

INTERVIEW WITH THE CEO

A man in a dark suit, white shirt, and patterned tie stands in front of a large billboard. The billboard displays various advertisements, including one for 'SNIFFERS' and another for '样发MOTO'. The background is a solid orange color.

“OUR STRATEGIES WITH OUR
NETWORK NOW COVER 30 KEY
CITIES IN CHINA”



Q: 2003 is considered as a historic year. As far as Clear Media concerns, are there any special incidents?

A: Industries experienced ups and downs in 2003, and this is the most difficult year I ever have since my joining of this Company in 1998. At the beginning of this year, the SARS outbreak and the War in Iraq directly struck at the recovering global economy. The blooming advertising industry was the first batch to be affected and was caught in the economic trough for the third year.

However, it is encouraging that Clear Media still maintained stable growth in 2003 while the others were lagging behind. The annual turnover, EBITDA and EBITDA margin recorded an increase of 14%, 16% and 1% respectively, demonstrating the diligence of our staff members, from the sales force to the management team. Being the leading outdoor media company in the PRC, we endeavor to satisfy the needs of our clients through the utilization of our leading position, unique understanding and insight of the market, as well as our flexible measures in coping with market changes and clients' demands, such as strengthening the communication between our sales team and the clients, and launching new advertisement/network portfolio. In addition, we have launched innovative scrollers and three-dimensional ("3-D") display panels in Shanghai and Guangzhou, which not only emphasized the message of the advertisers, but also injected vitality to the market and motivated our development in the PRC outdoor advertising market.

Q: Were there any substantial changes in the client mix? Why?

A: Clear Media aims at offering cost-effective outdoor advertising platform to advertisers for the efficient delivery of their messages to the vast group of target consumers, so as to capture any business opportunity arises. Leveraged on the edge of its extensive standardized network, Clear Media further developed its client base. Last year, the number of clients with orders over RMB5 million increased from 9 to 18, while with orders over RMB3 million increased from 31 to 47. The remarkable performance was the recognition and support from advertisers of our standardized network and quality services throughout the country.

For Clear Media's client mix by industry, all domestic and international brands bloomed especially in the second half of 2003, in which the five major advertising industries are telecommunication, beverages, cosmetics and toiletries, pharmaceuticals and home appliances. In addition, with the enhancement of living standard and increase in commercial activities in the PRC, fashion, automobiles and, banking and financial services recorded fastest growth in adspend.

Q: Can you briefly describe the development of Clear Media in different cities in 2003? Will you consider the markets in key cities are becoming saturated? Will there be any room for future growth and what are the differences in the development strategies between key cities and mid-tier cities?

A: The market share of Clear Media reached over 50% on average and 95% in individual cities like Guangzhou and Shanghai. However, outstanding market share does not represent market saturation. In 2003, average growth rate in key cities recorded 45%. Clear Media continues to develop with a view to maintaining stable and impressive growth. For Guangzhou, the urbanization reconstruction stretched its commercial and transportation networks towards the city fringe, accelerated the establishment of new bus shelters and the renovation of existing bus shelters. The modernized and planned facilities and urban outlook directly motivated the development of Clear Media's standardized bus shelter network. For Shanghai, we have successfully extended to taxi stand advertising business, a new medium of the current network in the second half of 2003, and assisted advertisers to deliver messages to its target audience in Shanghai, where the economy and the living standard are both ameliorating.

For the development in mid-tier cities like Shenyang, Nanjing, Xian, Hangzhou and Chengdu, the average growth rate in 2003 was 55%, in which Nanjing, Hangzhou and Xian achieved prominent results. We expected the economic development of mid-tier cities would get abreast of large cities and become advertisers' target. Therefore, we will strengthen our sales team in mid-tier cities, such as setting up more sales centers.

Q: The PRC government announced in September 2003, the "Interim Procedures for Advertisement Broadcasting Management in Radio Broadcasting and Television" ("Procedures"), in which the advertising on television is regulated. Will this regulation bring any insight or influence to the advertising market?

