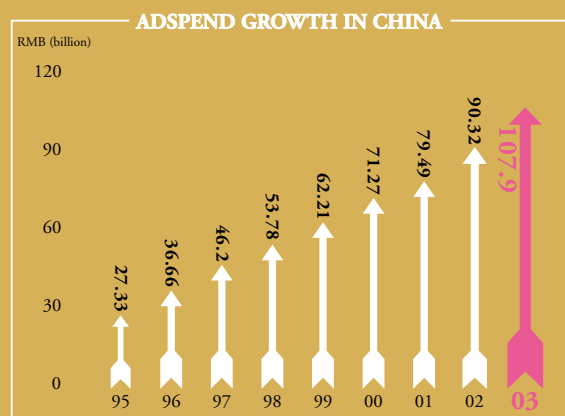
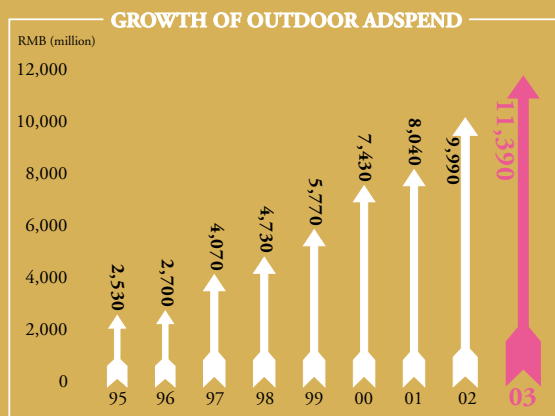


## INDUSTRY REVIEW

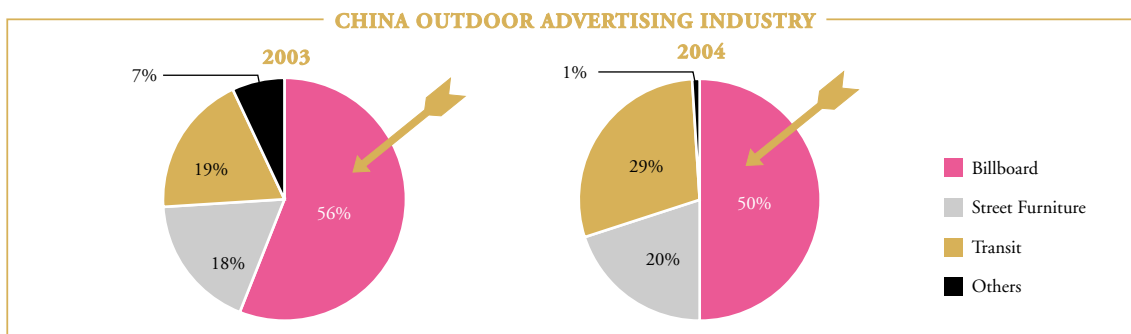
This has been another year of strong growth for the People's Republic of China ("China" or "PRC"). Despite measures taken to cool down China's economy, China's GDP for 2004 showed a strong 9.5% growth. Consumer spending in the world's fastest growing economy has risen along with the increase in China's GDP, leading to increased competition among companies to boost awareness of their products through advertising and brand-building in China. More businesses are realizing the importance of publicity for their products and services, and the value of brand-recognition amongst consumers. Advertising has become an indispensable key to boosting sales and brand-building.

The fast economic growth since the economic reforms in China in the eighties has made a vast selection of brands of consumer products available to consumers in China. However brand-loyalty is yet to be developed amongst consumers in China. With a wide selection of brand names available to them, consumers are eager to try out new and different brands to find their preferred product brands. Therefore, companies are increasing their expenditure on advertising so as to establish their market-presence and to promote their brand-names. Outdoor advertising offers such companies a cost-efficient means to reach consumers on the move.

Outdoor advertising is an effective way of advertising as it is not an intrusive method of advertising, but provides a round-the-clock backdrop to the outdoor activities of consumers. Outdoor advertising meets people when they are close enough to the stores to buy the products.



