

# Bra Revol





**nd  
ution**

# Management Discussion and Analysis

Business Review  
Operations Review  
Financial Review



# Management Discussion and Analysis

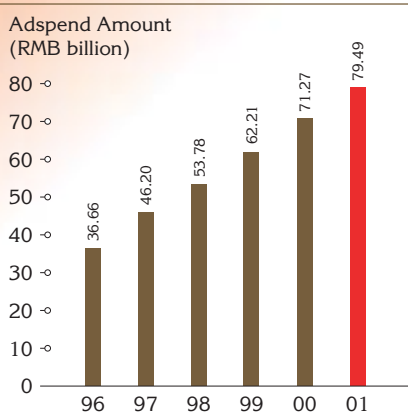
## Business Review

### Industry Overview

China has the seventh biggest economy in the world – and the world's largest consumer market.

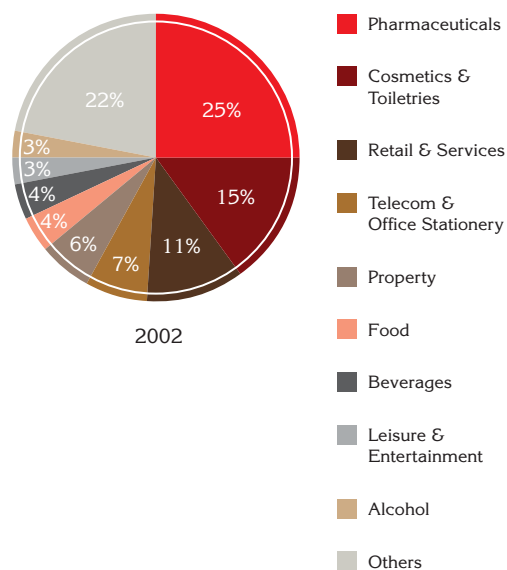
China's entry into the World Trade Organization (WTO) has increased the pace at which international brands are entering the China market. This influx has spurred local brands to increase their quality and selection in order to compete. The result is a Brand Revolution that is unprecedented in the nation's history, one which offers a unique opportunity for companies positioned to take advantage of it.

**Adspend Growth in China**



\*Source: Advertising Branch of SAIC

**Top 10 Industries (Adspend) in 2002**



\*Source: ACNielsen



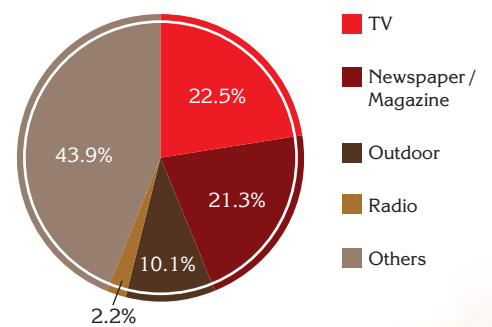




With an annual GDP of over US\$1 trillion, China has the fastest-growing advertising industry in Asia, at a 17% compounded annual growth rate. As a percentage of GDP, however, advertising spending is still comparatively low at 0.4%. This indicates that China has strong growth potential in the foreseeable future. China's adspend in 2002 was estimated at around RMB90 billion and the adspend for 2003 is estimated to reach RMB100 billion. Pharmaceutical products, cosmetics and healthcare products, retail and services, telecom and office equipment were amongst the different types of commodities which recorded the highest adspend, while automobiles, fashion, leisure and entertainment and retail and services recorded the fastest growth in adspend.

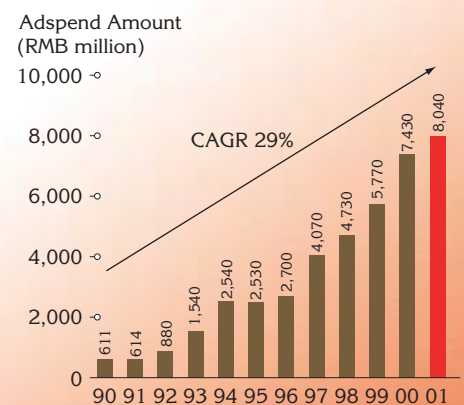
Based on total advertising revenues, outdoor is one of the fastest-growing segments of the advertising sector, with the potential to be worth over RMB10 billion by 2003, and Zenith Media expects outdoor advertising to grow at an annual rate of 11.6% over the next three years.

