1. 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 the entire issued share capital of China Outdoor Media Investment Inc. ("China Outdoor Media"), the then holding company of the subsidiaries, in consideration of and in exchange for the allotment and issue of 374,000,000 ordinary shares of HK$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of China Outdoor Media, and the existing 1,000,000 ordinary shares, credited as fully paid at par, and became the holding company of the Group on 28 November 2001 (the "Group Reorganisation"). Further details of the Group Reorganisation and of the subsidiaries acquired pursuant thereto are set out in notes 16, 24 and 25, respectively, to the financial statements and in the Company's prospectus dated 10 December 2001.

2. Corporate Information

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. 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.

3. Impact of New and Revised Statements of Standard of Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

–	SSAP 9 (Revised):	"Events after balance sheet date"
–	SSAP 14 (Revised):	"Lease"
–	SSAP 18 (Revised):	"Revenue"
–	SSAP 26:	"Segment reporting"
–	SSAP 28:	"Provisions, contingent liabilities and contingent assets"
–	SSAP 29:	"Intangible assets"
–	SSAP 30:	"Business combination"
–	SSAP 31:	"Impairment of assets"
–	SSAP 32:	"Consolidation financial statements and accounting for investments in subsidiaries"
–	Interpretation 12:	"Business combinations – subsequent adjustment of fair values and goodwill initially reported"
–	Interpretation 13:	"Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the accounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarized as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure but no adjustment. Its principal impact on these financial statements is that a proposed dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet, which are further detailed in note 13 to the financial statements.

SSAP 14 (Revised) prescribes the basis for accounting for finance and operation leases, and the required disclosures. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 27 (b) to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. This SSAP has no major impact on the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management determine whether their predominant risks or returns for the business are based on business segments or geographical segments and to choose one of these bases as the primary reporting format, with the other as the secondary reporting format, which are further detailed in note 5 to the financial statements.

3. Impact of New and Revised Statements of Standard of Accounting Practice ("SSAPs") (continued)

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the disclosure in respect thereof. This SSAP has no major impact on the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This SSAP has no major impact on the financial statements.

SSAP 30 prescribes the treatment of business combinations, including the determination of the date of acquisition and the fair value of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill or negative goodwill on future acquisition in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. This SSAP has no major impact on the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. This SSAP has no major impact on the financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has no major impact on the financial statements.

4. Basis of Presentation and Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain concession rights which are stated at valuation and are set out in note 17 to the financial statements.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 28 November 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the years ended 31 December 2000 and 2001 include the results of the Company and its subsidiaries with effect from their respective dates of incorporation. The comparative consolidated balance sheet as at 31 December 2000 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

4. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Basis of presentation and consolidation (continued)

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

Comparative amounts have not been presented for the Company because the Company did not exist as at 31 December 2000.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values other than those considered to be temporary, when they are written down to values determined by the directors.

Joint venture companies

A joint venture is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

4. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment of loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line method to write off the cost of each asset over the following estimated useful lives:

Leasehold improvements	5 years
Furniture and equipment	5 years
Motor vehicles	5 years
Point-of-sale	10 years

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

Point-of-sale represents advertising light boxes installed in shopping mall and other public areas. Expenditure incurred after point-of-sale has been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of point-of-sale, the expenditure is capitalised as an additional cost of such point-of-sale.

Construction in progress is stated at cost less any impairment losses, which includes the cost of construction and other direct costs attributable to the construction of bus shelters, unipoles and point-of-sale. No provision for depreciation is made for construction in progress until such time as the assets are completed and put into use. Construction in progress is transferred to concession rights or fixed assets when it is capable of producing rental income on a commercial basis.

Concession rights

Concession rights are stated at cost or valuation less accumulated amortisation. Concession rights represent the cost of acquiring operating rights for the placement of advertisements in bus shelters and unipoles in the PRC and include any directly attributable costs of bringing bus shelters and unipoles to their present conditions and locations for their intended usage.

Expenditure incurred after bus shelters and unipoles have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of bus shelters and unipoles, the expenditure is capitalised as an additional cost of the concession rights.

Concession rights are amortised on a straight-line basis over an average operating right year of 10 years. The operating right year of the concession rights ranges from 5 years to 20 years.

4. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Concession rights (continued)

Surplus arising from the revaluation of concession rights is dealt with in the revaluation reserve. Revaluation deficits are charged to the profit and loss account to the extent that they exceed surpluses arising previously from the same rights. On disposal of revalued concession rights, the relevant portion of the revaluation reserve realised in respect of the previous valuation is transferred to retained profits as a movement in reserves.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rental payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group, and when the revenue can be measured reliably, on the following bases:

– Rental revenue for outdoor advertising space, on a time proportion basis over the terms of agreements; and

– Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Deferred income

Cumulative billings in excess of revenue attributable to the current year are recorded as deferred income.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

4. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Pension scheme and costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries, limited to a maximum of HK$1,000 per month, and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

According to the relevant PRC regulations, Hainan White Horse Advertising Media Investment Company Limited (“WHA Joint Venture”), commencing from 1 July 2001, is required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for its eligible employees. The contribution to be borne by the Group is calculated at 11% on the annual average salary in Guangzhou announced by the Guangzhou Social Labour Insurance Administration Bureau.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as liability.

5. Segment Information

As detailed in note 3 to the financial statements, SSAP 26 was adopted during the year. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's business segment mainly represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

Outdoor media sales is the only major business segment of the Group, which comprises the displays of advertisements on bus shelters, unipoles and point-of-sale.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. As the Group's major operations and markets are located in the People's Republic of China ("PRC"), no geographical segmental information is provided.

6. Turnover and Revenue

Turnover represents the contract value for the displaying of advertisements on bus shelters, unipoles and point-of-sale, net of commission and discounts.

An analysis of the Group's turnover and revenue is as follows:

	2001	**2000**
	HK$'000	**HK$'000**
Turnover	**355,004**	260,038
Bank interest income	**9,616**	9,008
Others	**17**	35
Other revenue	**9,633**	9,043
Revenue	**364,637**	269,081

The turnover of the Group represents media sales in the PRC.

7. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 HK$'000	2000 HK$'000
Cost of services provided	**73,753**	53,537
Operating lease rentals on bus shelters and unipoles	**61,888**	44,147
Amortisation of concession rights and depreciation of point-of-sale	**63,021**	46,078
Cost of sales	**198,662**	143,762
Provision for doubtful debts	**6,950**	4,277
Auditors' remuneration	**600**	350
Depreciation of owned assets, excluding point-of-sale	**4,220**	3,537
Operating lease rentals on building	**5,464**	5,440
Staff costs (directors' remuneration included)	**25,077**	20,259
Exchange losses, net	**32**	40
Interest income	**(9,616)**	(9,008)

The Group's profit from operating activities represents media sales in the PRC.

8. Directors' Remuneration

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	2001 HK$'000	2000 HK$'000
Fees:		
Executive directors	**–**	–
Non-executive directors	**40**	–
Independent non-executive directors	**20**	–
	60	–
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	**2,951**	1,816
Pension scheme contributions	**18**	–
Other emoluments of non-executive directors:		
Basic salaries, other allowances and benefits in kind	**440**	487
	3,409	2,303
	3,469	2,303

8. Directors' Remuneration (continued)

The number of directors whose remuneration fell within the following band are as follows:

	Number of directors	
	2001	**2000**
Nil – HK$1,000,000	**12**	6
HK$1,000,001 – HK$2,000,000	**1**	1

During the year, discretionary bonuses paid to or receivable by the directors amounted to HK$90,515 (2000: HK$10,371). No directors waived or agreed to waive any remuneration during the year (2000: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2000: Nil).

During the year, 9,084,000 Pre-IPO share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on Page 43.

9. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2000: two) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2000: three) highest paid, non-director individuals, which both fell within the Nil – HK$1,000,000 band, are as follows:

	2001	2000
	HK$'000	**HK$'000**
Basic salaries, other allowances and benefits in kind	**1,229**	1,758
Pension scheme contributions	**–**	–
	1,229	1,758

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals of the Group amounted to HK$231,944 (2000: HK$74,653). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2000: Nil).

During the year, 1,400,000 Pre-IPO share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures set out under the heading "Share option schemes" in the Report of the Directors on page 43.