Although the outdoor advertising market remains fragmented, recent trends show a decrease in the number of outdoor advertising companies while the total expenditure spent on outdoor advertising is increasing. This suggests consolidation in the industry. Advertisers wishing to launch nationwide advertising campaigns, will realize that such campaigns are difficult to implement when dealing with different companies operating within selected cities with outdoor panels of different sizes. As demand increases for greater geographical coverage, outdoor advertisers will be looking for standardized panels, comprehensive packages and the convenience of one-stop shopping that only larger companies like Clear Media can offer, we expect to see further mergers and acquisitions of companies engaged in the outdoor advertising industry.



## OPERATIONS REVIEW

As at 31 December 2004, Clear Media has the country's most extensive standardized bus shelter advertising network, with a total of 23,740 12-sheet-equivalent panels spanning 30 cities across China.

Traditionally, the top three contributors to Clear Media's turnover have been telecommunications, beverages and cosmetics and toiletries industries, respectively, mirroring the emergence of an increasingly consumer-focused economy in the PRC. This continued to be the case in 2004. In addition, we also saw other advertisers increasing their advertising expenditure as a result of the market



City Highlights: by Contribution to Bus Shelter Advertising Revenue (2004)

|    | City      | % of Turnover |
|----|-----------|---------------|
| 1  | Guangzhou | 18            |
| 2  | Beijing   | 17            |
| 3  | Shanghai  | 14            |
| 4  | Chengdu   | 5             |
| 5  | Hangzhou  | 5             |
| 6  | Nanjing   | 5             |
| 7  | Shenzhen  | 5             |
| 8  | Xi'an     | 3             |
| 9  | Wuhan     | 3             |
| 10 | Kunming   | 2             |

liberalization brought about by China's access to the WTO. Pharmaceutical companies, that used to spend substantial amounts on TV advertising, increased their spending in our network. They were joined by other companies (for example, in the home appliance industry) who are adopting professional advertising strategies to boost their market performance.

The Group's core bus shelter advertising business continued to perform well in 2004. Total bus shelter sales increased by 12% from HK\$476 million in 2003 to HK\$533 million in 2004. The increase in sales was driven mainly by an 11% increase in the average time-weighted number of advertising panels. Even though the average selling price was increased by 8%, there was a 5% drop in occupancy rate, mainly occurred in the mid-tier cities as a result of our pricing strategy. Although our major customers continued to demonstrate their loyalty to our network, some of our smaller customers were not able to afford our premium pricing. As a result, we have further strengthened our sales force and plan to set up more sales centres to enhance our customer support services.

### Key cities:

The Group's bus shelter advertising panels in key cities in China, Beijing, Shanghai and Guangzhou, accounted for 44% of the Group's total number of bus shelter panels in 2004 (2003: 32%).

Sales in three key cities remained buoyant in 2004, with a growth of 20% and with an aggregate value of HK\$262 million (2003: HK\$217 million). This accounted for 49% of our total sales in 2004 (2003: 45%).

### Beijing

As part of our preparations to welcome the 2008 Olympics in Beijing, we purchased about 3,000 bus shelter advertising panels at a consideration of HK\$138 million (HK\$46,000 per panel). This dramatically increased our total number of advertising panels in Beijing to over 5,000 and significantly increased our market share in Beijing - this acquisition reaffirmed our leadership position in outdoor advertising in China's three major cities. Sales of bus shelter advertising panels in Beijing (excluding those 3,000 advertising panels acquired during the year) in 2004 were HK\$89 million, representing an encouraging 19% increase over the 2003 figure of HK\$75 million. The increase was driven mainly by the increased number of advertising panels available for sale during the year with no significant changes to average selling price and occupancy rate as compared to 2003.

Clear Media was also awarded the exclusive right to operate all the advertising panels in Terminal One of Beijing Capital International Airport.

### Shanghai

Shanghai is another key city where the Group is actively looking for new business opportunities. In 2004, the Group's presence in Shanghai continued to be the market leader since 2003, indicating our significant presence in the outdoor advertising business in this important city.

