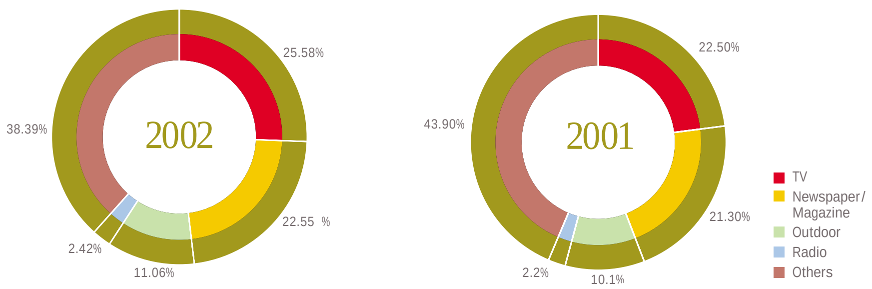
INDUSTRY OVERVIEW

2003 has been a year of both challenge and accomplishment for China and the world.

On the financial side, SARS took a heavy toll on economic activities in China and the Asia-Pacific region. In line with this trend, spending on advertising fell, with nearly all industries and media sectors affected. But as SARS gradually subsided and China sent its first man into the space in the second half of the year, there was an increase in China's economic and business activities. It is expected that China's adspend will grow more than 10% over last year's total, significantly outperforming the rest of the world.

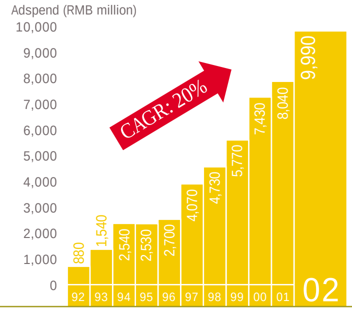
Adspend is once again climbing and outdoor advertising is still one of the best choices for both foreign and domestic brands. New regulations and a change in marketing approaches boost the outlook for the outdoor market further. Advertisers are re-evaluating their options and outdoor advertising is always-on, always-there advertising that meets consumers when they're most susceptible to the message on the street, in the car, on the bike, waiting for the bus.

ADSPEND ON DIFFERENT MEDIA



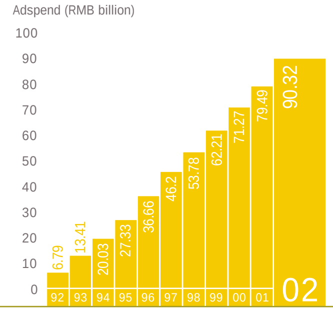
Source: Advertising Branch of SAIC

GROWTH OF OUTDOOR ADSPEND



CAGR: 20%

GROWTH OF ADSPEND



Source: Advertising Branch of SAIC

OPERATIONS OVERVIEW

Bus Shelter Advertising

With over 17,600 12-sheet-equivalent panels spanning 30 cities across China, Clear Media has the country's most extensive standardized bus shelter network.

CITY HIGHLIGHTS: BY CONTRIBUTION TO BUS SHELTER ADVERTISING REVENUE

	Revenue (HK$ million)	% of Turnover
Beijing	75	16
Chengdu	26	5
Guangzhou	77	16
Hangzhou	20	4
Kunmin	14	3
Nanjing	22	5
Shanghai	64	13
Shenzhen	28	6
Wuhan	14	3
Xi'an	16	1

The construction plan of new panels in 2003 was disrupted by SARS in the second quarter, and the relocation of bus routes in Guangzhou has caused short-term reduction of effective panels available for sales in the fourth quarter. The total number of 12-sheet-equivalent panels was 17,637 as of 31 December 2003.

The total number of 12-equivalent panels in key cities accounted for 35% in 2003 (2002: 37%); while sales in these key cities were 51% of total sales in 2003 (2002: 55%).