### Adspend on Different Media in 2001



\*Source: Advertising Branch of SAIC

### Growth of Outdoor Adspend



\*Source: Advertising Branch of SAIC



Not long ago, your major fashion decision was the color of your Mao jacket – green, blue or grey – and choosing from a limited number of beauty products produced by state-owned enterprises...



# Beauty

## Health & Beauty Products

Today, “looking good and feeling good” is an integral part of modern China. International and local companies now offer a wide range of health and beauty products designed to meet the needs of savvy consumers, making health and beauty advertising a major segment of the Clear Media network.







# Management Discussion and Analysis

The outdoor market remains highly fragmented, with literally thousands of companies in the outdoor sector controlling very small segments of the entire industry. As advertisers and consumers become more sophisticated, there is increased demand for nationwide ad campaigns that reach and appeal to the trend-setters living in the major cities. Recent trends show a drop in the number of outdoor advertising companies despite an increase in total adspend on outdoor advertising, which means consolidation is well under way. We expect to see further mergers and acquisitions in the advertising industry as the demand increases for broader geographical coverage, more standardized panels, better advertising packages and the convenience of one-stop shopping that only larger companies can offer.

A number of factors are contributing to the strong growth of the outdoor sector. Advertisers are facing increasing costs

in broadcast media due to the proliferation of channels and the fragmentation of audiences; there are, for example, over 900 television stations in China. Radio, magazines and newspapers are also ineffective vehicles for a targeted advertising campaign, as well as having more restrictive regulations about the advertising being carried.

Outdoor advertising offers a very cost-effective alternative to all other mass media. In terms of cost-per-thousand (CPM), it is just 5-10% of the cost of television and newspapers. The massive urbanization of China and the “Always On” characteristic of outdoor advertising ensures that our industry is extremely attractive to advertisers and consumers alike – its all advertising, all the time.

We expect this growth to continue as more foreign brands move into China and more domestic brands appear in competition. Presently, brand loyalty is still relatively low; through time, advertisers will be spending more money to build their names and establish their brands as the Brand Revolution continues. We foresee outdoor advertising being an attractive option as it offers the reach and frequency that advertisers are looking for – at a cost they can afford – to deliver their brand information and build brand awareness. Driven by China’s accession to the WTO and the successful bids by Beijing and Shanghai for the Olympic Games 2008 and World Expo 2010, brands from around the world are targeting the China market and adspend of foreign brands is expected to soar.







- **Point-of-Sale (POS)** advertising is the new development in outdoor advertising, where operators enter into contracts with shopping centers, hypermarkets, supermarkets and department stores to install and maintain advertising panels.
- **Unipole** is a very fragmented industry in the PRC, which offers an opportunity for consolidation when the time is right.
- **Transit** is advertising on bus bodies and interiors, metro railway stations and trains and airports and other public transport.

## Outdoor Advertising in China

While outdoor advertising in China is regulated by the laws and regulations pertaining to the advertising industry, outdoor advertising is the only media sector where foreign ownership is permitted.

Outdoor advertising consists of four main categories:

- **Street Furniture** remains the fastest growing segment of outdoor advertising, both globally and locally. It includes advertising on bus shelters, taxi stands, road signs and other public amenities.





Not long ago, quenching your  
thirst meant choosing from a  
few local soft drinks...



# Refreshment

## Beverage

Today, a tremendous number of international and local  
brands are transforming the refreshment category, offering  
beverage choices for every taste and occasion, and  
making beverage companies a leading category of  
advertisers for Clear Media.







# Management Discussion and Analysis

## City Highlights: by Market Share

	2002
Beijing	41%
Chengdu	68%
Guangzhou	68%
Hangzhou	95%
Kunming	78%
Nanjing	90%
Shanghai	98%
Shenzhen	43%
Wuhan	59%
Xi'an	100%

By number of 12-sheet equivalent panels

## City Highlights: by Contribution to Bus Shelter Advertising Revenue

	2002
Beijing	19%
Chengdu	4%
Guangzhou	15%
Hangzhou	4%
Kunming	3%
Nanjing	4%
Shanghai	14%
Shenzhen	7%
Wuhan	3%
Xi'an	4%

## Clear Media Outdoor Focus

Bus shelter advertising, Clear Media's main focus, offers a number of advantages over other forms of outdoor media. Our bus shelters provide a public service that benefits both governments and citizens. They are located in prime cities and town centers nationwide, enabling our advertisers to reach their target audience across 30 major cities in China. Our bus shelters are well-lit, beautifully maintained, and visible at night – creating an attractive, "Always On" mass media network of choice. And our standardized network offers the most cost-effective way to reach affluent consumers on a nationwide basis.



