1. 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 14 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

2. Impact of a Revised Statement of Standard Accounting Practice ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements. The SSAP prescribes 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 adopting this SSAP, which has had a significant effect on the financial statements are described as follows:

The SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had impact for financial statements on the amounts recorded for income taxes of the Group for the current year, and related notes disclosures are now more extensive than previously required. These are detailed in notes 10 and 22 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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, except for the periodic remeasurement of equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. Summary of Significant Accounting Policies
(continued)

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.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly, 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.

3. Summary of Significant Accounting Policies
(continued)

Impairment of assets (continued)

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.

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.

3. Summary of Significant Accounting Policies
(continued)

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 condition and location 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.

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.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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:

(a) Rental revenue for outdoor advertising spaces, including point-of-sale, on a time proportion basis over the terms of the agreements; and

(b) Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. Summary of Significant Accounting Policies
(continued)

Deferred income

Cumulative billings in excess of revenue attributable to the current year are recorded as deferred income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. 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.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 "MPF 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 MPF Scheme. The assets of the MPF 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 MPF 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 MPF 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 certain percentage on the annual average salary in Guangzhou announced by the Guangzhou Social Labor Insurance Administration Bureau.

3. Summary of Significant Accounting Policies (continued)

Share option schemes

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 charge 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.

4. 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 display 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 segment information is provided.

5. 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:

	2003 HK$'000	2002 HK$'000
Turnover	488,175	426,916
Interest income	6,066	8,934
Others	–	1
Other revenue	6,066	8,935
Revenue	494,241	435,851

6. Profit from Operating Activities

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

	2003 HK$'000	2002 HK$'000
Cost of services provided	93,813	70,342
Operating lease rentals on bus shelters, unipoles and point-of-sale	92,624	82,941
Amortisation of concession rights and depreciation of point-of-sale	95,703	88,391
Cost of sales	282,140	241,674
Provision for doubtful debts	8,505	8,617
Bad debts written off	10,018	8,216
Auditors' remuneration	820	780
Depreciation of owned assets, excluding point-of-sale	7,193	5,536
Loss on disposal of fixed assets	588	–
Operating lease rentals on buildings	8,870	7,465
Staff costs (including directors' remuneration (note 7))		
Wages and salaries	41,487	35,245
Pension scheme contributions	165	182
Less: Forfeited contributions	–	–
Net pension contributions	165	182
	41,652	35,427
Unrealised gain on revaluation of short term investments	(1,852)	–
Foreign exchange losses, net	587	11
Write back of excessive culture levy provision	–	(20,873)
Interest income	(6,066)	(8,934)

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

7. 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	
	2003 HK$'000	2002 HK$'000
Fees:		
Executive directors	–	–
Non-executive directors	360	360
Independent non-executive directors	327	240
	687	600
Other emoluments of executive directors:		
Basic salaries, other allowances and benefits in kind	6,299	6,893
Pension scheme contributions	46	48
Other emoluments of non-executive directors:		
Basic salaries, other allowances and benefits in kind	1,053	963
Pension scheme contributions	12	12
	7,410	7,916
	8,097	8,516

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

	Numbers of directors	
	2003	2002
Nil – HK$1,000,000	11	10
HK$1,000,001 – HK$1,500,000	1	–
HK$1,500,001 – HK$2,000,000	2	2
HK$2,000,001 – HK$2,500,000	1	1
	15	13

During the year, discretionary bonuses paid to or receivable by the directors amounted to HK$43,000 (2002: HK$387,000). No directors waived or agreed to waive any remuneration during the year (2002: 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 (2002: Nil).

During the year, 7,006,000 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 45 to 57. No value in respect of the share options granted during the year has been charged to profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. Five Highest Paid Individuals

During the year, all of five highest paid individuals are directors (2002: three) and the details of whose remuneration are set out above. The details of the remuneration of the remaining two highest paid, non-director individuals in 2002, which both fell within the HK$1,000,001 to HK$1,500,000 band, are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Basic salaries, other allowances and benefits in kind	–	2,735

During the year, the discretionary bonuses paid to or receivable by the five highest paid individuals of the Group amounted to HK$289,000 (2002: HK$289,000). 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 (2002: Nil).

During the year, 6,340,000 share options were granted to the five directors, highest employees 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 45 to 57. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above highest paid employees' remuneration disclosures.