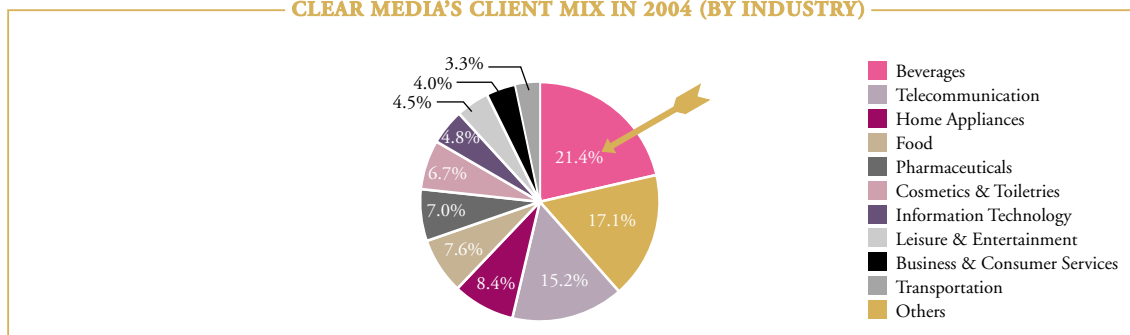
Sales in Shanghai increased by 16% to HK\$74 million in 2004 from HK\$64 million in 2003. This is mainly the result of the increase in occupancy rate from 75% in 2003 to 80% in 2004 and the increase in the average number of bus shelter advertising panels by 9%. The average selling price of our outdoor advertising space in Shanghai however remained unchanged compared to that in 2003.

### Guangzhou

The Group maintained its position as a market leader in Guangzhou in 2004.

The Group also experienced the highest increase in sales in Guangzhou with a 26% increase from 2003. This is mainly the result of a 5% increase in the average selling price, and an 18% increase in the average number of bus shelter advertising panels of which we hold concession rights to when additional bus shelters were installed after the bus routes relocation scheme in Guangzhou at the end of 2003. The occupancy rate also improved marginally from 70% in 2003 to 71% in 2004.

— CLEAR MEDIA'S CLIENT MIX IN 2004 (BY INDUSTRY) —



### Mid-tier cities

The Group continued its efforts in tapping available opportunities in these cities in 2004. During the year, we built and acquired 1,300 new advertising panels in the 27 mid-tier cities across China, reaching a total of more than 13,000 advertising panels at year-end with sales from those cities accounting for 51% of the Group's bus shelter sales in 2004 (2003: 55%). The most outstanding performers in this mid-tier sector are Nanjing and Hangzhou. We will continue to strengthen our sales centres in the mid-tier cities to further enhance our sales performance in these cities.

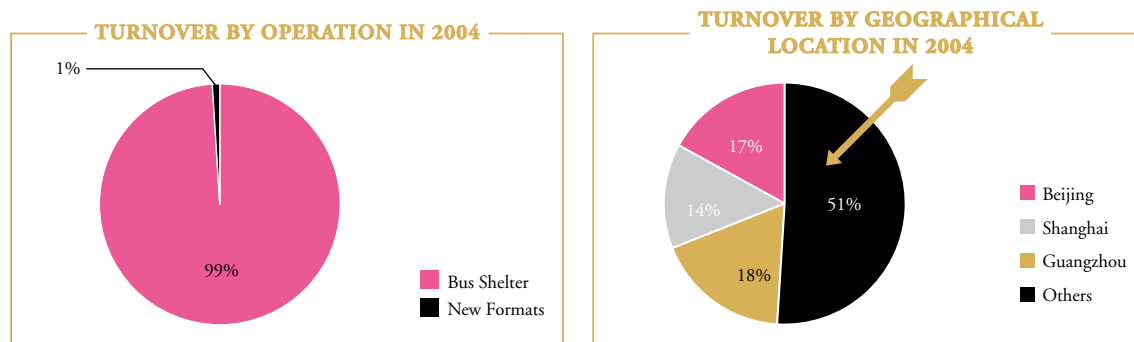
### New advertising formats

Revenues from point-of-sale advertising and unipole advertising decreased from HK\$12 million in 2003 to HK\$4 million in 2004 as we subcontracted those businesses to third parties. The new airport advertising business has generated sales of HK\$1.7 million in the two-month period towards the year-end. The Company expects these three business segments to remain small in relation to our core bus shelter business as it is currently concentrating its efforts in building and expanding its core business of bus shelter advertising.