Our network spans across 30 key cities in China

# Operations Review

## Bus Shelter Advertising

Clear Media is on track with the expansion plans we announced last year. In 2002, we spent HK\$309 million on acquisitions and organic expansion, adding 5,512 new panels to our network, bringing our total number of 12-sheet equivalent panels to 17,210, a near 50% increase in our network size in just one year. We have also added one new city, Wuxi, to our network.

With 30 cities in our network, we now have a strong presence in some of the most important cities in China. In 2003, we will be focusing our efforts on expanding our influence in three key cities: Shanghai, where we now have 98% of the market share in terms of panel number, Guangzhou with 96%, and Beijing with 41%, but an estimated 60% in terms of advertising value.

We plan to increase our current occupancy rate to over 70% by creating more innovative and effective ad packages that will appeal to advertisers.



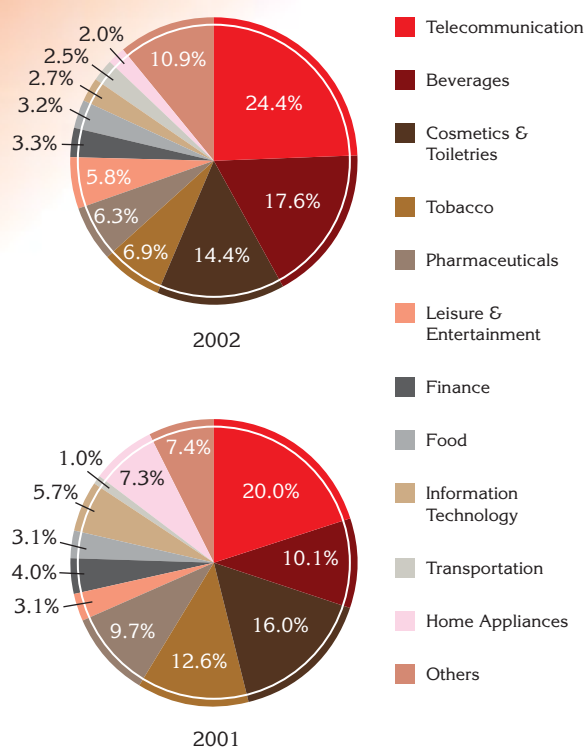
With China's entry into the WTO, new categories of advertisers are appearing on the scene. Leisure and entertainment companies are being joined by financial institutions and automobile manufacturers, supplementing the more traditional advertisers of beauty and health aids and mobile phones. With Beijing hosting the 2008 Olympic Games, it will focus worldwide attention on this dynamic city, attracting more travellers from both inside the country and overseas, as well as new advertisers who want to target these audiences. Shanghai will host the 2010 World Expo on the banks of the Huangpu River. As we enjoy exclusive rights for panels on both sides of the river, we will benefit from the increased traffic and world attention in this event.

As we are seeing all our groundwork and development in the street furniture category pay-off, we believe it will continue to produce handsome dividends for many years to come.



# Management Discussion and Analysis

**Clear Media's Client Mix by Industry**



## Point-of-Sale Advertising


In the 10-year period from 1992-2001, the total retail sales of consumer goods in the PRC increased from approximately RMB1.1 trillion to RMB3.8 trillion, representing a CAGR of 14.8%. From 1999-2001, hypermarkets, supermarkets and convenience store outlets have reached CAGRs of 55.9%, 81.9% and 82.2%, respectively. By the end of 2001, there were more than 170,000 retail outlets in the PRC.

POS advertising has some similarities to our bus shelter advertising – there is a standardized network, we pay fixed rental fees, and we enjoy similar revenue terms in exchange for installing the displays. The average internal rate of return (IRR) for POS advertising is above 20%.

In 2002, we expanded our network by installing 400 advertising lightboxes in 200 Lianhua Supermarkets, which is the leading supermarket chain in Shanghai. We further added 175 advertising lightboxes in Jie Qiang Supermarkets, another Shanghai supermarket chain, to expand our network in the second half of last year. At the end of 2002, we had a total advertising display area of over 4,000 square meters.