9. Finance Costs

	Group	
	2003 HK$'000	2002 HK$'000
Interest on bank loans wholly repayable within five years	8,129	7,654

10. Tax

Hong Kong profits tax has not been provided at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003 HK$'000	2002 HK$'000
Group:		
Current – Hong Kong	–	–
Current – PRC corporate income tax	16,787	8,772
Deferred (note 22)	(3,285)	–
Total tax charge for the year	13,502	8,772

10. Tax

(continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Profit before tax	103,736	87,575
Calculated at a tax rate of 15.0% (2002: 7.5%)	15,560	6,568
Higher income tax rates for Hong Kong at 17.5% (2002: 16.0%)	150	179
Income not subject to tax	(2,676)	(4,032)
Expenses not deductible for tax	3,318	3,447
Utilisation of previously unrecognised tax losses	(17)	–
Tax loss not recognised	452	2,610
Deferred tax (note 22)	(3,285)	–
At effective income tax rate of 13.0% (2002: 10.0%)	13,502	8,772

According to the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, the WHA Joint Venture, a subsidiary of the Company established in the Hainan Special Economic Zone of the PRC, is subject to 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 fourth statutory profitable year of the WHA Joint Venture, corporation income tax for the current year has been calculated at the rate of 15% on its assessable profits arising in the PRC.

11. 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 2003 was approximately HK$4,193,000 (2002: HK$1,126,000).

12. 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$81,784,000 (2002: HK$71,106,000) and the weighted average of 501,608,500 (2002: 501,564,445) 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 included 500,000,500 ordinary shares brought forward at the beginning of that year and 1,608,000 ordinary shares issued in 2002.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$81,784,000 (2002: HK$71,106,000). The weighted average number of ordinary shares used in the calculation is the 501,608,500 (2002: 501,564,445) ordinary shares, as used in the basic earnings per share calculation; and the weighted average of 1,341,933 (2002: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options with dilutive effect during the year.

Diluted earnings per share amount for the year ended 31 December 2002, has not been disclosed as the share options had no dilutive effects throughout that year.

13. 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	9,066	17,158	11,030	30,773	20,202	88,229
Additions	700	2,694	1,378	679	7,195	12,646
Transfer to concession rights	–	–	–	–	(20,202)	(20,202)
Disposals	–	–	–	(152)	–	(152)
Exchange realignment	(36)	(71)	(45)	(133)	–	(285)
At 31 December 2003	9,730	19,781	12,363	31,167	7,195	80,236
Accumulated depreciation:						
At beginning of year	(6,571)	(6,445)	(3,259)	(2,524)	–	(18,799)
Provided during the year	(1,609)	(3,354)	(2,230)	(3,118)	–	(10,311)
Disposals	–	–	–	29	–	29
Exchange realignment	31	39	16	20	–	106
At 31 December 2003	(8,149)	(9,760)	(5,473)	(5,593)	–	(28,975)
Net book value:						
At 31 December 2003	1,581	10,021	6,890	25,574	7,195	51,261
At 31 December 2002	2,495	10,713	7,771	28,249	20,202	69,430

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

14. Interests in Subsidiaries

	Company	
	2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	487,273	487,273
Due from subsidiaries	451,179	428,893
	938,452	916,166

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, expect for loans to subsidiaries amounted to HK$260 million (2002: HK$220 million), bear interest at a rate of 5% per annum.

14. Interests in Subsidiaries

(continued)

Particulars of the subsidiaries of the Company as at 31 December 2003 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 (the "WHA Joint Venture")	People's Republic of China ("PRC")	US$21,850,000/ US$60,000,000	80 (Note)	–	Operation of outdoor advertising business

Note: The 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 Company Limited ("Hainan White Horse") were the joint venture partners of the WHA Joint Venture. China Outdoor Media (HK), Ming Wai and Hainan White Horse were entitled to 90%, 5% and 5%, respectively, of the profits of the 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 the WHA Joint Venture to China Outdoor Media (HK). Accordingly, the minority interest of the WHA Joint Venture represented the capital contributed by Hainan White Horse and its 5% share of the profits of the WHA Joint Venture.

China Outdoor Media (HK) and Hainan White Horse entered into a revised joint venture agreement on 6 April 2001. According to the revised joint venture agreement, the 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 the WHA Joint Venture was increased from HK$100,000,000 to US$60,000,000 and the tenure has been extended from 10 years to 30 years. Hainan White Horse and China Outdoor Media (HK) share 20% and 80% interests in the WHA Joint Venture, respectively. It is agreed that for the fiscal years 2001 to 2005 (both years inclusive), China Outdoor Media (HK) will be entitled to 90% of the profits after tax of the 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 the 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 on 3 September 2001, their shares in the profits of the WHA Joint Venture for the period from 1 January 2001 to 30 June 2001 were 95% and 5%, respectively.

15. Concession Rights

	Group HK$'000
Cost:	
At beginning of year	1,089,242
Additions	91,595
Transfer from construction in progress	20,202
Disposals	(797)
Exchange realignment	(4,320)
At 31 December 2003	**1,195,922**
Accumulated amortisation:	
At beginning of year	(243,174)
Provided during the year	(92,585)
Disposals	332
Exchange realignment	1,117
At 31 December 2003	**(334,310)**
Net book value:	
At 31 December 2003	**861,612**
At 31 December 2002	846,068

16. 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.

