

Interview with the CEO

To realize the goal of becoming China's best outdoor advertising media company, Clear Media has continued to expand its business. Both turnover and net profit have been on the rise for five consecutive years and as of 31 December 2002, amounted to HK\$427,000,000 and HK\$71,000,000 respectively. In this 2002 Annual Report, Mr. Han Zi Jing, the Chief Executive Officer of Clear Media, explains to shareholders the Group's business development and strategies in detail.

Q: Both the consumer market and the advertising market in China have entered into a flourishing era. How will Clear Media position itself under this market environment?

A: The robust economic development in China is poised to further stimulate consumer spending in major cities and to promote the growth of China's 'Consumption Era'. With the availability of such vast opportunities and the intensity of fierce competition, advertisers will demand an even more comprehensive and effective outdoor advertising network. Clear Media is proud to take part in this revolutionary era. We will capitalize on this valuable opportunity by offering our cost-effective outdoor advertising platform to advertisers to help them reach an extensive range of consumers. Through our outdoor media platform, we bring brands and consumers together, whilst helping advertisers create more opportunities and, in turn, maximize returns.

Q: Last year, Clear Media announced that it would be expanding its businesses to mid-tier cities and would be increasing its penetration rate in key cities. Now that a year has passed, what are the results?

A: 2002 was a year of aggressive expansion for Clear Media. After our successful listing in 2001, we are in a better financial position to fund our development plans. Clear Media has successfully increased its geographical coverage and enhanced its sales and promotion efforts.

In order to strengthen our bus shelter advertising business, we constructed 3,700 bus shelter display panels throughout cities like Wuhan and Shenyang. We also acquired nearly 1,000 existing bus shelter display panels in cities such as Guangzhou to increase our overall market share.

At present, we have already captured over 50% of the market share in key cities, including Beijing, Shanghai, Guangzhou and Shenzhen. After a series of acquisitions and construction activities, our total number of bus shelter display panels in 30 cities has increased from 11,698 to 17,210. Clear Media is the one and only outdoor advertising company in the country that offers such a comprehensive and standardized nationwide network.

A portrait of Han Zi Jing, a middle-aged man with dark hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is looking directly at the camera with a slight smile. The background is a collage of various Chinese advertisements and posters, including one for Olympus and another for a woman's face.

Han Zi Jing
Chief Executive Officer and
Executive Director

OUR STRATEGIES

With our network now covering 30 key cities in China and laying a solid foundation for our future operation, 2003 will be the year for consolidation and we will concentrate on increasing the returns from our existing network. We have implemented a series of effective measures to ensure our business will continue to grow healthily.

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The development of our network presence in mid-tier cities is encouraging, and some are even exceptional, such as Xi'an. The contribution of the four key cities to total turnover was adjusted, from 58% in 2001, to 55%. This clearly represents increasing contribution in turnover from the mid-tier cities, as well as their growing importance to the Group's business development. Although media pricing in mid-tier cities is lower than that in key cities, the costs of acquisition and operation are also lower, making the EBITDA margins similar to that of major cities. All in all, we have realized various strategic expansion plans which have set a solid foundation for the Company's development in the coming years. This, in turn, should ensure a stable growth of returns in the future.

Q: What is the progress of the Group's newly developed outdoor advertising products? How did the Point-of-Sale (POS) advertising perform last year?

A: POS advertising is the Group's newest outdoor advertising product line. We have installed 400 advertising lightboxes in 200 Lianhua Supermarkets in Shanghai, which is one of the largest supermarket chains in the PRC, and 175 advertising lightboxes in Jie Qiang Supermarkets. During the first half of the year, advertisers were still dubious about the potential of POS advertising.

However, by the second half, the sales volume grew and this growth continues to maintain its momentum today. Turnover from POS advertising increased substantially by nearly three folds in 2002, but of course, on a small base. Performance of our POS advertising remained positive at the start of 2003, demonstrating that the business is moving on track according to our plan. We continue to explore business opportunities with foreign and domestic supermarket chain stores to develop more POS advertising to offer more alternative products to our advertisers.

Q: In terms of increasing operational efficiency, such as reducing accounts receivable, how successful has Clear Media been?

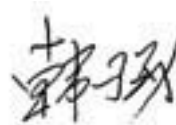
A: Clear Media always strives to enhance operational efficiency, and reducing the accounts receivable is one of our main focuses. We have established a special team in the second half of last year to improve our cash collection. We also restructured the commission policy of our sales team in order to motivate sales staff for better cash collection. As a result, the average accounts receivable outstanding days from independent third parties decreased from 193 days during the first half of 2002 to 143 days as at 31 December 2002. Accounts receivable turnover days for 2002 is around 110 days. Receivables due from White Horse Advertising were also reduced from HK\$99 million in the first half to 2002 to HK\$50 million in 2002.

Clear Media has adopted a more stringent policy in accepting orders from potential slow-paying masters. Even though our overall sales performance has, to some extent, been affected by the more prudent strategy, we feel that such a strategy is beneficial to our long-term development and will serve to strengthen shareholder confidence. In 2003, we will continue to focus on controlling the level of outstanding receivables and cash collection.

Q: After five years of consecutive growth, how will Clear Media sustain its growth for 2003? Any major development plans?

A: We have concentrated on expanding the size of our network and our market shares in 2002. With our network now covering 30 key cities in China, laying a solid foundation for our future operation, 2003 will be the year for consolidation and we will concentrate on increasing the returns from our existing network. We have implemented a series of effective measures to ensure our business will continue to grow healthily and we have put our emphasis on two main areas. On the sales side, we have strengthened our sales team; set up more new sales centers to cater for the needs of local as well as nation-wide customers; and implemented a new interactive pricing system to cater to the different purchasing habits of our customers. We will also launch new technology to boost up the

yield of our assets. On the costs saving and control side, we will make use of new technologies to help reduce the cost of operation. Negotiation with relevant authorities to further reduce rental, electricity, taxes and other expenses and control over selling and general and administrative expenses will also continue to improve our operational efficiency. We believe that these measures will continue to be effective and will help to enhance and maximize the returns of our media resources.



Han Zi Jing
Chief Executive Officer and Executive Director
Clear Media Limited
Hong Kong, 26 February 2003