Key Cities: Beijing, Shanghai, Guangzhou and Shenzhen

The Group's panels in the key cities of Beijing, Shanghai, Guangzhou and Shenzhen accounted for 35% (2002: 37%) of the network's total.

Operations in key cities are as follows:

Beijing

In Beijing, the Group acquired over 200 advertising panels in the second half of 2003. We have further acquired over 300 panels in February 2004, and our market share has increased to 45%.

Shanghai

In 2003, the Group launched the first scroller system applied in bus shelters in China and response from clients was very good. Average selling price for the scroller system was around 30% higher than for static shelters.

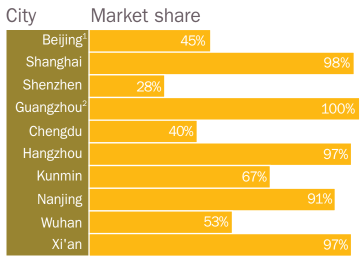
The Group's market share in Shanghai was 98% in terms of number of panels (2002: 98%). In the second half of 2003, we obtained an exclusive concession in Shanghai to build and operate new taxi stands. The Group intends to build a total of 1,500 panels in the next two years. This business development not only opens up a new market segment but enables the Company to reach a more affluent group of consumers, particularly those in the luxury goods sector.

Guangzhou

Operations in Guangzhou was affected by the city's town planning initiatives in the fourth quarter in 2003. The bus route relocation effectively reduced the number of panels available for sales in the short run. However, we successfully negotiated better terms for new panels. Leveraging on our leadership in Guangzhou, we managed to increase the average selling price. Most of the bus shelters were relocated to new routes by the end of 2003. We have acquired over 300 panels in Guangzhou in February 2004 and, as a result, our market share increased to 100%.

The Group also launched the first three-dimensional panels in Guangzhou in 2003, and has received positive responses from advertisers looking for innovative media solutions. Not only can these panels be put to greater creative use, they also help improve the occupancy and yield of smaller size panels.

MARKET SHARE IN THE TOP 10 CITIES



Notes

1. After Beijing's acquisition of 300 bus shetlers in Feb 2004, the market share in Beijing wil increase to 45%.
2. After Guuangzhou's acuqisition of 300 bus shetler in Feb 2004, the market share in Guangzhou will increase to 100%.

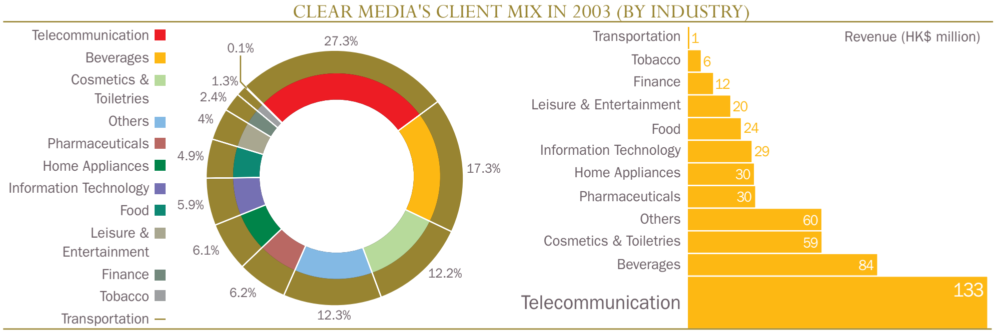
Mid-tier Cities

The Group has 11,469 panels spanning 26 mid-tier cities across China, with sales from those cities accounting for 49% of the Group's bus shelter sales in 2003 (2002: 45%). The most outstanding performers in this mid-tier sector are Nanjing and Hangzhou in which the Company has a market share of 91% and 97%, and an average occupancy rate of 79% and 78%, respectively.

New Advertising Formats

The new advertising format still only accounts for 2.5% of the total sales (2002: 5.4%). The Group has made arrangements to facilitate the new format operations including the sub-contracting of some of the operations to third parties and jointly operate some of the advertising panels with the shopping mall owners in exchange for the waiver of rental, electricity and other operating costs. The Group believes that such arrangement is beneficial and will further enhance the competitiveness of the media.