10. Finance Costs

	Group	
	2001	2000
	HK$'000	HK$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	**25,088**	24,289
Interest capitalised	**–**	(578)
	25,088	23,711

11. Tax

Group:

	Group	
	2001	2000
	HK$'000	HK$'000
Elsewhere	**6,076**	–
Deferred – *Note 23*	**503**	2,433
Tax charge for the year	**6,579**	2,433

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, WHA Joint Venture, a subsidiary of the Company established in Hainan Specific Economic Zone of the PRC, is subject to a corporate income tax rate of 15%, and is exempt from PRC corporate income tax for the first profitable year of its operations, and thereafter, is eligible for 50% relief from PRC corporate income tax for the following two years. As year 2001 was the second statutory profitable year of WHA Joint Venture, corporation income tax for current year has been calculated at the rate of 7.5% on its assessable profits in the PRC.

12. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was approximately HK$77,065.

13. Dividends

In the prior year, dividends of approximately HK$40,000,000 were paid by China Outdoor Media, a subsidiary of the Company.

No dividend has been paid or declared by the Company since the date of its incorporation.

14. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$58,906,000 (2000: HK$41,690,000) and the weighted average of 379,452,073 (2000: 375,000,000) ordinary shares.

The weighted average number of shares of the Company used to calculate the basic earnings per share for the year ended 31 December 2001 includes 1,000,000 ordinary shares issued nil paid upon incorporation of the Company, 374,000,000 shares issued for the acquisition of China Outdoor Media, as set out in detail in note 24 to the financial statements, and the 125,000,500 shares pursuant to the initial public offering completed on 19 December 2001.

There is no diluted earnings per share for the year ended 31 December 2001 as the share options had no dilutive effects throughout that year.

15. Fixed Assets

Group

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Point-of-sale HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:						
At beginning of year	7,971	5,799	5,306	–	26,342	45,418
Additions	374	2,242	1,696	15,584	95,519	115,415
Transfer to concession rights during the year	–	–	–	–	(65,126)	(65,126)
At 31 December 2001	**8,345**	**8,041**	**7,002**	**15,584**	**56,735**	**95,707**
Accumulated depreciation:						
At beginning of year	3,310	1,788	1,421	–	–	6,519
Provided during the year	1,588	1,592	1,040	259	–	4,479
At 31 December 2001	**4,898**	**3,380**	**2,461**	**259**	**–**	**10,998**
Net book value:						
At 31 December 2001	**3,447**	**4,661**	**4,541**	**15,325**	**56,735**	**84,709**
At 31 December 2000	4,661	4,011	3,885	–	26,342	38,899

The construction in progress represents bus shelters, unipoles and point-of-sale under construction.

16. Interests in Subsidiaries

	2001 HK$'000
Unlisted shares, at cost	**487,273**
Due to subsidiaries	**206,744**
	694,017

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries of the Company as at 31 December 2001 were as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid-up share/ registered capital	Attributable equity interests	Principal activities
China Outdoor Media Investment Inc. ("China Outdoor Media")	British Virgin Islands	Ordinary HK$34,465	100%	Investment holding
China Outdoor Media Investment (Hong Kong) Company Limited ("China Outdoor Media (HK)")	Hong Kong	Ordinary HK$1,000	100%	Investment holding
Hainan White Horse Advertising Media Investment Company Limited ("WHA Joint Venture")	PRC	US$21,850,000/ US$60,000,000	Note (1)	Operation of outdoor advertising business

16. Interests in Subsidiaries (continued)

Note:

(1) WHA Joint Venture was established in the PRC on 24 March 1998 as a Sino-foreign equity joint venture in the PRC with a tenure of 10 years. Under the term of the original joint venture agreement, China Outdoor Media (HK), Ming Wai Holdings Limited ("Ming Wai"), a wholly owned subsidiary of Clear Channel Outdoor, Inc. ("Clear Channel Outdoor"), which is a shareholder of the Company, and Hainan White Horse Advertising Co., Ltd. ("Hainan White Horse Advertising") were the joint venture partners of WHA Joint Venture. China Outdoor Media (HK), Ming Wai and Hainan White Horse Advertising were entitled to 90%, 5% and 5%, respectively, of the results of WHA Joint Venture.