A: Since the implementation of "Procedures", the room for product demonstrations and message propaganda, such as the length, content, time slot and format of advertisement are under further restriction, which reduce the opportunity for advertisers to hit their target audience and to successfully promote the sales of new products. Together with the trend of outdoor entertainment and outdoor work for consumers, the time spending for watching television at home or indoor will significantly decreased, let alone the time for commercials between TV programs. On the contrary, our bus shelters are Always On to get in line with consumers and the advertisement itself is the content and the major character of outdoor advertisement. Outdoor advertisement is ultimately the best platform for enhancing the contact with consumers.



Q: What will be the trend for future development and competition for outdoor advertising market in the PRC?

A: Local and foreign brands endeavour to capture all business opportunities arise from the “Age of Consumers” in the PRC. Advertising has become one of the most flourishing industries. Numerous media companies of different scales would like to enter the industry, which bring about keen competition. As brand evolution continues, consumers no longer only concentrate in some large cities and advertisers are targeting those consumers with high consumption power in mid-tier cities. We believe only experienced enterprises with modern advertising creatives and good sales network can effectively reach an extensive range of consumers. Clear Media’s standardized network throughout the country satisfies the needs of advertisers. We expect the consolidation period for the advertising industry will go on, in which small and mid-cap operators will be eliminated or acquired while large-scale enterprises will continue to lead the market.

As the market further developed, the demands of the advertisers and consumers were enhanced. The scale and efficiency of the advertising network and service quality will be the key to success. Clear Media will fortify the coverage and penetration of our network and strengthen the capabilities of our sales team through recruitment of experienced professionals and provision of technical training. Meanwhile, we will develop new products and explore new outdoor media formats with a view to offering advertisers with more creative and practical alternative products and to satisfying the needs of an extensive range of consumers.

Q: What will be the emphasis of the development plan in 2004?

A: In 2004, Clear Media will continue to focus on the development of its bus shelter business. Benefited from the robust economic development in China, the future of the outdoor advertising industry is promising. With its comprehensive standardized network, Clear Media has been the pioneer and the leader of the market. The nationwide network for the advertisers is the most effective, direct and influential advertising channel. In addition to increasing the number of advertising panels and extending the network coverage, we will strive for enhancing the efficiency of the existing network, developing new products and innovative display panels.

Clear Media will capture any opportunities for new media business development and to become a more comprehensive outdoor media supplier striding towards unrivalled success.

Q: Despite the difficult business environments in 2003, Clear Media recorded stable growth. With the promising future of the economy and the advertising market, what will be the strategy for further growth in 2004? As the advertising expenditure of domestic and foreign enterprises increased significantly, will the network of Clear Media be adequate in coping with such enormous demand?

A: We are confident of the promising future of the domestic outdoor advertising industry. According to the orders currently in hand, the number of clients and the contract sum are increasing, representing advertisers' recognition of our standardized network nationwide. Clear Media will cooperate with domestic and foreign brands in the development of potential outdoor advertising market. Our target this year is to add an additional 3,000 advertising panels. We will actively look for suitable acquisition opportunity to ensure stable network expansion and to achieve our goal. For the increasing demand of advertisers in innovative advertising panels, we will strengthen our development and launching of creative products while considering the development of new outdoor medium.

Q: Are there any specific financial goal or strategy, such as reducing accounts receivable?

A: We endeavour to maintain a sound and solid financial foundation. In 2003, we successfully improved our cash management and recorded, for the first time, positive cash flow of HK\$50 million. We have established a special team last year to improve our cash collection and restructured the commission policy of our sales team. Monitoring was intensified during the outbreak of SARS to ensure better cash collection. The average accounts receivable outstanding days from independent third parties for 2003 decreased from 143 days in year-end of 2002 to 129 days in year-end of 2003. We will exert our strength in maintaining the average accounts receivable outstanding days to below 120 days. Despite the expiration of our taxation preferential last year that resulted in the increase in corporate income tax rate as well as increase in net interest expense, our financial situation was not materially affected. The net profit in 2003 still recorded an impressive growth of 15%. The Company successfully sustained six years of consecutive growth in turnover, EBITDA and net profit.

With the unparalleled support from our shareholders, we always emphasize shareholders' interest.





BEVERAGE

Thirsty consumers in the world's largest market have more choices than ever, with local beverage producers adding new products and international brands racing to make their drinks as popular in China as they are internationally. To hit the right spot, they're using Clear Media's outdoor media to catch consumers where they're buying.