CLEAR MEDIA'S CLIENT MIX IN 2003 (BY INDUSTRY)



The Group owns a small number of unipoles in Beijing, Shanghai and surrounding areas, all of them located on or near major highways. The Group has no plans to expand this business until related government regulations develop.

Outlook

Global brands and advertising agencies increasingly look to China's burgeoning consumer power as a source of growth. China's accession to WTO, the upcoming 2008 Beijing Olympics and the 2010 Shanghai Expo all act as catalysts for a continuing increase in advertising spending. Following the implementation of new "Regulations of Television and Advertisement Broadcasting", advertisers are re-evaluating their options and outdoor advertising stands to benefit the most.

The Company, with its leading market position, extensive and standardized network, strong financial capability and promising track record, enjoys absolute advantages over its competitors in capitalizing on new opportunities. These are our key strategies in 2004:

- We will improve average occupancy rate to above 70% and increase our rate card by an average of 8% in key cities.
- We will accelerate organic and acquisition growth by adding 3,000 panels to our current portfolio and further increase our market share in key cities.
- We will broaden our product portfolio to include key outdoor media segments that compliment our core street furniture business.

BEAUTY

With the new affluence of Chinese consumers comes a new interest in looking and feeling your best - and the ability to buy new products to achieve health and beauty. Traditional cosmetics are changing to attract new customers and established international brands are reaching millions of new customers through the power of outdoor advertising.


让人倾心
创新
茉莉香型
茶爽牙膏
Water Shine 3D Glitters
水晶3D星光唇膏

FINANCIAL REVIEW

Turnover

The Group's turnover in 2003 amounted to HK$488 million, representing an increase of 14% compared with fiscal year 2002. This is mainly due to the increasing revenue of the Group's core business, bus shelter advertising. All of the Group's turnover was derived from China.

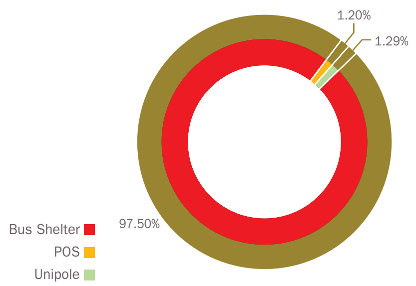
The Group's core bus shelter advertising business continued to perform well. Total bus shelter sales increased by 18% from HK$404 million in 2002 to HK$476 million in 2003. This was due to a 14% increase in weighted average number of shelters, a 2% increase in occupancy rate from 68% in 2002 to 70% in 2003, and a 1% increase in average selling price.

Sales in Beijing in 2003 were HK$75 million, representing only a 1% increase over the 2002 figure of HK$74 million. Though the average number of shelters increased by 7% and the average selling price increased by 2%, the occupancy rate dropped from 86% in 2002 to 80% in 2003 due mainly to the impact of SARS in the first half. Despite that, the average occupancy rate for Beijing rebounded to 88% in the second half of 2003, from 70% in the first half. The lower-than-average performance in the second quarter affected the overall performance in 2003.

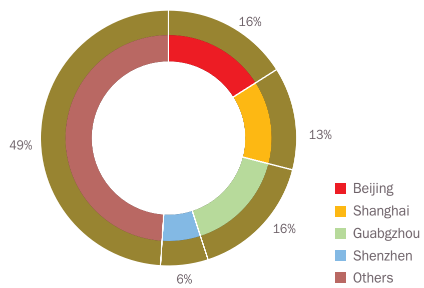
Sales in Shanghai increased by 10% to HK$64 million in 2003 from HK$58 million in 2002. This is mainly the results of the increase in occupancy rate from 68% in 2002 to 75% in 2003, with the average number of shelters remaining about the same level. Sales rebounded after SARS in the second half resulting from the Group's efforts to improve the flexibility of our sales packages and enhance client support. Pent-up demand helped increase the average selling price in the second half by 24%, bringing the 2003 average selling prices at about the same level as 2002.

