Notes to Financial Statements

31 December 2002

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 also set out in notes 15, 23 and 24, 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. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

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

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

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 33:	Discontinuing operations
SSAP 34 (revised):	Employee benefits

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

SSAP 1 (revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 59 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

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

SSAP 11(revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision to this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are translated at the weighted average exchange rates for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously the case. The SSAP has had no material impact on the financial statements.

SSAP 15 (revised) prescribes the format for the cash flow statement. The principal impact of the revision to this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 60 of the financial statements and the notes thereto have been revised in accordance with the new requirements. The cash flows of the Company's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas before, they were translated at the applicable rates of exchange ruling at the balance sheet date. The SSAP has had no material impact on the financial statements.

SSAP 33 prescribes the basis and criteria for segregating information about a major operation that an enterprise is discontinuing, from information about its continuing operations, together with the disclosure requirements. The SSAP has had no impact on the financial statements.

SSAP 34 (revised) prescribes the recognition and measurement criteria for employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option schemes, as detailed in note 23 to the financial statements. These disclosures are similar to those required by the Rules Governing the Listing of Securities on the Stock Exchange and which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The Group Reorganisation, which was completed on 28 November 2001, 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. 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 year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from their respective dates of incorporation.

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.

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.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

4. Basis of Presentation and Summary of Significant Accounting Policies

(continued)

Joint venture companies (continued)

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.

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 recognised 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 recognised 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.

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. 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.

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 malls and other public areas. Expenditure incurred after point-of-sale has 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 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 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 use.

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 and individual basis over the period of the rights, which range from 5 to 20 years. The average operating right period is 10 years.

4. Basis of Presentation and Summary of Significant Accounting Policies

(continued)

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 capitalised 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 capitalised 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, rentals 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, including point-of-sale, on a time proportion basis over the terms of the 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 are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year. The balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates 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 schemes 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. 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, 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 contributions to be borne by the Group are calculated at 11% on the annual average salary in Guangzhou announced by the Guangzhou Social Labour Insurance Administration Bureau.

Share option scheme

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 change is recorded in the profit and loss account or balance sheet for their cost. Upon 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 or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

5. Segment Information

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which for the Group is determined to be by business segment; and (ii) on a secondary segment reporting basis, where for the Group is determined to be by geographical segment.

Outdoor media sales is the only major business segment of the Group, and comprises the displays of advertisements on bus shelters, unipoles and point-of-sale. Accordingly no further business segment information is provided.

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 PRC, no further 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, in the PRC.

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

	2002 HK$'000	2001 HK$'000
Turnover	426,916	355,004
Bank interest income	8,934	9,616
Others	1	17
Other revenue	8,935	9,633
Revenue	435,851	364,637

7. Profit from Operating Activities

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

	2002 HK$'000	2001 HK$'000
Cost of services provided	70,342	73,753
Operating lease rentals on bus shelters, unipoles and point-of-sale	82,941	61,888
Amortisation of concession rights and depreciation of point-of-sale	88,391	63,021
Cost of sales	241,674	198,662
Provision for doubtful debts *(Note (i))*	8,617	6,950
Auditors' remuneration	780	600
Depreciation of owned assets, excluding point-of-sale	5,536	4,220
Operating lease rentals on buildings	7,465	5,464
Staff costs (including directors' remuneration (note 8))		
Wages and salaries	35,245	25,077
Pension contributions	182	81
Less: Forfeited contributions	–	–
Net pension contributions	182	81
	35,427	25,158
Exchange losses, net	11	32
Write back of excessive culture levy provision *(Note (ii))*	(20,873)	–
Interest income	(8,934)	(9,616)

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

Notes:

(i) During the current year, the Group has also written off bad debts of approximately HK$8,216,000 (2001: Nil).

(ii) The WHA Joint Venture has received a confirmation from the Hainan Provincial Tax Bureau in February 2003 confirming that all taxes and levies had been cleared in accordance with the relevant regulations up to 31 December 2002. Accordingly, the Group has written back the excessive culture levy provision to cost of sales.