Pursuant to a reorganisation taken place before the listing of the Group, Ming Wai transferred its 5% interest in WHA Joint Venture to China Outdoor Media (HK). Accordingly, the minority interests of the WHA Joint Venture represents the capital contributed by Hainan White Horse Advertising Co., Ltd. and its 5% share of the results of WHA Joint Venture.

China Outdoor Media (HK) and Hainan White Horse Advertising entered into a revised joint venture agreement on 6 April 2001. According to the revised joint venture agreement, WHA Joint Venture changed its legal structure from a Sino-foreign equity joint venture to a Sino-foreign co-operative joint venture. The registered capital of WHA Joint Venture was increased from HK$100,000,000 to US$60,000,000. Hainan White Horse Advertising and China Outdoor Media (HK) share 20% and 80% interests of WHA Joint Venture, respectively. It is agreed that for the fiscal years 2001 to 2005 (inclusive), China Outdoor Media (HK) will be entitled to 90% of the profits after tax of WHA Joint Venture. For financial year 2006 and onwards, China Outdoor Media (HK) will be only entitled to 80% of the profits after tax of WHA Joint Venture. The revised joint venture agreement was approved by the State Foreign Economic and Trade Commission of Hainan Province on 27 June 2001. According to the agreement entered into by China Outdoor Media (HK) and Hainan White Horse Advertising on 3 September 2001, their share in the profits of WHA Joint Venture for the period from 1 January to 30 June 2001 were 95% and 5%, respectively.

17. Concession Rights

	HK$'000
Cost or valuation:	
At beginning of year	533,289
Additions	181,343
Transferred from construction in progress during the year	65,126
At 31 December 2001	**779,758**
Amortisation:	
At beginning of year	94,286
Provided during the year	62,762
At 31 December 2001	**157,048**
Net book value:	
At 31 December 2001	**622,710**
At 31 December 2000	439,003

17. Concession Rights (continued)

During 1998, a subsidiary of the Group acquired the concession rights to 2,500 units of bus shelters in the PRC at a consideration of RMB60,000,000 (equivalent to HK$56,142,978) from Guangdong White Horse Advertising Company Limited ("GWH") through an auction company.

Pursuant to an investment and shareholders' agreement dated 23 April 1998, the fair value of the concession rights for these shelters was agreed at RMB150,000,000 (equivalent to HK$140,357,444).

The revaluation surplus of RMB90,000,000 (equivalent to HK$84,214,466), after netting off the transaction costs of RMB750,000 (equivalent to HK$701,787), was recorded as the revaluation reserve of the Group.

18. Accounts Receivable

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of accounts receivable is as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Outstanding balance aged:		
Current – 30 days	**24,232**	15,359
31 days – 90 days	**26,078**	19,076
91 days – 180 days	**15,081**	13,874
181 days – 360 days	**14,616**	4,902
361 days – 720 days	**12,436**	4,205
	92,443	57,416
Less: provision for doubtful debts	**(6,950)**	(5,448)
Total accounts receivable, net	**85,493**	51,968

19. Due to a Shareholder

	2001 HK$'000	2000 HK$'000
Due to:		
Clear Channel Outdoor	**3,825**	970

The amount due to Clear Channel Outdoor is unsecured, interest-free and has no fixed term of repayment.

20. Due from Related Parties

Name	2001 HK$'000	Maximum outstanding during the year HK$'000	2000 HK$'000
GWH	**52,581**	76,721	76,721
Guangdong White Horse Outdoor Advertising Company Limited	**1,613**	2,415	2,415
	54,194		79,136

The balances with the related parties are unsecured, interest-free and have no fixed terms of repayment.

21. Pledged Time Deposits

At 31 December 2001, the Group had pledged time deposits of US$12,453,723 (equivalent to HK$97,509,482) and HK$78,000,000 to banks as securities for short term bank loans of RMB180,100,000.

22. Interest-bearing Bank and Other Borrowings

	Notes	Group 2001 HK$'000	Group 2000 HK$'000
Bank loans			
Secured	(i)	**327,456**	209,881
Unsecured	(ii)	**104,000**	171,807
		431,456	381,688
Shareholder's loans			
Secured	(iii)	**–**	31,138
Unsecured	(iv)	**–**	9,350
		–	40,488
		431,456	422,176

22. Interest-bearing Bank and Other Borrowings (continued)

The maturity of the above loans are as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Bank loans repayable:		
Within one year	**431,456**	381,688
Shareholder's loans repayable:		
Within one year	**–**	40,488
	431,456	422,176
The loans are classified as current liabilities	**(431,456)**	(422,176)

Notes:

(i) As at 31 December 2001, the Group's short-term bank loans of RMB180,100,000 (equivalent to HK$169,809,542) were secured by time deposits of US$12,453,723 (equivalent to HK$97,509,482) and HK$78,000,000 (see Note 21) and carried annual interest rates from 5.02% to 5.85%.