An aged analysis of accounts receivable is as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Outstanding balance aged:		
Current to 90 days	**96,855**	77,673
91 days to 180 days	**31,151**	14,451
Over 180 days	**48,293**	30,105
	176,299	122,229
Less: Provision of doubtful debts	**(8,505)**	(8,617)
Total accounts receivable, net	**167,794**	113,612

17. Prepayments, Deposits and Other Receivables

A balance of other receivables approximately amounted to HK$7 million represented on piece of land obtained from a customer and transfer of legal title of the land is still under process.

18. Due from Related Parties

Name	Group 31 December 2003 HK$'000	Maximum amount outstanding during the year HK$'000	31 December 2002 HK$'000
Guangdong White Horse Advertising Company Limited ("GWH")	26,174	61,573	49,804
Guangdong White Horse Outdoor Advertising Company Limited	–	1,613	1,613
	26,174		51,417

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

19. Short Term Investments

	Group 2003 HK$'000	2002 HK$'000
Listed equity investments, at market value:		
Hong Kong	10,349	–

The market value of the above short term investments at the date of approval of these financial statements was approximately HK$12,415,000.

20. Pledged Time Deposits

At 31 December 2003, the Group had pledged time deposits of US$6,067,000 (equivalent to approximately HK$46,750,000) (2002: US$5,900,000 (equivalent to approximately HK$46,022,000) and HK$125,910,000 (2002: HK$94,000,000) to banks as securities for short term bank loans of RMB173,000,000 (2002: RMB143,000,000).

At 31 December 2003, the Group had pledged deposits of RMB28,603,000 (equivalent to approximately HK$26,840,000) to bank as securities for bills payable of RMB28,653,000 (equivalent to approximately HK$26,886,000).

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$43,285,000 (2002: HK$31,994,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. Interest-bearing Bank Borrowings

	Notes	Group 2003 HK$'000	Group 2002 HK$'000
Bank loans repayable within one year:			
Secured	(i)	162,334	134,766
Unsecured	(ii)	9,384	17,435
		171,718	152,201

NOTES:

(i) As at 31 December 2003, the Group's short term bank loans of RMB173,000,000 (equivalent to approximately HK$162,334,000) were secured by time deposits of US$6,067,000 (equivalent to approximately HK$46,750,000) and HK$125,910,000 and were subject to interest rates ranging from 4.8% to 5.3% per annum.

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

(ii) As at 31 December 2003, the Group's short term bank loan of RMB10,000,000 (equivalent to approximately HK$9,384,000) bore interest at a rate of 5.3% per annum and was unsecured.

As at 31 December 2002, the Group's short term bank loan of RMB18,500,000 (equivalent to approximately HK$17,435,000) bore interest at a rate of 4.5% per annum and was unsecured. This loan was fully settled during the current year.

22. Deferred Tax

Deferred tax liabilities

	Group Accelerated tax depreciation 2003 HK$'000	Group Accelerated tax depreciation 2002 HK$'000
Balance at beginning of year	(2,936)	(2,936)
Deferred tax credited to profit and loss account during the year – note 10	1,500	–
Gross deferred tax liabilities at end of year	(1,436)	(2,936)

Deferred tax assets

	Group Deductible temporary differences 2003 HK$'000	Group Deductible temporary differences 2002 HK$'000
Balance at beginning of year	–	–
Deferred tax credited to profit and loss account during the year – note 10	1,785	–
Gross deferred tax assets at end of year	1,785	–
Net deferred tax assets/(liabilities)	349	(2,936)

22. Deferred Tax
(continued)

The Group's provision for deferred tax is made in respect of temporary differences arising in the statutory financial statements of the WHA Joint Venture.

The Group has tax losses arising in Hong Kong of HK$18,539,000 (2002: HK$16,232,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, or a joint venture as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements.

23. Share Capital

Shares

	2003 HK$'000	2002 HK$'000
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	70,000	70,000
Issued and fully paid:		
501,608,500 ordinary shares of HK$0.10 each	50,161	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.

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, shares 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 number of 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.

23. Share Capital

(continued)

Share options (continued)

No option may be granted to any 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. There are no performance targets which must be achieved before any of the options can be exercised, except for the share options granted on 28 May 2003 and 19 November 2003, further details of which are set out under the heading "Share Option Schemes" in the Report of Directors on page 8 to 12. 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. Share Capital
(continued)

Share options (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 2003	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options outstanding at 31 December 2003	Exercise price HK$	Exercise period
Pre-IPO share option scheme	19,834,000	–	1,800,000	18,034,000	5.89	29/11/04 to 28/11/08
The Scheme	9,916,000	–	900,000	9,016,000	5.51	30/06/05 to 29/06/09
The Scheme	–	12,000,000	–	12,000,000	3.51	28/05/06 to 27/05/10
The Scheme	–	3,000,000	–	3,000,000	5.35	20/11/06 to 19/11/10
	29,750,000	15,000,000	2,700,000	42,050,000		

At the balance sheet date, the Company had 42,050,000 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 42,050,000 additional ordinary shares of HK$0.10 each in the Company and proceeds, before relevant share issue expenses, of approximately HK$214,068,000.