## Unipole

The unipole advertising sector is still very fragmented and regulations governing construction and operation remain unstable. Clear Media owns a small number of unipoles in Beijing and Shanghai and surrounding areas, all of them located on or near major highways.



We believe there is long-term potential in the market and will continue to monitor opportunities this year. However, until those opportunities arise, we will continue to concentrate our efforts on street furniture.

## Company Strategy

This time last year, there were over 80,000 companies in the outdoor media sector. Today, there are fewer companies vying for greater revenue. Clear Media is the largest player in this segment of the industry. We have increased our network size by nearly 50% this year and we plan to continue leading the consolidation of the outdoor industry.

One of the ways we plan to achieve this is by empowering our sales force. We are offering after-sales studies on individual campaigns to help clients measure the effectiveness of their advertising. We are creating more sales centers to give our customers better support. We are also offering an interactive pricing system to stimulate early booking.

Backed by the world's largest outdoor media company – Clear Channel – and aided by White Horse, a renowned diversified company in China, Clear Media will leverage our global resources and local knowledge to transform this industry.

## In 2003, our focus will be on



- Expanding our Bus Shelter Network in 30 Cities – now that we have extended our network to 30 major cities in China, we plan to enhance our market share in the key cities of Beijing, Shanghai and Guangzhou through our two-pronged strategy of organic growth and strategic acquisitions.

- Growing our Leadership – we will maximize our revenue by optimizing yield throughout our network and working to meet world class occupancy rates within the next few years.
- Developing POS Displays – we plan to continue our development of a POS network to serve the incremental needs of our advertisers.
- Strengthening our Sales and Marketing Efforts – using consumers' travel patterns in the city to calculate each panels reach and frequency, we will design packages that meet advertisers' goals and offer after-sales reporting to provide solid evidence of the effectiveness of campaigns and further differentiate our network from our competitors.

## We will continue to

- Evaluate the effectiveness of our sales centers in Shenzhen, Wuhan, Shenyang and other key cities.
- Expand our customer base by looking into more advertising categories and attracting bigger key clients with solid payment records.
- Develop attractive ad packages that meet advertisers' needs. Package sales have increased from 40% of our business to over 90% and we will work towards continuing that trend.





Not long ago, local entrepreneurs would apply for a fixed-line telephone and wait patiently for its installation...

# Communication

## Mobile Phone

Today, you can walk into any number of retail stores and walk out with your choice of the latest mobile phones. China now has more mobile phone users than any country in the world and mobile phone marketers are the largest category of advertisers in Clear Media.





KEHATI BERSI



Signature



MOTO 跟我“混”



C330

RECHARGEABLE BATTERY  
1000 HOURS  
1000 HOURS  
1000 HOURS

MOTOROLA  
FREE RATE



# Management Discussion and Analysis

## Financial Review

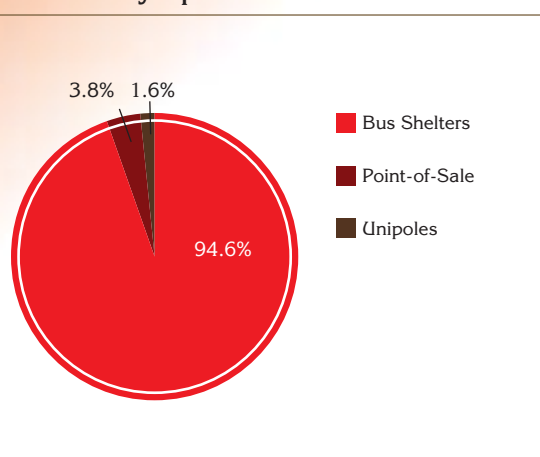
### Turnover

The Group's turnover in 2002 amounted to HK\$427 million, an increase of 20% compared with fiscal year 2001. This growth reflects the increased revenue generated from bus shelter advertising, the Group's core business, as well as POS and unipole business lines.