As at 31 December 2001, the Group's short-term bank loans of RMB167,200,000 (equivalent to HK$157,646,615) were secured by standby letter of credit issued by Bank of America Guangzhou Branch, up to the limit of US$29,900,000, and were subject to annual interest rates from 5.58% to 5.85%.

(ii) As at 31 December 2001, the Group's short term bank loans of HK$104,000,000 carried annual interest rates from 4.31% to 4.66% and were guaranteed by Clear Channel Communications Inc., the holding company of a shareholder of the Company.

(iii) Shareholder's loan of US$4,000,000 (equivalent to HK$31,138,000) was advanced from Clear Channel Outdoor to China Outdoor Media, and carried interest at 10% per annum. Pursuant to the Amending Share Mortgage Agreement entered into between Clear Channel Outdoor and Outdoor Media China, Inc., the shareholders of the Company, China Outdoor Media and China Outdoor Media (HK) have executed a floating and fixed charge over their assets in favour of Clear Channel Outdoor to secure the loan. This amount was settled in 2001.

(iv) Shareholder's loan of HK$9,350,000 was unsecured, interest-free and advanced from Clear Channel Outdoor to China Outdoor Media. In April 2001, Clear Channel Outdoor capitalised this loan as part of its capital contribution for the purchase of class "A" preference shares issued by China Outdoor Media (see Note 26(c)).

23. Deferred Tax

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Balance at beginning of year	**2,433**	–
Charge for the year	**503**	2,433
Balance at end of year	**2,936**	2,433

The Group's provision for deferred tax is made principally in respect of short term timing differences arising in the statutory financial statements of the WHA Joint Venture.

The Group did not have any significant unprovided deferred tax liabilities as at 31 December 2001 (2000: nil).

24. Share Capital

Shares

	2001 HK$'000
Authorised:	
700,000,000 ordinary shares of HK$0.10 each	**70,000**
Issued and fully paid:	
500,000,500 ordinary shares of HK$0.10 each	**50,000**

The following movements in the Company's authorised and issued share capital took place during the period from 30 March 2001 (date of incorporation) to the balance sheet date.

(i) Upon incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each.

(ii) On 26 April 2001, 1,000,000 ordinary shares of HK$0.10 each was allotted and issued nil paid.

(iii) On 28 November 2001, the authorised share capital of the Company was increased from HK$100,000 to HK$70,000,000 by the creation of 699,000,000 additional shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company.

(iv) On 28 November 2001, as part of the Group Reorganisation described in note 1, the Company (a) issued an aggregate of 374,000,000 new shares of HK$0.10 each credited as fully paid at par, and (b) credited as fully paid at par the existing 1,000,000 shares issued nil paid on 26 April 2001 as set out in (ii) above, in consideration of and in exchange for the acquisition of the entire issued share capital of China Outdoor Media. The excess of the fair value of the shares of China Outdoor Media, determined on the basis of the combined net assets of China Outdoor Media and its subsidiaries at that date over the nominal value of the Company's shares issued in exchange therefore, amounting to HK$449,773,000, was credited to the Company's contributed surplus as detailed in note 25 to the financial statements.

(v) On 19 December 2001, 125,000,500 ordinary shares of HK$0.10 each were issued at HK$5.89 each to the public by way of a new issue and placement of shares, for a total cash consideration, before related expenses, of HK$736,252,945.

24. Share Capital (continued)

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

	Notes	Number of shares issued	2001 Par value HK$'000
Shares allotted and issued nil paid by the Company on 26 April 2001 and shares issued as consideration for the acquisition of the entire issued share capital of China Outdoor Media	(ii), (iv)	375,000,000	37,500
New issue and placing of shares to the public	(v)	125,000,500	12,500
Share capital at 31 December 2001		500,000,500	50,000

Share options

The Company operates a share option scheme and a Pre-IPO share option scheme, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on page 43.