Guangzhou has experienced the highest increase in sales at 25%. This is mainly the result of a 9% increase in the average selling price, despite the fact that there was a short-term reduction in the effective number of panels in the fourth quarter under the bus routes relocation scheme in Guangzhou. Most of the bus shelters were either reinstalled or relocated to new routes by the end of 2003.

TURNOVER BY OPERATION IN 2003



TURNOVER BY GEOGRAPHICAL LOCATION IN 2003



Revenues from POS and unipole advertising decreased from HK$23 million to HK$12 million in 2003 as the Group arranged to either subcontract out the operation or jointly operate the media with third parties in exchange for a reduction in direct costs including rental and electricity charges. The Group expects these two business segments to remain small in relation to our core bus shelter business.

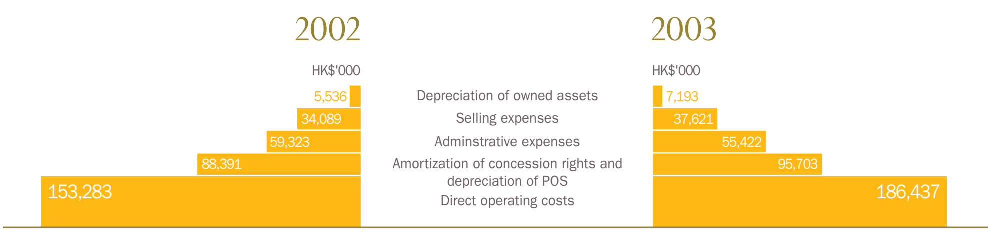
EBITDA

The Group's earnings before interest, tax, depreciation and amortization ("EBITDA") has increased to HK$209 million in 2003 from HK$180 million in 2002. The Group's EBITDA margin increased to 43% in 2003 (2002: 42%). It is noteworthy, however, that the EBITDA margin for the bus shelter business, the Group's primary focus, remains stable at 48% (2002: 48%) despite the 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 on new panels and electricity, as well as deploying cost-saving techniques on advertising panels.

Expenses

During the year under review, direct operating costs, which include electricity, rental maintenance, increased by 6% to HK$146 million (2002: HK$137 million). However, it should be noted that direct costs on a per unit basis have dropped significantly compared to 2002 as a result of cost-saving measures implemented in 2003. In 2002, sales and cultural levies were at 4% due to one-off rebates, but the levy was back to a normal 8.5% in 2003. The expansion of the Group's bus shelter network has also resulted in higher amortization of concession rights which increased to HK$93 million in 2003 from HK$86 million in 2002. To strengthen our sales capability and better serve our increasing client list, the Group has also increased the number of sales and marketing staff by 23, bringing the total sales and marketing head count to 217 in 2003 (2002: 194) which resulted in higher selling expenses, such as sales staff salary, travelling and other related expenses. Control of traveling and entertainment expenses, coupled with gains on other investments, resulted in lower SG&A expenses which accounted for 19% of sales in 2003 (2002: 22%).

COST BREAKDOWN



Taxation

The Group's taxation charge reached approximately HK$14 million, compared to approximately HK$9 million last year; this is mainly due to the higher PRC corporate income tax rate from 7.5% to 15% after the expiry of the Group's tax privilege program.

EBIT

EBIT improved by 23% from HK$86 million in 2002 to HK$106 million in 2003 as a result of higher EBITDA.

Net Profit

Net profit grew by 15% to HK$82 million in 2003 from HK$71 million in 2002, despite a higher corporate income tax rate of 15% in 2003 after the expiry of the tax privilege program (2002: 7.5%). In addition, net interest expenses in 2003 were HK$2 million versus a net interest income of HK$1 million in 2002. Net profit margin however stayed at a healthy 17% (2002: 17%).

