and retained profits accounts available for cash distribution and/or distribution in specie amounted to HK\$1,085,394,000. In accordance with the Bermuda Companies Act 1981, the contributed surplus may be distributed in certain circumstances.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities

The Company's shares were listed on the Stock Exchange on 19 December 2001. Neither the Company, nor any of its subsidiaries, redeemed or sold any of the Company's listed securities during the period and up to the date of this report.

Charitable Contributions

During the year, the Group made charitable contributions totalling approximately HK\$1,000,000.

Major Advertisers and Suppliers

Sales to the Group's five largest advertisers accounted for approximately 26.4% of the Group's turnover for the year, and sales to the Group's largest advertiser accounted for approximately 8.7% of the Group's turnover for the year. The Group is not dependent on any particular supplier who provides goods and services which are specific to their business and which are required on a regular basis to enable them to continue to supply or service their customers.

None of the directors of the Company or any of their associates, or any of the shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest advertisers and/or suppliers.

Connected Transactions

The Group has entered into the following continuing connected transactions in year 2001 and a waiver was granted by the Stock Exchange from the connected transaction requirements under Chapter 14 of the Listing Rules:

- (a) The Group has entered into a Framework Agreement (“Framework Agreement”) with Hainan White Horse Advertising Company Limited (“Hainan White Horse”), a company established in China with a 20% shareholding in one of the Group’s subsidiaries, Hainan White Horse Advertising Media Investment Company Limited (“WHA Joint Venture”) and Maintenance Services Agreements (“Maintenance Services Agreements”) with 24 companies of which one of our directors has an ability to exercise management influence (collectively referred to as “White Horse Companies”).

Under the Framework Agreement, Hainan White Horse agrees to procure the White Horse Companies to perform cleaning, maintenance and other related services to the WHA Joint Venture. The Maintenance Services Agreements are for a fixed term of 10 years. Maintenance fee payable consist of a pre-determined base cost and an incentive payment which is based on the Group’s discretion and awarded to those White Horse Companies that meet certain quality and performance criteria set by the WHA Joint Venture.

- (b) A portion of the advertising revenue generated by the WHA Joint Venture was booked through Guangdong White Horse Advertising Company Limited (“White Horse Advertising”), a company in which one of our directors has a 14% indirect shareholding and an ability to exercise significant direct or indirect influence over the management. During the year, the WHA Joint Venture and White Horse Advertising have entered into an agreement which documents an arrangement between the parties relating to advertising commission which has been in place since January 1999. Under this agreement, notwithstanding the terms and conditions of the advertising agency agreements between them, to the extent that White Horse Advertising does not settle amounts due from it relating to any advertising agency agreements within 12 months, White Horse Advertising would not be entitled to retain any agency commission at the standard rate of 15%.
- (c) The Group entered into a creative services agreement (“Creative Services Agreement”) with White Horse Advertising with effect from 1 July 2001 whereby White Horse Advertising agreed to provide the following creative design and production services to the Group:

- Design service for bus shelters and other outdoor advertising structures at a fixed retainer of RMB700,000 for 2001 and RMB1,000,000 for 2002;
- Poster design services at RMB15,000 per poster;
- Design and production of a video tape or multimedia promotional materials at RMB200,000 per assignment;
- Design of sales and marketing materials at a price of RMB3,000 per page; and
- Design of office stationary at RMB150,000 per set.

The term of the Creative Services Agreement is for one and a half years commencing from July 2001.

The independent non-executive directors confirmed that all the connected transactions:

- (a) had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business;
- (b) had been conducted either (i) on normal commercial terms (which expression shall be applied by reference to transactions of a similar nature and to be made by similar entities); or (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) independent third parties;
- (c) had been entered into either (i) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of our shareholders as a whole; or (ii) (where there are no such agreements) on terms no less favourable than those available to or from independent third parties.

The independent non-executive directors further confirmed that:

- (a) the maintenance fees payable by the Group to the White Horse Companies in relation to the maintenance services arrangement was no more than 15% of the annual turnover of the Group;
- (b) the value of sales from White Horse Advertising and the advertising commission payable by the Group to White Horse Advertising in relation to the advertising commission arrangement was respectively no more than 40% and 7% of the annual turnover of the Group; and
- (c) the service fee payable by the Group to White Horse Advertising in relation to the Creative Services Arrangement was no more than HK\$3,000,000.

The auditors of the Group reviewed the connected transactions and confirmed to the directors that:

- (a) the transactions have received the approval of the Board of Directors;
- (b) the transactions were entered into in accordance with the pricing policies as stated in the Company's financial statements;
- (c) the transactions were entered into in accordance with the relevant agreement governing those transactions or if there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (d) have not exceeded the caps set out in the caps set out in the preceding paragraphs.