During the year, the Company granted a total of 19,834,000 share options under the Pre-IPO share option scheme for a nominal consideration of HK$1.00 per grant. The Pre-IPO share options granted entitle the holders to subscribe for shares of the Company at any time during periods ranging from 30 November 2004 to 30 November 2008.

No share options holders under the Pre-IPO share option scheme have exercised their rights to sell their share options during the year.

25. Reserves

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2000	200,993	–	73	79,476	31,868	312,410
Translation exchange differences arising on consolidation of a subsidiary	–	–	847	–	–	847
Net profit for the year	–	–	–	–	41,690	41,690
Dividends	–	–	–	–	(40,000)	(40,000)
At 1 January 2001	200,993	–	920	79,476	33,558	314,947
Issue of share capital	522,760	–	–	–	–	522,760
Share issue expenses	(88,209)	–	–	–	–	(88,209)
Arising on acquisition of China Outdoor Media and its subsidiaries *(see Note 26(b))*	–	271,531	–	–	–	271,531
Translation exchange differences arising on consolidation of a subsidiary	–	–	(137)	–	–	(137)
Net profit for the year	–	–	–	–	58,906	58,906
At 31 December 2001	**635,544**	**271,531**	**783**	**79,476**	**92,464**	**1,079,798**

25. Reserves (continued)

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001	–	–	–	–	–	–
Arising on acquisition of China Outdoor Media and its subsidiaries *(see Note 24)*	–	449,773	–	–	–	449,773
Net profit for the year	–	–	–	–	77	77
Issue of share capital	723,753	–	–	–	–	723,753
Share issue expenses	(88,209)	–	–	–	–	(88,209)
At 31 December 2001	**635,544**	**449,773**	**–**	**–**	**77**	**1,085,394**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of share capital of the subsidiaries acquired pursuant to the Group Reorganisation, set out in note 1 to the financial statements, over the nominal value of the shares in the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same reorganisation over the nominal value of the shares of the Company's shares issued in exchange therefore.

(b) Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

26. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

	2001 HK$'000	2000 HK$'000
Profit from operating activities	**95,931**	70,029
Interest income	**(9,616)**	(9,008)
Depreciation	**4,479**	3,537
Loss on disposal of fixed assets	**–**	286
Amortisation of concession rights and point-of-sale	**62,762**	46,078
Increase in accounts receivable	**(33,525)**	(28,464)
Decrease/(increase) in prepayments, deposits and other receivables	**21,941**	(5,238)
Decrease in amounts due from related parties	**24,942**	8,813
Increase in other payables and accruals	**80,734**	45,020
Decrease in deferred income	**(2,472)**	(8,660)
Increase in amount due to a shareholder	**2,855**	970
Foreign exchange adjustments arising from translation of a subsidiary's assets and liabilities	**(137)**	(1,089)
Net cash inflow from operating activities	**247,894**	122,274

26. Notes to Consolidated Cash Flow Statement (continued)

(b) Analysis of changes in financing activities during the year:

	Share capital and premium accounts HK$'000	Bank loans HK$'000	Shareholder's loans HK$'000	Minority interests HK$'000	Pledged time deposits HK$'000
At 1 January 2001	201,024	381,688	40,488	8,776	(173,213)
Net cash inflow/(outflow) from financing	815,691	49,768	(31,138)	1,763	(2,296)
Share issue expenses paid and payable	(88,990)	–	–	–	–
Arising on acquisition of China Outdoor Media and its subsidiaries *(see Note 25)*	(271,531)	–	–	–	–
Net profit for the year	–	–	–	5,358	–
Capitalisation of shareholder's loan and dividend payable *(see Note 26 (c))*	29,350	–	(9,350)	–	–
Dividends to a minority shareholder	–	–	–	(2,600)	–
At 31 December 2001	**685,544**	**431,456**	**–**	**13,297**	**(175,509)**

(c) Major non-cash transaction

Pursuant to the Class "A" Preference Shares Purchase Agreement dated 3 April 2001, entered into between China Outdoor Media, Clear Channel Outdoor and Compass Venture Partners, L.P. ("Compass"), a Cayman Islands Exempted Limited Partnership, Clear Channel Outdoor and Compass each purchased 249 class A preference shares in China Outdoor Media at the price of US$7,000,000. Clear Channel Outdoor contributed US$3,800,000 (equivalent to HK$29,350,000) of its purchase price by way of a capitalisation of dividend and a loan receivable from China Outdoor Media amounted to HK$20,000,000 and HK$9,350,000, respectively.