## FINANCIAL REVIEW

### Turnover

Turnover of the Group in 2004 showed solid growth. In 2004, turnover of the Group was HK\$538 million, representing an increase of 10% compared with the fiscal year 2003. This is mainly due to the increase in the revenue from the Group's core bus shelter advertising business. All of the Group's turnover was derived in China.

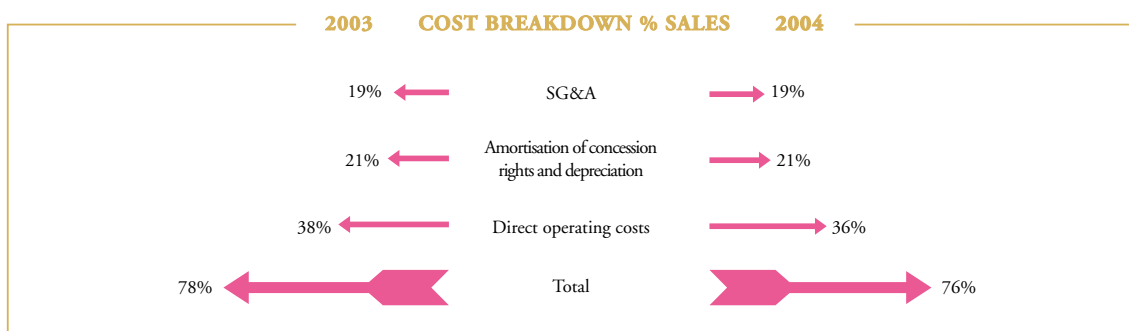


### EBITDA

The Group's earnings before interest, tax, depreciation and amortization ("EBITDA") has increased to HK\$243 million in 2004 from HK\$209 million in 2003. The Group's EBITDA margin further increased to 45% in 2004 (2003: 43%). It is noteworthy that the EBITDA margin for the Group's core bus shelter advertising business continued to improve slightly to 49% (2003: 48%) despite the increase in costs associated with the large number of advertising panels built and acquired in 2004.

### Expenses

In 2004, direct operating costs, which included electricity, rental and maintenance, increased by 6% to HK\$155 million (2003: HK\$146 million) despite the average number of bus shelters increasing by 11%. The Group had also successfully implemented various cost-saving measures, including the re-negotiation of rentals of new panels and electricity prices, as well as employing electricity-saving measures on advertising panels to control increases in direct costs.



Rental remained the biggest item in direct operating costs which accounted for 18% of sales (2003:19%). Maintenance costs continued to account for 6% of sales in 2004 (2003: 6%). Electricity costs represented about 4% of sales in 2004 (2003: 5%). Sales and cultural levies stood at 8.5% of sales in 2004 (2003: 8.5%) Amortization of concession rights and depreciation of fixed assets represented about 21% of total sales in 2004 (2003: 21%). The Group continued to invest in strengthening our sales capability and provide better services to our increasing clientele, and in particular, the Group has set up a dedicated sales team to handle the sales work in Beijing for the newly acquired bus shelter panels. The Group has employed an additional 81 sales and marketing staff, bringing the total sales and marketing headcount to 298 in 2004 (2003: 217). The Group also increased the salary packages of staff with good performance in the past few years. Tighter monitoring of older receivables resulting in less doubtful debts written off. Coupled with control on travelling and entertainment expenses and gains on other investments, SG&A expenses managed to stay at 19% of sales in 2004 (2003: 19%).

### **EBIT**

EBIT improved by 20% from HK\$106 million in 2003 to HK\$127 million in 2004 as a result of higher EBITDA. The EBIT margin improved slightly from 22% in 2003 to 24% in 2004.