Liquidity and Financial Resources

The Group financed its operations and investing activities with internally generated cash flow, balanced with proceeds from the Company's IPO and bank loans.

Cashflow

Net cash from operating activities improved substantially to HK$135 million as of 31 December 2003 from HK$84 million as of 31 December 2002, largely due to the increase in operating profits and strengthening of cash management.

Cash from investing activities amounted to an outflow of approximately HK$137 million in 2003 compared to an outflow of HK$359 million in the previous year. A total of HK$138 million was paid in 2003 to build and acquire bus shelter advertising displays and HK$5 million was paid to acquire fixed assets.

CASH FLOW DATA

Year end 31 December	2003	2002
Cash generated from operations	157,765	100,577
Interest paid	(8,072)	(8,627)
Income taxes paid	(14,216)	(7,624)
Net cash from operating activities	135,477	84,326
Cash outflow from investing activities	(137,257)	(359,292)
Cash outflow from financing activities	(39,961)	(267,287)
Net decrease in cash and cash equivalents	(41,741)	(542,253)
Cash and cash equivalents at beginning of the year	267,158	809,411
Effect of foreign exchange rate changes	(587)	–
Cash and cash equivalents at year end	224,830	267,158

Net cash outflow from financing activities amounted to HK$40 million in 2003 (2002: HK$267 million), reflecting the net increase of bank loans of HK$20 million and the increase in pledged time deposits of HK$60 million.

The Group experienced positive free cash flow from its operations of HK$50 million (2002: negative free cash flow of HK$198 million). The Group considers free cash flow (defined as EBITDA less cash outflow on capital expenditure, less income tax and net interest expense) to be an important measure of a company's ability to provide value to shareholders. By presenting free cash flow, the Group intends to provide investors with a better understanding of the Group's ability to repay debts, make acquisitions and grow organically.

Accounts Receivable

The Group's accounts receivable balance due from 3rd parties increased from HK$114 million in 2002 to HK$168 million in 2003. However, it should be noted that subsequent to the year end, the Group has further collected about HK$60 million pertaining to accounts receivable outstanding at 31 December 2003. None of the accounts receivable balance is due from connected persons, as defined in the Listing Rules. Average accounts receivable outstanding days was 129 days in 2003, substantially reduced from 154 days as of 30 June 2003 and 143 days in 2002. Key measures were taken by the Group during the year to reduce the receivables level, including linking commissions of sales staff to cash collection, the formation of a dedicated collection team and implementation of a stringent policy on sales to new clients.

Amounts due from Guangdong White Horse Advertising Company Limited ("GWH") also reduced substantially from HK$50 million in 2002 to HK$26 million in 2003. The percentage of the Group's business from GWH dropped 8% in 2003 (2002: 16%).

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 overview, 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, specific provisions are assessed on a case-by-case basis. For customers where legal action has been or will be taken, provision is created to the extent of any balance that we believed is not recoverable. Our credit control committee closely monitors and takes steps to further reduce the receivables balances.

Prepayments, Deposits and Other Receivables

Increase in prepayments, deposits and other receivables was due mainly to advance payment to suppliers for the construction of bus shelters as well as notes receivable from customers.

Accounts Payable

Total payables and accruals as of 31 December 2003 were HK$143 million, compared with HK$132 million as of 31 December 2002. It would be inappropriate to give turnover days against sales as the payable is more closely related to capital expenditure incurred in bus shelters.

Borrowings and Gearing

As of 31 December 2003, the Group had pledged time deposits of HK$126 million, US$6 million (approximately HK$47 million) to banks as security for outstanding secured short-term bank loans of Rmb173 million (approximately HK$162 million) at rates ranging from 4.8% to 5.3%. Unsecured bank loans outstanding as of 31 December 2003 totaled Rmb10 million (approximately HK$9 million) which bore interest at 5.3%. All of the Group's bank borrowings were repayable within one year.