The Group also entered into the following connected transactions during the year 2001:

- (a) Trade Mark Licence Agreements
 - (i) The WHA Joint Venture entered into a Trademark Licence Agreement with Guangdong White Horse Development Parent Company ("Guangdong White Horse") dated 30 November 2001 whereby Guangdong White Horse

agreed to grant to the WHA Joint Venture a licence to use the “White Horse” trade mark in whole or in part or to display any patterns, words, logo or mark of the trademark for outdoor advertising in China. The licence is renewable at the option of Guangdong White Horse at the expiry of the licence. The grant of the licence will be for RMB1.00 but otherwise will be royalty-free.

- (ii) The WHA Joint Venture entered into a Trade Mark Licence Agreement and Transfer Agreement with White Horse Advertising dated 30 November 2001 whereby White Horse Advertising is to assign the “Feng Shen Bang”, “Qing Tian Bang” and “Ming Deng Bang” trade marks to the WHA Joint Venture. The annual licence fee is RMB1.00. The agreement will remain in force until all the trade marks are registered in the name of the WHA Joint Venture.
- (iii) The Company has entered into two Trade Mark Licence Agreements with Clear Channel Communications, Inc. and Clear Channel International Limited respectively dated 28 November 2001 whereby the Company and members of the Group are granted the licence to use the “Adshel” and “Clear Channel” trade marks together with any other intellectual property rights existing in the “Adshel” and “Clear Channel” names, logos, symbols, emblems, insignia and other identifying materials for use in the outdoor advertising business in China. The licence is for a term of 5 years, then upon expiry of the licence, it is renewable at the option of Clear Channel Communications, Inc. and Clear Channel International Limited. The licence is granted for HK\$1.00 but otherwise will be royalty-free.

(b) Loan provided by Clear Channel Outdoor, Inc.

On 28 February 2001, China Outdoor Media has renewed a loan of US\$4,000,000 which it has borrowed from Clear Channel Outdoor, Inc. pursuant to a loan agreement between both parties dated 29 February 2000. The loan was for a period of one year from the date of the agreement and has been renewed to 28 February 2002. Under the terms of the agreement, China Outdoor Media has agreed to pay interest of 10% per annum of the amount outstanding.

(c) Option agreement

On 30 November 2001, China Outdoor Media Investment (Hong Kong) Company Limited (“China Outdoor Media (HK)”) and Hainan White Horse entered into an option agreement which would provide China Outdoor Media (HK) an option to purchase the whole or part of Hainan White Horse’s 20% interests in the WHA Joint Venture. The option may only be exercised when PRC laws and regulations permit China Outdoor Media (HK)’s shareholding in the WHA Joint Venture to be higher than 80%. The price to be paid on exercise of the option is RMB 5,000,000 for the entire 20% interest or a proportionate amount if the option is exercised in respect of a smaller percentage interest in the WHA Joint Venture. The agreement is for a term of thirty years.

Please refer to note 30 of the financial statements for a summary of the connected transactions.

Directors

The directors of the Company during the period from 30 March 2001 (date of incorporation) to 31 December 2001 were:

Executive directors

Steven Yung	(appointed on 8 August 2001)
Han Zi Jing	(appointed on 26 April 2001)
Teo Hong Kiong	(appointed on 26 April 2001)
Zou Nan Feng	(appointed on 8 August 2001)

Non-Executive directors

Peter Cosgrove	(appointed on 26 April 2001)
Mark Mays	(appointed on 8 August 2001)
Roger Parry	(appointed on 26 April 2001)
Coline McConville	(appointed on 26 April 2001)
Han Zi Dian	(appointed on 26 April 2001)
Chin Oi Ling Lenna (<i>Alternate to Mark Mays</i>)	(appointed on 8 August 2001)
Tim Maunder (<i>Alternate to Roger Parry</i>)	(appointed on 26 April 2001)

Independent non-executive directors

Pedro Man	(appointed on 8 August 2001)
Wang Shou Zhi	(appointed on 8 August 2001)

In accordance with clause 87 of the Company's bye-laws, one-third or the directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, but excluding the chairman of the Board of Directors and the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's bye-laws.

Remuneration of Directors and of the Five Highest Paid Employees

Details of the remuneration of the directors and the five highest paid employees in the Group are set out in notes 8 and 9 to the financial statements, respectively.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 30 to 33 of the Annual Report.

Directors' Service Contracts

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from 30 November 2001, and which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as disclosed in note 8 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contracts of significance to the business of the Group to which the Company, or any of its subsidiaries or a continuing shareholder or any of its subsidiaries was a party during or at the end of the year.