8. Directors' Remuneration

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

	Group	
	2002 HK$'000	2001 HK$'000
Fees:		
Executive directors	–	–
Non-executive directors	360	40
Independent non-executive directors	240	20
	600	60
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	6,893	2,951
Pension scheme contributions	48	18
Other emoluments of non-executive directors:		
Basic salaries, other allowances and benefits in kind	963	440
Pension scheme contributions	12	–
	7,916	3,409
	8,516	3,469

The numbers of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK$1,000,000	10	12
HK$1,000,001 – HK$2,000,000	3	1
	13	13

During the year, discretionary bonuses paid to or receivable by the directors amounted to HK$387,705 (2001: HK$90,515). No directors waived or agreed to waive any remuneration during the year (2001: 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 (2001: Nil).

During the year, 4,541,000 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 pages 51 to 54.

9. Five Highest Paid Individuals

The five highest paid individuals during the year included three (2001: three) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2001: two) highest paid, non-director individuals, which both fell within the HK$1,000,000 to HK$2,000,000 band, are as follows:

	2002 HK$'000	2001 HK$'000
Basic salaries, other allowances and benefits in kind	2,735	1,229

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals of the Group amounted to HK$289,000 (2001: HK$232,000). 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 (2001: Nil).

During the year, 900,000 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 set out under the heading "Share options schemes" in the Report of the Directors on pages 51 to 54. No value in respect of the share options granted during the year has been charged to the profit and loss account.

10. Finance Costs

	Group	
	2002 HK$'000	2001 HK$'000
Interest on bank loans and other loans wholly repayable within five years	7,654	25,088

11. Tax

	Group	
	2002 HK$'000	2001 HK$'000
Group:		
Hong Kong	–	–
Elsewhere	8,772	6,076
Deferred – note 22	–	503
Tax charge for the year	8,772	6,579

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil).

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 Special Economic Zone of the PRC, is subject to a corporate income tax at a 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 the current year was the third statutory profitable year of WHA Joint Venture, corporation income tax for the current year has been calculated at the rate of 7.5% on its assessable profits arising 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 2002 was approximately HK$1,126,000 (2001: HK$77,000).

13. 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$71,106,000 (2001: HK$58,906,000) and the weighted average of 501,564,445 (2001:379,452,073) ordinary shares.

The weighted average number of ordinary shares of the Company used to calculate the basic earnings per share for the year ended 31 December 2002 includes 500,000,500 ordinary shares brought forward from the prior year and 1,608,000 ordinary shares issued in the current year. Further details are set out in note 23 to the financial statements.

There is no diluted earnings per share for the years ended 31 December 2002 and 2001 as the share options had no dilutive effects throughout these years.

14. 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	8,345	8,041	7,002	15,584	56,735	95,707
Additions	721	9,117	4,028	8,335	131,575	153,776
Transfer to point-of-sale	–	–	–	6,854	(6,854)	–
Transfer to concession rights	–	–	–	–	(161,254)	(161,254)
At 31 December 2002	**9,066**	**17,158**	**11,030**	**30,773**	**20,202**	**88,229**
Accumulated depreciation:						
At beginning of year	(4,898)	(3,380)	(2,461)	(259)	–	(10,998)
Provided during the year	(1,673)	(3,065)	(798)	(2,265)	–	(7,801)
At 31 December 2002	(6,571)	(6,445)	(3,259)	(2,524)	–	(18,799)
Net book value:						
At 31 December 2002	**2,495**	**10,713**	**7,771**	**28,249**	**20,202**	**69,430**
At 31 December 2001	3,447	4,661	4,541	15,325	56,735	84,709

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

15. Interests in Subsidiaries

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	487,273	487,273
Due from subsidiaries	428,893	206,744
	916,166	694,017

The amounts due from subsidiaries are unsecured, interest-bearing at rates ranging from 5% to 8% per annum and have no fixed terms of repayment.