The debt-to-equity ratio, defined as a percentage of net interest bearing borrowings over shareholders' fund, of the Group was 1% as of 31 December 2003 compared to 1% in 2002. As of 31 December 2003, the Group's total cash and bank balances amounted to HK$225 million, (2002: HK$267 million).

Share Capital and Shareholders' Funds

During the year, the Company's issued and fully paid share capital remained unchanged. Shareholders' funds as of 31 December 2003 increased by 6% to HK$1,288 million from HK$1,210 million in 2002. The Group's reserves amounted to HK$1,238 million compared to HK$1,160 million recorded in previous year. During the year under review, there was no share repurchase.

Exposure to Foreign Exchange Risk

Our only investment in China is the operating vehicle of the Group, the WHA Joint Venture, which conducts business only within China. Apart from 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, most of our turnover, capital investment and expenses are denominated in Renminbi. As of today, we have not experienced difficulties in obtaining government approvals to make foreign exchange purchases when the need arises. During the period under review, we have not issued any financial instruments for hedging purposes.

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 2003, bus shelters concession rights increased by HK$119 million (2002: HK$309 million) and fixed assets increased by HK$5 million (2002: HK$14 million).

Use of IPO Proceeds

The proceeds from the IPO and Over-allotment after deducting related expenses paid were HK$648 million and HK$9 million, respectively. For the year ended 31 December 2003, approximately HK$138 million was used to finance our bus shelter expansion. The remaining HK$117 million of the proceeds is deposited in bank accounts in Hong Kong.

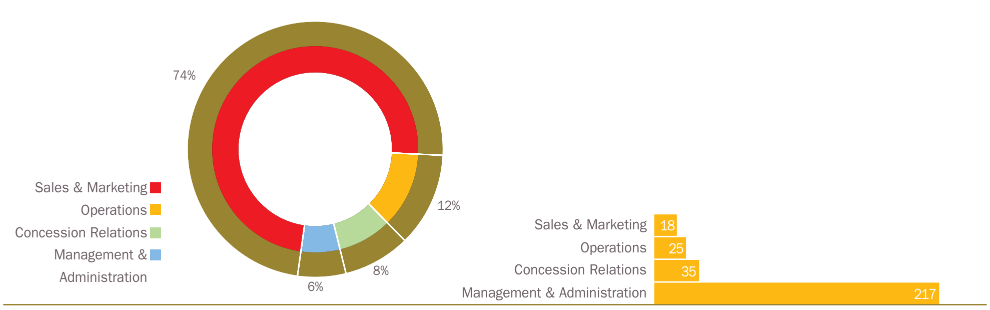
Material Acquisitions and Disposals

During the year under review, there was no material acquisition or disposal of any subsidiary, associate or joint venture of the Group.

Employment, Training and Development

As of 31 December 2003, the Group had a total of 295 employees, an increase of 13 employees over the same period in 2002, and total staff costs amounted to 9% of total turnover, compared to 8% in 2002. The major increase is the number of sales and marketing staff, which grew from 194 in 2002 to 217 in 2003. This is in line with the Group's policy to improve sales support to our expanding outdoor media network in China. Training courses and conferences

FULL-TIME EMPLOYEES IN 2003



are regularly organized for employees throughout the year to improve and update their knowledge on their specific job requirements. 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 of value creation. Aligning individual interests with the Group, share options are granted to senior management.

Charge of the Group Assets

There is no charge on the Group's assets during the year under review other than time deposits of US$6 million (approximately HK$47 million) and HK$126 million pledged to secure short-term bank loans of RMB173 million (approximately HK$162 million) and time deposits of RMB29 million (approximately HK$27 million) pledged as securities for bills payable of RMB29 million (approximately HK$27 million).

Contingent Liabilities

The Group is not aware of any major contingent liabilities that will cause substantial change to the Group's operations.


PANDA
质感
时尚

MOBILE

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.