### **Finance costs**

The increase in finance costs to HK\$10 million (2003: HK\$8 million) was largely due to the provision of a HK\$2.4 million redemption premium for the zero coupon convertible bonds issued by the Company in the second half of 2004. However, if the holders of convertible bonds choose to convert their bonds into equity, the relevant provision will be written back at that stage.

### **Taxation**

The Group's taxation charge reached approximately HK\$14 million, which was similar to the level recorded in 2003.

### **Net profit**

Net profit grew by 16% to HK\$95 million in 2004 from HK\$82 million in 2003 despite the necessity to provide for a redemption premium on the new convertible bonds. Net profit margin managed to improve slightly to 18%. (2003: 17%)

### **Liquidity and financial resources**

The Group continued to have strong financial position, with cash and cash equivalents amounting to HK\$337 million as at 31 December 2004 (2003: HK\$225 million).

In 2004, the Group financed its operations and investing activities with internally generated cash flow, balanced with proceeds from the Company's IPO and bank loans, as well as the issue of convertible bonds.

## Cashflow

Net cash generated by operating activities continued to improve substantially to HK\$189 million as of 31 December 2004 from HK\$135 million as of 31 December 2003, largely due to the increase in operating profits, despite the fact that the profit has been placed to secure some acquisitions.

Net cash outflow from investing activities amounted to approximately HK\$347 million in 2004 compared to an outflow of HK\$137 million in the previous year as the Group continued to expand its bus shelter network in 2004, including the major acquisition in Beijing to consolidate our market presence to prepare for the business opportunities presented by the 2008 Beijing Olympic Games.

Net cash inflow from financing activities amounted to HK\$271 million in 2004 (2003: HK\$40 million outflow), largely due to the issue of zero coupon convertible bonds in October 2004.

## Accounts receivable

The Group's accounts receivable balance due from 3rd parties increased to HK\$195 million in 2004 from HK\$168 million in 2003. None of the accounts receivable balance is due from connected persons, as defined in the Rules Governing The Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Average accounts receivable outstanding days were 133 days in 2004 (2003: 129 days). The collection of accounts receivables remains a priority for management. The increase in days outstanding was a result of a general increase in sales during the 2nd half of 2004 and the timing of repayment by certain major customers at the year-end.

Amounts due from Guangdong White Horse Advertising Company Limited ("GWH") were reduced substantially from HK\$26 million in 2003 to HK\$20 million in 2004. The percentage of the Group's business from GWH dropped to 3% in 2004 (2003: 8%).

## Prepayments, deposits and other receivables

Total prepayments, deposits and other receivables as of 31 December 2004 were HK\$105 million as compared to HK\$82 million as of 31 December 2003. The increase in prepayments, deposits and other receivables was due mainly to higher direct costs prepayment.

## Other payables and accruals

Total other payables and accruals as of 31 December 2004 were HK\$202 million, compared with HK\$143 million as of 31 December 2003. The increase was mainly due to the final installment due on the acquisition of the operating rights for 3,000 bus shelter advertising panels in Beijing and was paid in January 2005. It would be inappropriate to give turnover days against sales as the payable is more closely related to capital expenditure incurred in bus shelters.

## Free cash flow

The Group experienced negative free cash flow of HK\$129 million from its operations in 2004 (2003: positive free cash flow of HK\$50 million), defined as EBITDA less capital expenditure, less income tax and net interest expense. The negative free cash flow was a result of the Group acquiring 3,000 bus shelter advertising panels in Beijing in addition to the Group's other organic and acquisition expansion.



### Assets and liabilities

As at 31 December 2004, total assets amounted to HK\$1,956 million (2003: HK\$1,624 million), whereas total liabilities and minority interests amounted to HK\$571 million (2003: HK\$336 million). Net assets amounted to HK\$1,385 million (2003: HK\$1,288 million), representing an increase of 7.5%.