27. Commitments

(a) Capital commitments

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Capital commitments:		
Contracted but not provided for in relation to		
– the construction of bus shelters and unipoles	**41,118**	4,752
– the construction of point-of-sale	**7,165**	–
– an option agreement (see note 30)	**4,714**	–
Authorised but not contracted in relation to the construction		
of bus shelters and unipoles	**–**	2,027

(b) Commitments under operating leases

The Group leases certain of its office buildings and concession rights under operating lease arrangements. Leases for office buildings are negotiated for a term of 1 year and concession rights are negotiated for terms ranging from 5 to 20 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Within one year	**79,482**	62,058
In the second to fifth year, inclusive	**323,353**	248,568
After five years	**305,200**	201,983
	708,035	512,609

28. Contingent Liabilities

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Bills discounted with recourse	**–**	28,286

The Company did not have any contingent liabilities at the balance sheet date.

29. Post Balance Sheet Event

On 11 January 2002, the Company's Over-allotment Option as defined in the Company's prospectus dated 10 December 2001 was exercised by Goldman Sachs on behalf of the international underwriters in respect of 1,608,000 additional new shares which represented approximately 1.09% of the Company's shares initially offered under global offering. The Over-allotment shares were issued and allotted by the Company at HK$5.89 per share, being the offer price per share in connection with the initial public offering. The Over-allotment shares were issued and listed on the Stock Exchange on 16 January 2002.

30. Related Party Transactions

In addition to a transaction and balances detailed else where in the financial statement, the Group had the following significant transactions with related parties during the year:

		2001	**2000**
	Notes	**HK$'000**	**HK$'000**
Agency commission paid to GWH, a company which one of the directors of the Company has an ability to exercise significant direct or indirect influence over the management	(i)	**13,812**	6,806
Sales to GWH	(ii)	**89,415**	38,698
Bus shelters maintenance and display fees payable to companies which one of the directors of the Company has an ability to exercise management influence	(iii)	**17,551**	15,853
Interest expenses payable to Clear Channel Outdoor, a shareholder of the Company *(see Note 22(iii))*		**3,825**	970
Loan from Clear Channel Outdoor *(see Note 22(iii))*		**–**	31,138
Rental expenses on buildings paid to Guangdong White Horse Group Corporation ("GWHG")	(iv)	**–**	1,541
Creative services fees payable to GWH	(v)	**3,000**	–

30. Related Party Transactions (continued)

(i) The agency commission paid to GWH were based on the standard percentage of gross rental revenue for outdoor advertising space payable to all other third party agencies used by the Group.

(ii) The sales to GWH were made according to published prices and conditions similar to those offered to the major customers of the Group.

(iii) WHA Joint Venture entered into various agreements with companies which one of the directors of the Company has an ability to exercise management influence for maintaining bus shelters and displaying posters in the PRC .

The fees are proportional to the number of bus shelters in each of these cities and are subject to a minimum fixed amount.

(iv) Rental expenses on buildings paid to GWHG were made according to market price and conditions similar to those offered to other tenants of GWHG.

(v) WHA Joint Venture entered into a creative services agreement with GWH, whereby GWH agreed to provide certain creative design and production services to the Group on a non-exclusive basis.

The Group has entered into various trade mark license agreements with Guangdong White Horse Development Parent Company, a company in which one of the directors of the Company acted as the general manager, GWH, Clear Channel Communications, Inc. (“CCC”), the holding company of a shareholder of the Company and Clear Channel International Limited, a subsidiary of CCC. The transactions are described in “Connected transactions” section of the Report of Directors on page 38 to 39.

The Group has entered into an option agreement with Hainan White Horse Advertising Company Limited, a company with a 20% shareholding in WHA Joint Venture, to purchase the whole or part of 20% interests in the WHA Joint Venture. The transaction is described in “Connected transactions” section of the Report of Directors on page 39.

31. Approval of the Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on 1 March 2002.