Particulars of the subsidiaries of the Company as at 31 December 2002 were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up share/registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
China Outdoor Media Investment Inc.	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	80 (Note)	–	Operation of outdoor advertising business

Note: 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 terms 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 profits of WHA Joint Venture.

Pursuant to a reorganisation which took place before the listing of the Company on the Stock Exchange, 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 and its 5% share of the profits 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 in WHA Joint Venture, respectively. It is agreed that for the fiscal years 2001 to 2005 (both inclusive), China Outdoor Media (HK) will be entitled to 90% of the profits after tax of WHA Joint Venture. For the fiscal 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 shares in the profits of WHA Joint Venture for the period from 1 January 2001 to 30 June 2001 were 95% and 5%, respectively.

16. Concession Rights

	Group HK$'000
Cost:	
At beginning of year	779,758
Additions	148,230
Transferred from construction in progress	161,254
At 31 December 2002	**1,089,242**
Accumulated amortisation:	
At beginning of year	(157,048)
Provided during the year	(86,126)
At 31 December 2002	**(243,174)**
Net book value:	
At 31 December 2002	**846,068**
At 31 December 2001	622,710

17. 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 aged analysis of accounts receivable is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Outstanding balance aged:		
Current to 90 days	**77,673**	50,310
91 days–180 days	**14,451**	15,081
Over 180 days	**30,105**	27,052
	122,229	92,443
Less: Provision for doubtful debts	**(8,617)**	(6,950)
Total accounts receivable, net	**113,612**	85,493

18. Due to a Shareholder

	Group	
	2002 HK$'000	2001 HK$'000
Due to Clear Channel Outdoor, Inc. ("Clear Channel Outdoor")	**–**	3,825

The amount due to Clear Channel Outdoor was unsecured, interest-free and was fully settled during the year.

19. Due from Related Parties

Group

Name	31 December 2002 HK$'000	Maximum amount outstanding during the year HK$'000	31 December 2001 HK$'000
Guangdong White Horse Advertising Company Limited ("GWH")	49,804	52,581	52,581
Guangdong White Horse Outdoor Advertising Company Limited	1,613	1,613	1,613
	51,417		54,194

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

20. Pledged Time Deposits

At 31 December 2002, the Group had pledged time deposits of US$5,900,000 (equivalent to approximately HK$46,022,000) (2001: US$12,454,000 (equivalent to approximately HK$97,509,000) and HK$94,000,000 (2001: HK$78,000,000) to banks as securities for short term bank loans of RMB143,000,000 (2001: RMB180,100,000).

21. Interest-bearing Bank Borrowings

	Notes	Group 2002 HK$'000	Group 2001 HK$'000
Bank loans repayable within one year:			
Secured	(i)	134,766	327,456
Unsecured	(ii)	17,435	104,000
		152,201	431,456

Notes:

(i) As at 31 December 2002, the Group's short term bank loans of RMB143,000,000 (equivalent to approximately HK$134,766,000) (2001: RMB180,100,000 (equivalent to approximately HK$169,810,000) were secured by time deposits of US$5,900,000 (equivalent to approximately HK$46,022,000) (2001: US$12,454,000 (equivalent to approximately HK$97,509,000)) and HK$94,000,000 (2001: HK$78,000,000) and were subject to interest rates ranging from 4.8% to 5.3% per annum.

As at 31 December 2001, the Group's short term bank loans of RMB167,200,000 (equivalent to approximately HK$157,647,000) were secured by a standby letter of credit issued by Bank of America Guangzhou Branch, up to the limit of US$29,900,000, and were subject to interest rates ranging from 5.6% to 5.9% per annum. These loans were fully settled during the current year.

(ii) As at 31 December 2002, the Group's short term bank loan of RMB18,500,000 (equivalent to approximately HK$17,435,000) carried interest rate at 4.5% per annum and was unsecured.

As at 31 December 2001, the Group's short term bank loan of HK$104,000,000 carried interest rates ranging from 4.3% to 4.7% per annum and were guaranteed by Clear Channel Communications Inc., the holding company of a shareholder of the Company. These loans were fully settled during the current year.