At 31 December 2004, the Group had pledged time deposits of US\$4.5 million (equivalent to approximately HK\$35 million) (2003: US\$6 million (equivalent to approximately HK\$47 million)) and HK\$30 million (2003: HK\$126 million) to banks as securities for short-term bank loans of RMB40 million (2003: RMB173 million).

At 31 December 2004, the Group had pledged deposits of RMB30 million (equivalent to approximately HK\$29 million) to bank as security for bills payable of RMB36 million (equivalent to approximately HK\$34 million). All of the Group's bank borrowings were repayable within one year. In addition, the Group also issued five-year zero coupon convertible bonds to raise a total proceeds of HK\$312 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 2004 increased by 7% to HK\$1,385 million from HK\$1,288 million in 2003. The Group's reserves amounted to HK\$1,335 million compared to HK\$1,238 million in 2003. During the year under review, there was no share repurchase.

The debt-to-equity ratio, defined as a percentage of net interest bearing borrowings over shareholders' fund, of the Group was 23% as of 31 December 2004 compared to 1% in 2003. The increase in the gearing ratio was due to the issue of convertible bonds in October 2004. This reflects the Group's intention to better leverage on its balance sheet to finance future expansion. The interest cover was 12.5 times (2003: 13.0 times).

### 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 did not issue any financial instruments for hedging purposes.

### Capital expenditure

To strengthen the Group's leading position in the outdoor media sector in China, the Group actively acquired concession rights to build bus shelters so as to expand its network. For the year ended 31 December 2004, HK\$378 million (2003: HK\$99 million) was incurred on addition of bus shelter concession rights and HK\$4 million (2003: HK\$5 million) on fixed assets.

### Use of initial public offering (“IPO”) proceeds

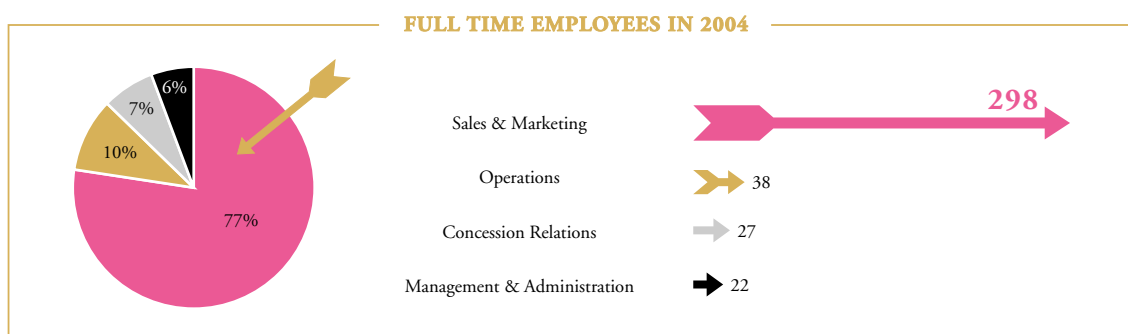
The proceeds from the IPO and over allotment after deducting related expenses paid were HK\$648 million and HK\$9 million, respectively. For the year ended 31 December 2004, the remaining approximately HK\$117 million has been fully utilized to finance the further development of the Group’s bus shelters.

### Material acquisitions and disposals

During the year under review, the Group acquired 3,000 bus shelter advertising panels in Beijing from an existing operator at a consideration of approximately HK\$138 million. Further investment will be made in these bus shelter advertising panels for refurbishment, relocation and upgrading. Other than this, 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 2004, the Group had a total of 385 employees, an increase of 90 employees over the same period in 2003, and total staff costs amounted to 8.8% of total turnover, compared to 8.5% in 2003. The major increase is the number of sales and marketing staff, which grew from 217 in 2003 to 298 in 2004. 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 were regularly organized for employees throughout the year to improve and update their knowledge of 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 were linked to both the performance of the Group and to individual performance as recognition of value creation.



### 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\$4.5 million (approximately HK\$35 million) and HK\$30 million pledged to secure short-term bank loans of RMB40 million (approximately HK\$37 million) and time deposits of RMB31 million (approximately HK\$29 million) pledged as securities for bills payable of RMB36 million (approximately HK\$34 million).