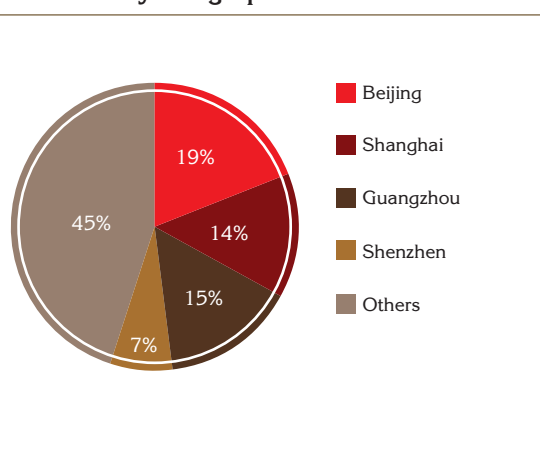
The Group's core bus shelter advertising business continued to perform well in 2002 with its turnover showing an increase of 18% to HK\$404 million, compared to HK\$342 million in 2001. We continue to expand the breadth and depth of our network coverage so as to synchronize with the expansion of our advertisers. In 2002, we accelerated our strategy of strong organic growth and progressive acquisitions. We increased the total number of 12-sheet equivalent panels from 11,698 at the end of last year to 17,210 at the end of 2002, increasing our network size by nearly 50% in just one year, to prepare ourselves for opportunities arising from the continued growth in China's advertising industry. In addition, we also added one new city, Wuxi, to our network in 2002. With 30 key cities now in our network, we have a strong presence in key cities in China including Beijing, where we have a 41% market share, Shanghai with 98% and Guangzhou with 96%. As part of our expansion strategies, we have also expanded into mid-tier cities with high-growth potential. The percentage of our advertising panels located in the mid-tier cities increased from 60% to 62%, and the corresponding turnover increased from 41% in 2001 to 45% in 2002.

The Group's newly developed POS advertising was well received by advertisers as an effective and cost-efficient

Turnover by Operation in 2002



Turnover by Geographical Location in 2002



advertising medium. Turnover of our new POS advertising business surged by 383%, from HK\$3 million in 2001 to HK\$16 million in 2002. In 2002, we expanded our network by installing 400 advertising lightboxes in 200 Lianhua Supermarkets, which is the leading supermarket chain in Shanghai. We also added 175 advertising lightboxes in Jie Qiang Supermarkets, another Shanghai supermarket chain. By the end of 2002, we had a total advertising display area of over 4,000 square meters.

The Group has not expanded its unipole network because government regulations regarding the unipole sector are still evolving. However, we believe this segment holds long-term potential and we will be closely monitoring opportunities in the market. Contribution from unipole advertising to the Group's total turnover in 2002 remained relatively small and it dropped from HK\$10 million in 2001 to HK\$7 million in 2002.

## EBITDA and Net Profit

Our earnings before interest, tax, depreciation and amortization (EBITDA) has increased by 17% to HK\$180 million in 2002 from HK\$154 million in 2001. Our EBITDA margin remained stable at around 42% in 2002 as compared to 43% in 2001. It is noteworthy, however, that the EBITDA margin for the bus shelter business, being the Group's primary focus, improved slightly to 48% as compared to 47% in 2001 despite the substantial increase in costs associated with the large number of advertising panels built and acquired during the year. The Group has successfully implemented various cost-saving measures including re-negotiation of rentals, electricity and sales tax, as well as deploying cost-saving techniques on advertising panels.

Net profit increased by 21% in 2002, totaling HK\$71 million as compared to HK\$59 million in 2001. This can be attributed to the increase in EBITDA and reduction in



interest expenses. Our net profit margin in 2002, however, remained stable at 17%, the same margin as 2001.