22. Deferred Tax

	Group	
	2002 HK$'000	2001 HK$'000
Balance at beginning of year	2,936	2,433
Charge for the year – note 11	–	503
Balance at end of year	2,936	2,936

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 2002 (2001: Nil).

23. Issued Capital

Shares

	2002 HK$'000	2001 HK$'000
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	70,000	70,000
Issued and fully paid:		
501,608,500 (2001: 500,000,500) ordinary shares of HK$0.10 each	50,161	50,000

On 11 January 2002, the Company issued 1,608,000 ordinary shares of the Company of HK$0.10 each at a price of HK$5.89 per share. These shares were issued and listed on the Stock Exchange on 16 January 2002.

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

	Number of shares issued	Issued capital HK$'000
At 1 January 2002	500,000,500	50,000
Issue of shares during the year	1,608,000	161
At 31 December 2002	501,608,500	50,161

Share options

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 the Scheme, the directors may, at their discretion, invite any employees, directors or consultants of any company in the Group to acquire options. The Scheme became effective on 28 November 2001 and, unless otherwise cancelled or amended, will remain in force for seven years from that date.

23. Issued Capital (continued)

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, share issued on the 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 the 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 the 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 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 period during which the options may be exercised. However, the board of directors retains discretion to accelerate the vesting of fixed term options in the event that certain performance targets are met.

In addition, on 28 November 2001, the Company adopted a Pre-IPO share option scheme conditionally as described in the Company's prospectus dated 10 December 2001. 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 offer price; 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 options scheme shall remain in full force and effect.

23. Issued Capital (continued)

The movements in the number of share options to subscribe for shares in the Company during the year were as follows:

Share option scheme	Number of share options outstanding at 1 January 2002	Number of share options granted during the year	Number of share options outstanding at 31 December 2002	Exercise price per share (HK$)	Exercise period
Pre-IPO share option scheme	19,834,000	–	19,834,000	5.89	29/11/2004 to 28/11/2008
The Scheme	–	9,916,000	9,916,000	5.51	30/11/2005 to 29/6/2009
	19,834,000	9,916,000	29,750,000		

At the balance sheet date, the Company had 29,750,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 29,750,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$171,459,000.

24. Reserves

Group

	Share premium account HK$'000	Contributed surplus (Note (a)) HK$'000	Exchange fluctuation reserve HK$'000	Revaluation reserve (Note (a)) HK$'000	Retained profits HK$'000	Total HK$'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	–	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 1 January 2002	635,544	271,531	783	79,476	92,464	1,079,798
Issue of share capital	9,310	–	–	–	–	9,310
Share issue expenses	(427)	–	–	–	–	(427)
Translation exchange differences arising on consolidation of a subsidiary	–	–	(198)	–	–	(198)
Transfer	–	79,476	–	(79,476)	–	–
Net profit for the year	–	–	–	–	71,106	71,106
At 31 December 2002	644,427	351,007	585	–	163,570	1,159,589

24. Reserves (continued)

Company

	Share premium account HK$'000	Contributed surplus (Note (b)) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2001	–	–	–	–
Arising on acquisition of China Outdoor Media and its subsidiaries	–	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 1 January 2002	635,544	449,773	77	1,085,394
Net profit for the year	–	–	1,126	1,126
Issue of share capital	9,310	–	–	9,310
Share issue expenses	(427)	–	–	(427)
At 31 December 2002	**644,427**	**449,773**	**1,203**	**1,095,403**

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, as set out in note 1 to the financial statements, over the nominal value of the shares in the Company issued in exchange therefor; and the revaluation surplus arose pursuant to an investment and shareholders' agreement dated 23 April 1998 in relation to certain concession rights transferred. The revalued amount is treated as the cost of the assets acquired, and accordingly the revaluation reserve has been transferred to contributed surplus.

(b) 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 therefor.