Directors' Interests in Share Capital

The shares of the Company were listed on the Stock Exchange on 19 December 2001. At the date of this report, the interests of the directors, chief executive or their associates in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (CAP 396) (the "SDI Ordinance"), were as follows:

Name	Type of interest	Number of issued ordinary	Percentage of total
		shares of HK\$0.1 each held in the Company	
Han Zi Jing	Corporate (Note)	101,137,500	20.2%

Note: The 101,137,500 shares are held by Outdoor Media China, Inc. ("OMC"), a company incorporated in Western Samoa of Offshore Chambers. As of 31 December 2001, Mr. Han Zi Jing holds approximately 52% of the issued share capital of Golden Profits Consultants Limited, which is a beneficial holder of 98% of shares in OMC. The effective interest of Mr. Han in OMC is therefore 51.45%.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the ordinary shares of the Company or any of its associated corporations, as defined in the SDI Ordinance.

Directors' Rights to Acquire Shares

Apart from as disclosed under the headings "Directors' interests in share capital" above and "Share option schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Schemes

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the Group’s operations. Under which the directors may, at their discretion, invite any employees, directors or consultant of any company in the Group to take up options. The Scheme became effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for 7 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option scheme of the Company pursuant to which options may from time to time be granted to directors, consultants, and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding for this purpose shares issued on exercise of options under the Scheme and any other share option scheme of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under this scheme when aggregated with securities to be issued under any other share option scheme of the Group, may be increased by the board of directors provided that the shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of securities in issue from time to time.

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

An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than seven (7) years after the date of grant). The option period will be determined by the Board of Directors and communicated to each grantee. The Board of Directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the Board of Directors retains discretion to accelerate vesting of fixed-term options in the event that certain performance targets are met.

The subscription price for the Company’s shares under the Scheme will be a price determined by the Board of Directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a business day; and (iii) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an Eligible Participant (as deemed in the Scheme) and to have taken effect when the acceptance form as described in the share option scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant.

As at 31 December 2001, there were no share options granted under the Scheme.

On 28 November 2001, the Company also adopted a Pre-IPO share option scheme. The principal terms of the Pre-IPO share option scheme, are substantially the same as the terms of the Scheme except that:

- (a) Employees, directors and consultants of the Group who have contributed substantially to the growth of the Group and to the initial public offering or full-time employees and directors of the Group are eligible to participate in the Pre-IPO share option scheme;
- (b) The subscription price for the shares under the Pre-IPO share option scheme shall be equal to the price per share in the initial public offering; and
- (c) The Pre-IPO share option scheme will remain in force for a period commencing on the date on which the Pre-IPO share option scheme is conditionally adopted by the shareholders of the Company and ending on the day immediately prior to 19 December 2001, after which period no further options will be granted but in all other respects the provisions of the Pre-IPO share option scheme shall remain in full force and effect.

As at 31 December 2001, the number of shares issuable under share options granted under the Pre-IPO share option scheme was 19,834,000, which represented 4% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Pre-IPO share option scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The following share options were granted under the Pre-IPO share option scheme during the year for a consideration of HK\$1.00 per grant:

Name or category of participant	Position held	Number of shares subject to the options
Directors		
Steven Yung	Executive Director (<i>Chairman</i>)	2,500,000
Han Zi Jing	Executive Director (<i>Chief Executive Officer</i>)	3,334,000
Teo Hong Kiong	Executive Director (<i>Chief Financial Officer</i>)	1,200,000
Zou Nan Feng	Executive Director (<i>Deputy General Manager of Business Development</i>)	800,000
Peter Cosgrove	Non-executive Director (<i>Deputy Chairman</i>)	1,250,000
		9,084,000
Members of senior management and other employees of the Group		
In aggregate		10,750,000
		19,834,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors, and members of senior management because there is currently no applicable valuation model to value the Company's share options granted during the year.

Substantial Shareholders

As at 31 December 2001, the following interest of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Clear Channel Outdoor, Inc.	231,337,500	46.3%
HKSCC Nominees Limited	145,775,000	29.2%
Outdoor Media China, Inc.	101,137,500	20.2%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in share capital" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Post Balance Sheet Event

Details of the significant post balance sheet event of the Group are set out in note 29 to the financial statements.

Code of Best Practice

In the opinion of the directors, following the listing of the Company's shares on the Stock Exchange on 19 December 2001, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the independent non-executive directors of the Company are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

Audit Committee

The Company established an audit committee (the "Committee") on 28 November 2001 with written terms of reference in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors, and one non-executive director. The Group's financial statements for the year ended 31 December 2001 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made herein.

Remuneration Committee

The Company established a remuneration committee on 28 November 2001 with written terms of reference. The remuneration committee shall make recommendations to the Board of Directors on the Company's framework of executive remuneration and determine on behalf of the Board of Directors specific remuneration packages and conditions of employment for executive directors.

Material legal proceedings

As at 31 December 2001, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the Company is aware of.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Steven Yung

Chairman and Executive Director

Hong Kong

1 March 2002