### Contingent liabilities

On 10 August 1999, Advertasia Street Furniture Limited (“Advertasia”), an independent third party, commenced an action against China Outdoor Media Investment (Hong Kong) Company Limited (“China Outdoor Media (HK)”) (an indirect wholly owned subsidiary of the Company) in the High Court of Hong Kong pursuant to an agreement dated 21 April 1999 entered into by them for the sale of the entire issued share capital of four Hong Kong private companies by Advertasia to China Outdoor Media (HK) for the sum of HK\$68 million (the “Agreement”). Advertasia alleged that China Outdoor Media (HK) had wrongfully, and in breach of the Agreement, refused to purchase the shares held by Advertasia in the four private companies and/or failed to tender a payment of HK\$50 million in relation to the Agreement.

On 8 October 2004, the High Court, acting as a court of first instance, made an order in favour of Advertasia. The Company had made an appeal against the judgement of the High Court.

In January 2005, China Outdoor Media (HK) paid to the High Court the sum of HK\$100 million in respect of the aforementioned Advertasia claim, and this amount of money will remain at the High Court until the result of the appeal to the Court of Appeal. The Group is still entitled to the deposit and will receive interest at market deposit rates during the period. Moreover, under a Deed of Indemnity between the Company, Outdoor Media China, Inc., Han Zi Jing, Clear Channel Outdoor, Inc. and China Outdoor Media (HK), the Company and China Outdoor Media (HK) will be fully indemnified against all damages, penalties, liabilities, legal fees, enforcement costs and expenses incurred by them in respect of this claim.

### Outlook

The advertising industry in China is expected to expand at a double-digit growth rate in 2005. Advertising retains its potential for further growth as per capita advertising expenditure remains comparatively low. With developing brand awareness in the PRC and several important events like the 2008 Olympics in Beijing, the 2010 Asian Games in Guangzhou, and the 2010 Shanghai Expo on the horizon – the near- and long-term future for advertising in China looks very promising.

The 2008 Beijing Olympics will bring enormous investment and business opportunities to the PRC, especially in Beijing and undoubtedly represents the best time for companies to advertise their products to consumers in the PRC and overseas.

In support of Amway’s 2004 Olympics advertising campaign, Clear Media launched the first electronic panels in Beijing, Shanghai and Guangzhou. These innovative panels provided the public and passers-by with the most up-to-date information on the Olympic gold medal count in Athens, Greece. The list of Olympic winners of the Chinese national team as well as teams of other nations was updated three times a day. It was the first time in China that an outdoor advertising network was used to provide updates on a sports event in a timely manner daily. Our experience and success with these electronic panels indicates that we are prepared for the business opportunities offered by the 2008 Beijing Olympic Games.

The Group has a clear vision as how to capitalize these opportunities in the next few years as set out below:

**Continue to focus on our core business – Bus shelter advertising panels**

Bus shelter advertising panels will continue to be the core business in our future development. We expect the number of our bus shelter advertising panels will increase at a rate of 2,000 – 3,000 panels per year. We believe this can be achieved with the current cash flow of the Group.

**Develop our client mix and the outdoor advertising business in mid-tier cities**

We will continue to strengthen our sales and marketing efforts to enrich our clientele and optimize our portfolio of clients. We will also further invest in enhancing our presence in the mid-tier cities.

Currently, we have already set up eight sales centres in major mid-tier cities to work with our sales hubs in Beijing, Shanghai and Guangzhou.

**Well-equipped for the business opportunity brought by 2008 Olympics**

The Group will continue to consolidate its advertising network and penetration in the key cities, especially in Beijing. In 2004, we have acquired 3,000 advertising panels and obtained the exclusive advertising right in Terminal One of Beijing Capital International Airport. To cope with our expansion, we will further strengthen our sales and marketing force.

We believe from our past experience, and with a strategy that matches market development, Clear Media will maintain its leading role in the industry. Clear Media continually strives to increase value for its shareholders and to provide better and more effective services to clients.