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

25. Notes to the Consolidated Cash Flow Statement

(a) Fixed assets

During the current year, the Group paid HK$17,280,000 (2001: HK$19,896,000) to acquire fixed assets. The Group prepaid HK$4,921,000 for the acquisition of fixed assets in the prior year.

(b) Concession rights

During the current year, the Group paid HK$309,484,000 to acquire concession rights and to settle the outstanding liability for the acquisition of concession rights brought forward from the prior year of HK$44,335,000.

In prior year, the Group paid HK$226,199,000 to acquire concession rights and prepaid HK$20,270,000 for the acquisition of concession rights including construction in progress.

25. Notes to the Consolidated Cash Flow Statement (continued)

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts:

	2002 HK$'000	2001 HK$'000
Cash on hand and balances with banks	267,158	809,411

26. Commitments

(a) Capital commitments

	Group	
	2002 HK$'000	2001 HK$'000
Capital commitments:		
Contracted, but not provided		
for in relation to:		
– the construction of bus shelters and unipoles	10,528	41,118
– the construction of point-of-sale	–	7,165
	10,528	48,283

(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 of under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	108,140	79,482
In the second to fifth years, inclusive	424,221	323,353
After five years	321,090	305,200
	853,451	708,035

27. Contingent Liabilities

	Group	
	2002 HK$'000	2001 HK$'000
Bills discounted with recourse	7,068	–

28. Post Balance Sheet Event

The Group did not have any significant post balance sheet event.

29. Related Party Transactions

In addition to those transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

	Notes	2002 HK$'000	2001 HK$'000
Agency commission paid to GWH, a company which a director of the Company has an ability to exercise direct or indirect influence over the management	(i)	12,375	13,812
Sales to GWH	(ii)	70,125	89,415
Bus shelter maintenance and display fees payable to companies which a director of the Company has an ability to exercise management influence	(iii)	21,222	17,551
Interest expenses payable to Clear Channel Outdoor Inc., a shareholder of the Company	(iv)	–	3,825
Creative services fees payable to GWH	(v)	3,770	3,000

Notes:

(i) The agency commission paid to GWH was based on an the standard percentage of gross rental revenue for outdoor advertising space payable to other major 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 the companies in which a director 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) The interest expenses were related to a loan of US$4,000,000 (equivalent to approximately HK$31,138,000) advanced from Clear Channel Outdoor Inc. to the Group. The loan was fully settled in the prior year.

(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. These transactions were entered into on terms similar to GWH's services provided to its other customers.

Other than the above, the Group has entered into various trademark licence agreements and an option agreement in 2001 as follows:

(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 marks of the trademark for outdoor advertising in the PRC. The licence is renewable at the option of Guangdong White Horse at the expiry of the licence. The grant of the licence was for RMB1.00 but otherwise was royalty-free.

(ii) The WHA Joint Venture entered in to a Trademark Licence Agreement and Transfer Agreement with GWH dated 30 November 2001 whereby GWH is to assign certain 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.

29. Related Party Transactions (continued)

(iii) The Company has entered into two Trademark Licence Agreements with Clear Channel Communications, Inc., the holding company of a shareholder of the Company, and Clear Channel International Limited, a subsidiary of Clear Channel Communications, Inc., respectively dated 28 November 2001 whereby the Company and members of the Group are granted the licence to use certain names, logos, symbols, emblems, insignia and other identifying materials for use in the outdoor advertising business in the PRC. The licence is for a term of 5 years. Upon the expiry of the licence, it is renewable at the option of Clear Channel Communications, Inc. and Clear Channel International Limited. The licence was granted for HK$1.00 but otherwise was royalty-free.

(iv) On 30 November 2001, China Outdoor Media (HK) and Hainan White Horse Advertising, a company with a 20% shareholding in WHA Joint Venture, 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% interest 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 RMB5,000,000 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 30 years.

Further details of the transactions are also included in note (a) and (b) in the section headed "Connected transactions" in the Report of Directors on page 49.

30. Comparative Amounts

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes thereto have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 February 2003.