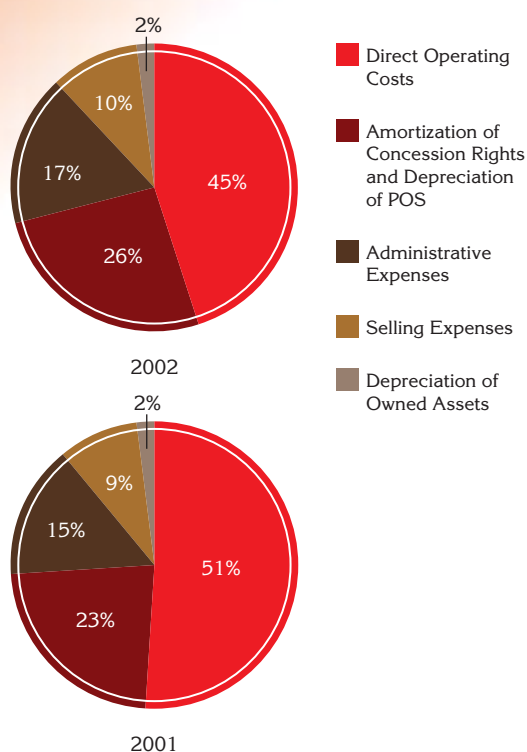
## Expenses

Direct operating costs, which include electricity, rental and maintenance costs, increased by 13% to HK\$153 million in 2002 from HK\$136 million in 2001. The increase was primarily due to the aggressive expansion of our bus shelter panels. However, it should be noted that direct costs on a per unit basis have dropped significantly, as compared to 2001, as a result of cost-saving measures implemented in 2002. The expansion of our bus shelter network has also resulted in the higher amortization of concession rights which increased to HK\$88 million in 2002 from HK\$63 million in 2001. To strengthen our sales capability and better serve our expanding client base, the Group has also employed 83 new sales and marketing staff, bringing the total sales and marketing headcount to 194 in 2002 as compared to 111 in 2001. Ongoing maintenance costs related to publicly listed companies, such as listing fees, statutory announcements and advertising costs, also contributed to the increase in total expenses.



# Management Discussion and Analysis

**Cost Breakdown – 2002 vs 2001**



## Taxation


The Group's taxation charge reached approximately HK\$9 million in 2002 as compared to approximately HK\$7 million in 2001, which is in line with the higher taxable profit.

## Cashflow

Net cash inflow generated from operations improved substantially to HK\$101 million for the year ended 31 December 2002 from HK\$12 million for the six months ended 30 June 2002, due largely to improvements in the accounts receivable. However, it was lower than HK\$248 million as at 31 December 2001. This reduction is primarily due to the settlement of outstanding liabilities brought forward from 2001. Total payables and accruals as at 31 December 2001 were HK\$257 million as compared with HK\$132 million as at 31 December 2002. In addition, we also entered into agreements to rent shelters in certain cities. The contractual deposits which were required to be paid also had an impact on the cashflow.

### Cash Flow Data

Year ended 31 December	2002 (HK\$'000)	2001 (HK\$'000)
Cash generated from operations	100,577	247,894
Interest paid	(8,627)	(21,757)
Income taxes paid	(7,624)	(1,631)
	84,326	224,506
Cash outflow from investing activities	(359,292)	(240,930)
Cash (outflow) / inflow from financing activities	(267,287)	758,433
Net cash and cash equivalents at beginning of year	809,411	67,402
Net cash and cash equivalents at year end	267,158	809,411



Cash from investing activities amounted to an outflow of approximately HK\$359 million in 2002 as compared to an outflow of HK\$241 million in 2001 as the Company continued to expand its bus shelter network and POS advertising business in 2002. A total of HK\$309 million was spent in 2002 to build and acquire bus shelter advertising displays.

Net cash outflow from financing activities amounted to HK\$267 million in 2002 as compared to the net cash inflow of HK\$758 million in 2001. The change in cashflow is primarily attributable to the repayment of HK\$237 million of the Group's bank loans in 2002.

## Accounts Receivable

The Group's accounts receivable balance due from third parties increased from HK\$85 million in 2001 to HK\$114 million in 2002. None of the accounts receivable balance is due from connected persons (as defined in the Listing Rules). The increase in our accounts receivable is largely a result of an increase in our business volume. As of 31 December 2002, HK\$75 million out of the net accounts receivable balance of HK\$85 million, which was brought forward from 31 December 2001, has been settled. Further, we have taken legal action against customers with total outstanding balances amounting to and in excess of HK\$7 million and have, accordingly, seized assets worth more than HK\$7 million as collateral. Average accounts receivable outstanding days of accounts receivable was 143 days as at 31 December 2002, substantially reduced from 193 days as at 30 June 2002, but comparable to 147 days in 2001. Key measures were taken by the Group during the year to reduce the receivables level. These measures include the linking of sales staff commission to cash collection, the forming of a dedicated collection team and the formulation of stringent policy on sales to new clients.

Amounts due from Guangdong White Horse Advertising Company Limited (WHA) was reduced from HK\$53 million

in 2001 to HK\$50 million in 2002. The percentage of the Group's business from WHA reduced to 16% in 2002 as compared to 25% in 2001.

The Group has a standard general provisioning policy on doubtful debts that is based on a preset formula on the total outstanding debts owed by our customers, and the policy has been consistently applied and reviewed by the Board of Directors and our auditors. In broad, for our small-to-medium sized customers, general provisions ranging from 25% to 100% on the balance outstanding are created based on the aging profile. For major customers, provisions are assessed on a case-by-case basis. For customers for which legal action has been or will be taken, provision is assessed to the extent of any balance that we believe is not recoverable. Our credit control committee also closely monitors and takes all reasonable steps to further reduce the receivable balances, where possible.