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 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 1 January 2003	644,427	351,007	585	–	163,570	1,159,589
Translation exchange differences arising on consolidation of a subsidiary	–	–	(3,161)	–	–	(3,161)
Net profit for the year	–	–	–	–	81,784	81,784
At 31 December 2003	644,427	351,007	(2,576)	–	245,354	1,238,212

Company

	Share premium account HK$'000	Contributed surplus (Note(b)) HK$'000	Retained profits HK$'000	Total HK$'000
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 1 January 2003	644,427	449,773	1,203	1,095,403
Net profit for the year	–	–	4,193	4,193
At 31 December 2003	**644,427**	**449,773**	**5,396**	**1,099,596**

24. Reserves

(continued)

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 on 28 November 2001, 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 revaluation reserve is treated as the cost of the assets acquired, and accordingly the related account has been transferred to the 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$5,451,000 (2002: HK$17,280,000) to acquire fixed assets.

(b) Concession rights

During the current year, the Group paid HK$101,829,000 to acquire concession rights and to settle the outstanding liability for the acquisition of concession rights brought forward from the prior year of HK$35,853,000.

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

(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:

	Group	
	2003 HK$'000	2002 HK$'000
Cash on hand and balances with banks	224,830	267,158

26. Commitments

(a) Capital commitments

	Group 2003 HK$'000	2002 HK$'000
Contracted, but not provided for:		
The construction of shelters for which concession rights are held	16,420	10,528

(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 terms ranging from 1 to 9 years, and those 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 under non-cancellable operating leases falling due as follows:

	Group 2003 HK$'000	2002 HK$'000
Within one year	119,940	108,140
In the second to fifth years, inclusive	412,133	424,221
After five years	262,813	321,090
	794,886	853,451

27. Contingent Liabilities

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group 2003 HK$'000	2002 HK$'000
Bills discounted with recourse	–	7,068

(b) A claim for specific performance and damages has been made against a subsidiary of the Group for alleged breach of contract. On 28 November 2001, Outdoor Media China Inc., ("OMC"), Clear Channel Outdoor, Inc. ("CCO"), China Outdoor Media (HK) and the Company, entered into a Deed of Indemnity. Under the terms of the Deed of Indemnity, OMC and CCO have covenanted and undertaken to indemnify the Group against all claims (whether of not successful, compromised or otherwise settled), actions, damages, penalties, liabilities, legal fees, enforcement costs and expenses incurred by the Group in respect of the claim.

28. Post Balance Sheet Event

In February 2004, the Group has acquired over 300 advertising panels in Beijing and Guangzhou, respectively.

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	2003 HK$'000	2002 HK$'000
Agency commission paid to GWH, a company in which Mr. Han Zi Dian, a director of the Company, has an ability to exercise direct or indirect influence over the management	(i)	4,602	12,375
Sales to GWH	(ii)	38,546	70,125
Bus shelter maintenance and display fees payable to companies in which Mr. Han Zi Dian, a director of the Company, has an ability to exercise management influence	(iii)	21,623	21,222
Creative services fees payable to GWH	(iv)	810	3,770

NOTES:

(i) The agency commission paid to GWH was based on the standard percentage of gross rental revenue for outdoor advertising spaces 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) The WHA Joint Venture has entered into various agreements with the companies in which Mr. Han Zi Dian, 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 WHA Joint Venture had entered into a creative services agreement, which was expired on 31 December 2002, with GWH, whereby GWH agreed to provide certain creative design and production services to the Group on a non-exclusive basis.

During the year, GWH provided creative services to the Group on a non-exclusive basis. These transactions were entered into on terms no less favourable than those available to or from independent third parties.

Other than the above, the Group 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" trademark in whole or in part or to display any patterns, words, logos 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.

On 1 November 2003, Guangdong White Horse entered into an Addendum to the Trademark Licence Agreement agreeing to lower the terms from the 10% direct or indirect interest in the Company to 5% with all other terms and conditions remaining unchanged.

(ii) The WHA Joint Venture entered into a Trademark Licence Agreement and Transfer Agreement with GWH dated 30 November 2001 whereby GWH is to assign certain trademarks to the WHA Joint Venture. The annual licence fee is RMB1.00. The agreement will remain in force until all the trademarks 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 five 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, a company with a 20% shareholding in the 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 notes (a) and (b) in the section headed "Connected transactions" in the Report of Directors on page [6].

30. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 February 2004.