## Accounts Payable

Total payables and accruals in 2002 were HK\$132 million as compared to HK\$257 million in 2001. The drop is due to the payout of certain payables which accrued in 2001 such as IPO-related expenses, bus-shelter construction costs and other operation expenses such as rental and electricity. It would be inappropriate to apply turnover days to accounts payable as the payable is more closely related to capital expenditure incurred in the bus shelter and POS advertising panels.

## Borrowings and Gearing

As at 31 December 2002, the Group pledged time deposits of HK\$94 million and US\$6 million (approximately HK\$46 million) to banks as security for outstanding secured short-term bank loans of RMB143 million (approximately HK\$135 million) at rates ranging from 4.8% to 5.3%. As at 31 December 2002,



# Management Discussion and Analysis

outstanding unsecured bank loan amounted to RMB19 million (approximately HK\$17 million) and incurred interest at 4.5%. All of the Group's bank borrowings are to be repaid within one year. There were no other charges on the Group's assets.

The gearing ratio of the Group was 1% as at 31 December 2002 as compared to 23% in 2001. The gearing ratio was calculated by dividing net debts by equity. As at 31 December 2002, the Group's total cash on hand was HK\$267 million as compared to HK\$809 million in 2001.

## Share Capital and Shareholders' Funds

In January 2002, the Company issued 1,608,000 ordinary shares at HK\$5.89 per share under the Over-allotment of IPO, and approximately HK\$9 million was raised from the market. Shareholders' funds as at 31 December 2002 increased by 7% to HK\$1,210 million from HK\$1,130 million in 2001. The Group's reserves in 2002 amounted to HK\$1,160 million as compared to HK\$1,080 million in 2001. There were no share repurchases in 2002.

## Exposure to Foreign Exchange Risk

Our only investment in China is the operating vehicle of the Group, the WHA Joint Venture, which only conducts business within China. Most of our turnover, capital investment and expenses are denominated in Renminbi, except for interest payable, repayment of foreign currency loans obtained to finance our operating vehicle's operations and any potential future dividend to be declared by our operating vehicle to its shareholders. To date, we have not experienced any difficulties in obtaining government approvals to make foreign exchange purchases when the need arises. No financial instruments for hedging purposes were issued in 2002.

## Capital Expenditure

To strengthen the Group's leading position as an outdoor media company in China, the Group actively acquired concession rights and built bus shelters to expand its network. For the year ended 31 December 2002, the following amounts were spent: HK\$309 million as compared to HK\$271 million in 2001 was spent on obtaining bus shelter concession rights; HK\$8 million as compared to HK\$22 million in 2001 on the construction of POS display panels and HK\$14 million as compared to HK\$4 million in 2001 on fixed assets.

## Use of IPO Proceeds

After deducting related expenses, the proceeds used from the IPO and the Over-allotment were HK\$648 million and HK\$9 million, respectively. For the year ended 31 December 2002, approximately HK\$237 million was used to repay certain bank loans, HK\$153 million for the organic expansion and acquisition of bus shelters and HK\$12 million for the expansion of our POS and unipole advertising displays. The remaining HK\$255 million of the proceeds was deposited in bank accounts with renowned banks in Hong Kong and will be used to finance the expansion of bus shelters and new format operations as well as working capital.

## Material Acquisitions and Disposals

There were no material acquisitions or disposals of any subsidiary, associate or joint venture of the Group in 2002.

## Employment, Training and Development

As at 31 December 2002, the Group had a total of 282 employees, an increase of 86 employees from 2001. Total



staff costs amounted to 8.3% of total turnover as compared to 7.1% in 2001. The increase is due to the number of sales and marketing staff, which increased from 111 in 2001 to 194 in 2002. This is in line with the Group's goal of improving sales support for its expanding outdoor media network in China. Training courses and conferences are regularly organized for employees throughout the year to improve and update their knowledge. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonuses are linked to both the performance of the Group and to individual performance as recognition for their value creation. Share options are also granted to senior management in an effort to align individual interests with the Group's.

## Contingent Liabilities

The Group is not aware of any major contingent liabilities that will cause a substantial change to the Group's operations, except for bills discounted with recourse amounting to HK\$7 million.

Full-time Employees in 2002

